# Monmouth Real Estate Investment Corporation

## NYSE:MNR

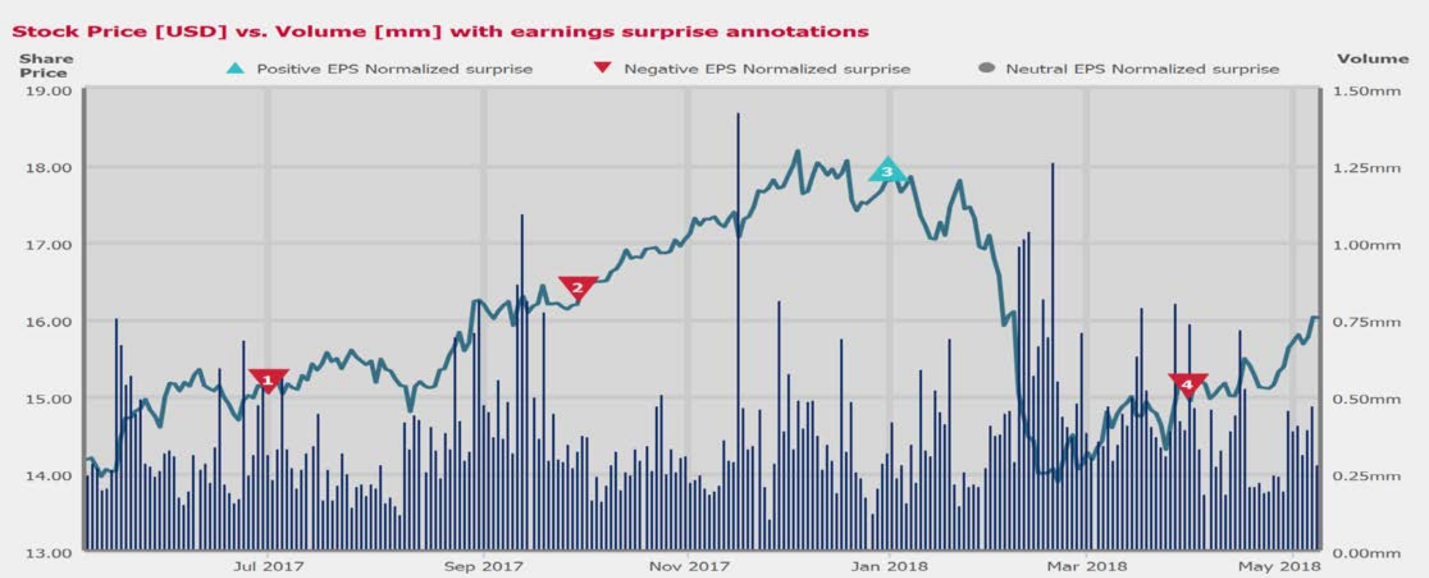
# FQ3 2018 Earnings Call Transcripts

## Thursday, August 02, 2018 2:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2018- | | | -FQ4 2018- | -FY 2018- | -FY 2019- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 0.11 | 0.13 | ▲18.18 | 0.11 | 0.49 | 0.48 |
| **Revenue (mm)** | 35.26 | 36.20 | ▲2.67 | 39.55 | 142.33 | 158.07 |

Currency: USD
Consensus as of Aug-02-2018 12:13 PM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2017** | 0.08 | 0.07 | ▼1 (22.22 %) |
| **FQ4 2017** | 0.11 | 0.09 | ▼2 (18.18 %) |
| **FQ1 2018** | 0.10 | 0.17 | ▲3 70.00 % |
| **FQ2 2018** | 0.13 | 0.10 | ▼4 (23.08 %) |

# Table of Contents

# Call Participants

## EXECUTIVES

**Eugene W. Landy**
*Chairman of the Board*

**Michael P. Landy**
*CEO, President and Executive Director*

**Kevin S. Miller**
*Chief Financial & Accounting Officer, Treasurer and Executive Director*

**Richard P. Molke**
*Vice President of Asset Management*

**Susan M. Jordan**
*Vice President of Investor Relations*

## ANALYSTS

**Alex Nelson**
*BMO Capital Markets Equity Research*

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

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

**Merrill Hadady Ross**
*Boenning and Scattergood, Inc., Research Division*

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

# Presentation

**Operator**

Good morning, and welcome to Monmouth Real Estate Investment Corporation's Third Quarter 2018 Earnings Conference Call. [Operator Instructions] Please note that 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**
*Vice President of Investor Relations*

Thank you very much, operator. In addition to the 10-Q that we filed with the SEC yesterday, we have filed an unaudited quarterly supplemental information presentation. This supplemental information presentation, along with the 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 third 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**
*CEO, President & Executive Director*

Thanks, Susan. Good morning, everyone, and thank you for joining us. Monmouth had a very productive third quarter in the midst of an excellent year. During the quarter we acquired two, brand new, Class A built-to-suit facilities. These acquisitions contain a total of approximately 762,000 square feet and represent an aggregate cost of $64 million. One of these acquisitions is leased to B. Braun Medical for 10 years and the other facility is leased to Amazon for 11 years. From a run rate standpoint, we expect these two properties to generate a combined total annual rent of approximately $4.2 million, representing an initial unlevered return of 6.6%. We financed both of these properties with two fixed-rate mortgages totaling $38.5 million with a weighted average interest rate of 4.2% and a weighted average debt maturity of 14.5 years.

Our B. Braun Medical facility is located in Daytona Beach, Florida near the tenant's new manufacturing facility and is in close proximity to the Daytona Beach International Airport and Interstate 4. B. Braun is a 179-year-old privately held medical device company that manufactures, markets and sells various healthcare products worldwide. The Florida economy consistently ranks as one of our nation's strongest and Monmouth is benefiting from having 11% of our property portfolio located in the sunshine state.

Our Amazon acquisition is located in Mobile, Alabama and represents our second property leased to Amazon. Domestic e-commerce sales are expected to reach nearly $0.5 trillion this year and Amazon represents approximately 40% of this market. The Port of Mobile has been experiencing substantial demand as a result of the recently completed Panama Canal expansion, with two interstate highway systems and five Class 1 railroads serving the port, this region is very well situated to benefit from meaningful long-term growth.

Thus far in fiscal 2018, we have acquired five buildings, comprising 2 million square feet with 260.4 total acres for a total purchase price of $174 million. Through the first three quarters, we have generated 9% growth in our gross leasable area and a 15% increase over the prior year period. Additionally, during the quarter we sold two properties, totaling 156,000 square feet for net proceeds of approximately $11.6 million, resulting in a net realized gain of $2.1 million.

Our acquisition pipeline grew over the quarter and now contains four properties, all of which are leased to FedEx Ground. These four properties contain 1.1 million square feet and represent an aggregate cost of $221.4 million. We anticipate closing these four separate transactions during the remainder of fiscal 2018, and the first half of fiscal 2019. In keeping with our business model, these future acquisitions comprise brand new well located Class A single-tenant build-to-suit projects that were either recently completed or are currently under construction.

These properties contain long-term net leases with a weighted average lease maturity of 13.9 years. The weighted average cap rate on these pipeline transactions is 6.1%. Subject to satisfactory due diligence, we anticipate closing these transactions upon completion and occupancy. We ended our quarter with the sector-leading portfolio occupancy rate of 99.6%, representing our 10th consecutive quarter with an occupancy rate above 99%.

Our occupancy rate is down 20 basis points compared to the prior year period and is up 40 basis points sequentially. Our gross leasable area at quarter-end comprised 20.5 million square feet, consisting of 109 properties, geographically diversified across 30 states with strategic concentrations around the Gulf and East Coast port regions. Our weighted average building age at quarter-end was 8.8 years, providing Monmouth with one of the youngest and most state-of-the-art portfolios in the industrial REIT sector.

From a leasing standpoint, in fiscal 2018, 16 leases totaling approximately 1.5 million square feet or 8% of our gross leasable area are scheduled to expire. I'm pleased to report that thus far 10 of the 16 leases have been renewed. As previously reported, one of the ten leases, which is with FedEx Ground for a property located in Charleston, South Carolina renewed for only four months as the tenant plans to move its operations from our 92,000 square foot facility to the new 261,000 square foot facility that we are currently under contract to acquire upon completion. This property will be leased to FedEx Ground pursuant to a new 15-year lease.

We are currently marketing the 92,000 square foot facility. The other nine lease renewals to-date represent approximately 890,000 square feet or 58% of the expiring square footage. These nine renewals have a weighted average lease term of 6.5 years and result in an increase in the weighted average lease rate of 3.9% on a GAAP basis and 2.4% on a cash basis. Of the six remaining leases originally set to expire during fiscal 2018, three of the properties were sold, generating a net realized gain of approximately $5.3 million. These three properties represent 12% of the expiring GLA for fiscal 2018.

Additionally, one property representing 14% of the expiring square footage was re-tenanted for three years. The remaining two properties, of which only one is currently vacant are under discussion. We expect to have more to report on these properties in the fourth quarter.

Our REIT securities investments performed very well during the quarter with a total value of $167.6 million at quarter end representing a 16% increase over the prior quarter. All of this increase is attributable to rising prices on our holdings.

Our unrealized loss at quarter end was $8.4 million, representing a $22.8 million improvement over the prior quarter. Our securities investments generated $3.6 million in dividend income during the recent quarter, representing a 91% increase over the prior year period. At quarter end, our REIT securities investments represented 9.2% of our total undepreciated assets. We would note that since fiscal 2010, our securities portfolio has generated $41.8 million in dividend income and $30.8 million in net realized gains. This quarter we added a new page to our supplemental package detailing the historic performance of our REIT securities portfolio.

With regards to the overall U.S. industrial market outlook, 2018 is shaping up to be another record year. Net absorption for the quarter was 64.1 million square feet and 126 million square feet year-to-date. The U.S. industrial market has now enjoyed 33 consecutive quarters of positive net absorption. The national average vacancy rate continues to show strength and is currently 4.4%, representing a 10 basis point improvement from the prior quarter and a 100 basis point improvement from the prior year. This marks the lowest vacancy level in over 30 years.

This increased demand has been driving rents higher to an average asking rent of $6.11 per square foot, representing a 7.2% increase over the prior year period. Currently there is approximately 267 million square feet of new industrial construction taking place in the U.S., representing a 15% increase over the prior year. Approximately 2/3 of this new supply is speculative development, intermodal rail volume, which correlates closely to warehouse demand has been posting historically high numbers during the quarter with weekly container units averaging an all-time high of 290,000 units per week during the month of June.

The U.S. economy continues to show strength with the initial read on second quarter real GDP weighing in at an annualized rate of 4.1%. This marks our nation's most productive quarter in four years and provides a very strong signal for continued outperformance for the industrial real estate sector.

Lastly, before I turn it over to Kevin, there has been much commentary of late about the rising trade tensions throughout the world. We believe lower trade barriers will foster greater global economic growth and hopefully that will be the end result here. I'd like to remind everyone that Monmouth's property portfolio possesses the defensive attributes inherent with having long duration leases to investment grade tenants and this factor combined with our strong balance sheet has allowed us to consistently perform well throughout periods of turbulence and uncertainty.

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

**Kevin S. Miller**
*Chief Financial & Accounting Officer, Treasurer and Executive Director*

Thank you, Michael. Core funds from operations for the third quarter of fiscal 2018 were $18 million or $0.23 per diluted share. This compares to core FFO for the same period one year ago of $15.4 million or $0.21 per diluted share, representing an increase of 10%. Adjusted funds from operations, or AFFO, which excludes securities gains or losses were $0.22 per diluted share for the recent quarter, representing an increase of 16% over the prior year period.

Rental and reimbursement revenues for the quarter were $36.2 million compared to $28.6 million or an increase of 27% from the prior year. Net operating income increased $4.8 million to $28.8 million for the quarter, reflecting a 20% increase from the comparable period a year ago. This increase was due to the additional income related to the 10 properties purchased during fiscal 2017 and the five properties purchased during the first three quarters of fiscal 2018.

Net income, excluding depreciation was $23.7 million for the third quarter compared to $19 million in the prior year period, representing an increase of 25%. Again, this improvement was driven largely by the substantial acquisition activity that occurred over the past year. With respect to our properties as mentioned, end of period occupancy decreased 20 basis points from 99.8% in the prior year period to 99.6% at quarter end, and was up 40 basis points sequentially.

Our weighted average lease maturity as of the quarter end was 7.8 years, which remained unchanged from the prior year period. With regards to our same property metrics for the current nine-month period, our same-property occupancy decreased 30 basis points from 99.8% to 99.5%, while our same property NOI remained relatively unchanged.

As Michael mentioned, our acquisition pipeline now contains 1.1 million square feet, representing $221.4 million comprised of four acquisitions scheduled to close over the next several quarters. To take advantage of today's attractive interest rate environment, we've already locked in very favorable financing for all four acquisitions.

The combined financing terms for these four acquisitions consist of $142.1 million in proceeds, representing 64% of total cost with a weighted average interest rate of 4.1%. Each of the four financings are 15-year self-amortizing loans. These four acquisitions will result in a weighted average levered return on equity of approximately 13%. Thus far during fiscal 2018, we fully repaid four mortgage loans totaling approximately $8.6 million with fixed interest rates ranging from 5.2% to 6.8% associated with these properties. These newly unencumbered properties generate over $2.6 million in net operating income annually. As of the end of the quarter, our capital structure consisted of approximately $815 million in debt, of which $657 million was property level fixed rate mortgage debt and $158 million were loans payable. 81% of our total debt is fixed rate with a weighted average interest rate of 4.1% as compared to 4.2% in the prior year period.

We also had a total of $277 million in perpetual preferred equity at quarter-end. Combined with an equity market capitalization of approximately $1.3 billion, our total market capitalization was approximately $2.4 billion at quarter-end. From a credit standpoint, we continue to be conservatively capitalized with our net debt to total market capitalization at 33% and our net debt plus preferred equity to total market capitalization at 45% at quarter-end.

In addition, our net debt less securities to total market capitalization was 26% and our net debt less securities plus preferred equity to total market capitalization was 38% at quarter-end. For the three months ended June 30, 2018, our fixed charge coverage was 2.4x. Our net debt-to-EBITDA was 6.6x, the ratio of our net debt less our REIT securities portfolio to EBITDA was 5.2x.

From a liquidity standpoint, we ended the quarter with $6.9 million in cash and cash equivalents. In addition, we held $167.6 million in marketable REIT securities with $8.4 million in unrealized losses. At quarter end, our $167.6 million REIT securities portfolio represented 9.2% of our un-depreciated assets. Additionally, we had $90 million available from our credit facility as of the quarter end as well as an additional $100 million potentially available from the accordion feature.

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

**Michael P. Landy**
*CEO, President & Executive Director*

Thanks, Kevin. To summarize, this was another solid quarter for Monmouth with double-digit per share earnings growth. Our portfolio has now delivered 10 consecutive quarters of above 99% occupancy. We've achieved meaningful growth for our acquisition pipeline reflecting our continued ability to source very high-quality acquisitions in a highly competitive environment. We'd now be happy to take your questions.

# Question and Answer

**Operator**

We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Jeremy Metz of BMO Capital.

**Alex Nelson**
*BMO Capital Markets Equity Research*

Good morning, this is Alex Nelson on for Jeremy. On the acquisition pipeline, you guys walked through some of the funding sources for it. But can you talk about the markets that you're looking at, is it similar to the market you've been targeting recently?

**Michael P. Landy**
*CEO, President & Executive Director*

Sure, Alex. Absolutely, we're targeting Gulf and East Coast port markets. We're targeting business-friendly states, markets where our pipeline is in includes Savannah, Georgia; Atlanta, Georgia; Charleston, South Carolina and the New Jersey, New York tri-state region.

**Alex Nelson**
*BMO Capital Markets Equity Research*

On the securities book, the value of the holdings has recovered in the last quarter, so could we possibly see you guys take some of the chips off the table and reduce the overall book size?

**Michael P. Landy**
*CEO, President & Executive Director*

Not really. As a percentage of gross assets, it appears high at the moment at 9.2%, but we have $225 million in our pipeline approximately. So that will take it down to about 8% of gross assets once we close those transactions. We invest in real estate for the long term. The only time we've taken chips off the table is when we've had substantial gains and then we reallocate those proceeds if we feel REIT securities are at a premium to private real estate pricing.

Currently it's the exact opposite. Private real estate valuations are at all-time highs, REIT securities are still at big discounts to NAV, albeit our portfolio saw $22.8 million in appreciation over the quarter-- that's like a 64% annualized improvement, which we don't anticipate happening. So you can't be right with the spread between private market valuations and public market valuations. It can't last indefinitely, you're seeing big asset managers like Brookfield and Blackstone acquire whole public REITS.

So it's a buying opportunity, but given the size of our pipeline, we're not growing our portfolio at the moment. Strange as this may sound, I kind of wish the portfolio would have stayed at those discounted prices because I would rather invest in liquid real estate at bigger discounts, but it's come back and we've had three years of underperformance by the REIT index. I think the total return in 2016 was up 2.5% for the REIT index. Total return in 2017, 5.1% for the REIT index, year-to-date, it's up 1.1%, so substantially underperforming the broad market over the last three years. As we mentioned in our prepared remarks, we put together a summary of our performance in our Supp this quarter.

And doing the math, we've outperformed the REIT index by an average of 1,100 basis points annually over the past eight year period. So even though the REIT index has underperformed the broad market, we've substantially outperformed the REIT index and so to answer your question, we are happy with having liquid real estate on our balance sheet and only take chips off the table when REITs are trading at a big premium.

**Alex Nelson**
*BMO Capital Markets Equity Research*

Just one more from me on the leasing side, you guys have two leases left to take care of and then the FedEx lease moving into your new space, in 2019 you guys have 1.4 million square feet coming up, have you started to look at taking those leases down or when will that process start?

**Michael P. Landy**
*CEO, President & Executive Director*

Sure, Alex. I'm going to turn that over to Rich Molke, our Vice President of Asset Management because he handles the leasing. Before I do that, I'll just say, we're now in our 11th consecutive quarter of above 99% occupancy by far the highest in the industrial sector. Hopefully soon we'll be saying -- we're in our fourth consecutive year of above 99% occupancy and the reason for that is we invest in long-term leases to investment grade tenants. There was article in the Journal this Wednesday about smart warehouses, FedEx represents a big percentage of our gross leasable area, those are very smart buildings, the most high-tech automation in any industrial asset you could find.

And so when the tenant makes such a substantial investment in the infrastructure of the facility, it renders a long duration tenancy. And so with 99.6% occupancy, only 40 basis points of vacancy. I'll turn it over to Rich, but I think 2019 is well poised to be more of the same. Go ahead, Rich.

**Richard P. Molke**
*Vice President of Asset Management*

So 2019, it's a bit early to get really granular, but we are in active negotiations with numerous facilities. We have 10 leases rolling as you said 1.4 million square feet, about 7% of GLA, four of those leases are FedEx leases, which is about 50% of the expiring GLA and the only definitive one we have now to talk about is a signed amendment at our Jacksonville FedEx Express building for 10 years. So in the next few quarters, hopefully, we have more to update you.

**Michael P. Landy**
*CEO, President & Executive Director*

So I hate to put you on the spot Rich, but if I may, 2019 can you keep occupancy above 99%?

**Richard P. Molke**
*Vice President of Asset Management*

That's what we're shooting for.

**Michael P. Landy**
*CEO, President & Executive Director*

We'll hold you to it. Okay. Alex, sorry to steal your thunder, any other questions?

**Alex Nelson**
*BMO Capital Markets Equity Research*

No. That's it for me.

**Operator**

The next question will come from Rob Stevenson of Janney.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

Mike, is there anything particularly noteworthy about the four assets in that $221 million development pipeline. The reason why I ask is, if I do the math, it looks like that you are at over $200 a square foot for those assets collectively, which is more than 2x the Amazon asset that you just acquired this quarter and nearly 3x the Braun asset in Daytona Beach, is it just closer to the water and ports? Is there something different about the construction of those assets? What's driving the per square foot price up so high on those assets?

**Michael P. Landy**
*CEO, President & Executive Director*

Sure. There's two key attributes driving that. First of all, land is the most expensive component in industrial construction by far and the land to building ratio of these four deals comes out over 9x. So with 235 acres in the four properties, you're going to have a higher cost per square foot. So just the ample land -- when you price a building its priced per square foot of the building, but these FedEx facilities have hundreds of trailer parking, van delivery parking, employee parking, the parking lot is like the size of a mall parking lot and they have to pay rent on that, and there's a cost for all that land. So with over 9x coverage in markets such as the New York New Jersey Metropolitan Region, Atlanta, Georgia, Charleston and Savannah, these are expensive markets. There was a FedEx asset that traded recently in Queens for $760 a square foot and of course what drove it was the high cost of land there.

When you have all that ample land, you have the ability to expand the facility down the road. FedEx, as I mentioned earlier, makes multi-million dollar investments in the infrastructure as does Amazon, as does many of our other tenants. So you're sitting with a property that the tenant is going to be in for a very long time. Over the last five years we've done 16 expansion projects for about $60 million, that’s almost three quarters of a million square feet, we've done parking lot expansions on top of that, generating over $6 million in annual rent. We have two expansions going on right now. So you're paying for all that land now and it gives you the ability to grow as the tenant’s business grows.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

How much in terms of extra land for extra square foot is there on those four assets, I mean what could that 1.1 million square feet go to? Is that an extra 100,000 square feet on all four combined for expansions, what's the magnitude of the expansion capacity there given your comments about how much parking and everything that they need, that you couldn't take away all of that?

**Michael P. Landy**
*CEO, President & Executive Director*

Yes, it's not like a set equation you have 11% coverage -- the building is only covering 11% of the land. How much of it is developable? You know, you have to look at the property case by case. We have an Amazon in Oklahoma City with 125 acres and the building is only 350,000 square feet, but of that 125 acres, maybe 90 acres are developable. So you got to look at each property and how much is tied up with parking. And these tenants are building extra capacity. So they're not starting the lease running at 100% capacity. They know e-commerce is growing by leaps and bounds, and so they're throwing the ball long down the field for where demand is going to be in the future and so by the time they actually call us to expand the building that's down the road. Having said that, I would say 25% to 35% expansion capability is a good conservative answer to your question.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

And then in the portfolio today, I mean of the -- how many expansions are you guys working on right now?

**Michael P. Landy**
*CEO, President & Executive Director*

We have two going on right now.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

And then over the next year, I mean in starting discussions with others on other expansions at this point?

**Michael P. Landy**
*CEO, President & Executive Director*

There have been discussions, nothing to report yet, though unfortunately.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

And then when you guys look at the funding the equity component of that $221 million, how are you guys thinking about that? Is that the DRIP, is that preferred, is that potentially some additional asset sales? How are you guys thinking about keeping your leverage levels at sort of current levels and funding that equity component today?

**Michael P. Landy**
*CEO, President & Executive Director*

Ideally and what we've been using the last several years has been money raised through the dividend reinvestment plan and over the last year money raised from the preferred ATM. So, ideally, assuming the capital markets remain as they are that will be how we'll be funding it. I know Kevin's already locked in a lot of the debt financing. So let me turn it over to Kevin, and let him drill down deeper.

**Kevin S. Miller**
*Chief Financial & Accounting Officer, Treasurer and Executive Director*

Sure. Thanks. Yes, as Mike mentioned, we already locked in all four deals financing about 63% -- 64% of it. So that takes care of most of the financing needs and they're all long-term loans, they are all 15-year -- I'm sorry, they all range between 10-year and 15-year with a weighted average loan maturity of a little under 14 years and it's all locked in with fixed interest rates of about 4.1%. I'm sorry, I got that mixed up. The weighted average lease maturities are a little under the 14 years. All four loans are 15 year self-amortizing loans. I flipped those.

For the remaining amount of money that we're going to fund that, as Mike mentioned we will be using the DRIP, we'll be using the SIP. So far this year we raised about $68 million through the SIP and so we'll continue to do that and the ATM, so far this year we've raised -- I guess -- well I guess through the ATM since its inception we raised about $71 million. We raised about $4 million last quarter and it started picking up, but we had to put a hold on it because we're filing our

Q. So, hopefully when we are able to reopen it that'll continue to raise money and also as we mentioned on the call, we have a line of credit, there is $90 million left on the remaining available line of credit and another $100 million accordion feature, which we can access if we choose to do so.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

That $68 million that you said that you raised under the DRIP, is that calendar or fiscal year?

**Kevin S. Miller**
*Chief Financial & Accounting Officer, Treasurer and Executive Director*

That's a fiscal year. It was about $25 million a quarter. Last quarter we cut back a little bit, about $19 million, and it comes to about $68 million for the three quarters.

**Michael P. Landy**
*CEO, President & Executive Director*

Just to jump in on the preferred ATM, for the nine months we've raised $31 million, none over the last quarter, but some subsequent to the quarter in addition to that $31 million.

**Operator**

Your next question comes from Craig Kucera of B. Riley.

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

Congrats on seeing the nice pickup in the acquisition pipeline. Mike, I'm curious did you source your transactions any differently this quarter?

**Michael P. Landy**
*CEO, President & Executive Director*

No, no, I think the beauty of a 50-year-old public company is we have long-term relationships, broad relationships throughout the merchant-builder community and these deals were sourced from existing relationships.

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

And I know in the past, we've spoken about potentially some folks out there trying to flip some properties, are you still seeing that and was that any component of the pipeline?

**Michael P. Landy**
*CEO, President & Executive Director*

No comment.

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

Fair enough. When you think about the pipeline now and kind of what you closed and you closed on a property earlier this year in Savannah, are you intentionally going after assets that are a little bit more driven by what's going on with the Panama Canal expansion or is it just that these happen to be the transactions that you won the bids on this quarter because it does seem to have a bit more of a tilt toward that?

**Michael P. Landy**
*CEO, President & Executive Director*

No, of course, location is foremost in our thinking of where we allocate capital. And looking back we hitched our wagon to FedEx in 1994 long before e-commerce. We saw the analog world shifting to digital and invested in the digital revolution way before anybody was talking about e-commerce. My father is an old sailor, been through all the ports of the world and saw the supply chains shifting, being chased quite frankly out of California to alternative options that were more accommodating. And so we started investing along the Gulf ports and up the eastern seaboard. So a very conscious decision that goes back many, many years and now it's playing out similarly to the e-commerce revolution. The global supply chain shift is playing out just how we envisioned it with the caveat of the current trade war rhetoric, which has created short-term uncertainty over the whole horizon.

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

I know in the past you've been expecting FedEx to slow down its growth and at certain points in time you thought they would, but they continue to grow robustly, are they back to accelerating? Are you pretty much winning a higher percentage of market share then maybe you had in the past?

**Michael P. Landy**
*CEO, President & Executive Director*

In percentage of market share, we're picking the best spots to invest. We're certainly not zealots on diversification by any means. I think turning down a good FedEx deal would be a great textbook example of what Peter Lynch called deworsification, so we're happy now to take these giant FedEx buildings with the state-of-the-art automation, 15-year leases, ample acreage, we're going to invest in those, those are some of the best industrial assets you can invest in and to your point, FedEx is not going to expand their network forever. E-commerce has been growing and everybody is playing catch up and retail spendings migrated from traditional brick and mortar online. And so the network needs to be expanded, but at some point, the network will accommodate the digital era. And so, we're not going to be asleep at the wheel and turn down FedEx deals. We're just going to pick the best ones, and we've grown alongside FedEx since 1994 and it's been very lucrative all along the way.

**Operator**

And our next question comes from Merrill Ross of Boenning Inc.

**Merrill Hadady Ross**
*Boenning and Scattergood, Inc., Research Division*

I wonder if you could give some insight on the timeline for the four properties under development. Will they all hit at once or will they be sequential, I mean I would think you would have some idea of when they will get delivered?

**Michael P. Landy**
*CEO, President & Executive Director*

Yes, these things never play out exactly how you think, but generally speaking, 66% of the pipeline should close this fiscal year and then the other 33% in -- certainly, the first half of '19, ideally the first quarter of '19.

**Merrill Hadady Ross**
*Boenning and Scattergood, Inc., Research Division*

Thank you, that's perfect.

**Operator**

The next question will come from Barry Oxford of D.A. Davidson.

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

Hey, Mike. Question going back to your leasing of the current buildings still outstanding for 2018. What kind of -- to the extent that you can -- can you give us an idea of what type of traffic you're seeing and what type of downtime we might anticipate?

**Michael P. Landy**
*CEO, President & Executive Director*

I'll turn it over to Rich. Rich, please take that.

**Richard P. Molke**
*Vice President of Asset Management*

So it's specifically, what are you talking about, our Charleston building and our --

**Michael P. Landy**
*CEO, President & Executive Director*

He is talking about Bedford Heights in Cleveland and he’s talking about the Charleston, South Carolina and perhaps he is also talking about the vacant building in Pittsburgh.

**Richard P. Molke**
*Vice President of Asset Management*

Sure. So Bedford Heights, that expiration is coming up at the end of the month and we anticipate that that will have a long-term renewal attached to it shortly. As far as our Charleston building, we've had a lot of interest given the strength of that market and we hope to have positive news on that one shortly as well. And our Monaca facility in the Pittsburgh market, which is close to the $6 billion Shell cracker plant that's going up also had a lot of good traffic and we hope to have positive news there too. So, everything is going very well on those.

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

Mike, on the Amazon, you did a second lease, could we anticipate more as you continue to move into 2019 from that company?

**Michael P. Landy**
*CEO, President & Executive Director*

Sure Barry, so much of the new build-to-suit construction has been for Amazon, so we will chase Amazon deals and hopefully continue to win Amazon deals. 2/3 of the new construction is spec and we don't invest in the specs, so Amazon is a big component of industrial demand and I see the relationship between Monmouth and Amazon growing over time.

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

And then last question kind of following up on that, you have some very nice build-to-suit due to come online, what are your guys seeing kind of behind that as far as the marketplace in the build-to-suit, is there still a fair amount of product out there, are you seeing that shrinking?

**Michael P. Landy**
*CEO, President & Executive Director*

No, I think it's going to continue to ramp up. The economy now has hit over 4% growth. Industrial houses the consumer spending, I don't see a reason for it to abate. It's coming back strong from the financial crisis when it was pretty much shutdown and with consumer spending moving from traditional brick and mortar online, you need more industrial space and so they're building bigger buildings, I think Home Depot announced hundreds of new buildings, a lot of the tenants need to increase their omni-channel capabilities. If you look at the industrial market throughout the country, there's only 5% vacancy and then you drill down on that 500 basis points of vacancy, it's all older, low clear what I consider obsolete product from a omni-channel standpoint. So if you look at the omni-channel capable industrial, it's fully occupied and demand is increasing and there needs to be more supply. It's just going to continue.

**Eugene W. Landy**
*Chairman of the Board*

You covered everything really well. My notes simply, going back to the issuance of preferred, we are a REIT that really believes in issuing preferred. The return on our shareholder's investment can be enhanced by leverage. Leverage is risky, but the leverage is not risky when you use preferred stock because preferred stock can be called if interest rates go down, and you can keep the preferred if the interest rates remain. The present situation with Monmouth REIT is excellent and everyone here has covered it very well. So if you haven't heard from me, it's because it wasn't necessary.

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

I think that is it for right now, I appreciate it. Thanks for the color guys.

**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**
*CEO, President & Executive Director*

Thank you, Laura. For those of you who listen to our calls regularly, you might be wondering why Michael Boulegeris from Boulegeris Investments was not on our call today. Mike Boulegeris passed away suddenly last week at the age of 57. Mike was a long-term shareholder of ours and he was actively involved in the most constructive and productive manner. Mike was a man of great character and truly an extraordinary person. We will always remember Mike as a deep source of strength and inspiration. Mike will greatly be missed, but he will not be forgotten.

**Operator**

The conference is 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 (877) 344-7529 or international toll 1 (412) 317-0088. The conference ID number is 10120748. Thank you, and please disconnect your