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Monmouth Real Estate Investment Corporation

NYSE:MNR

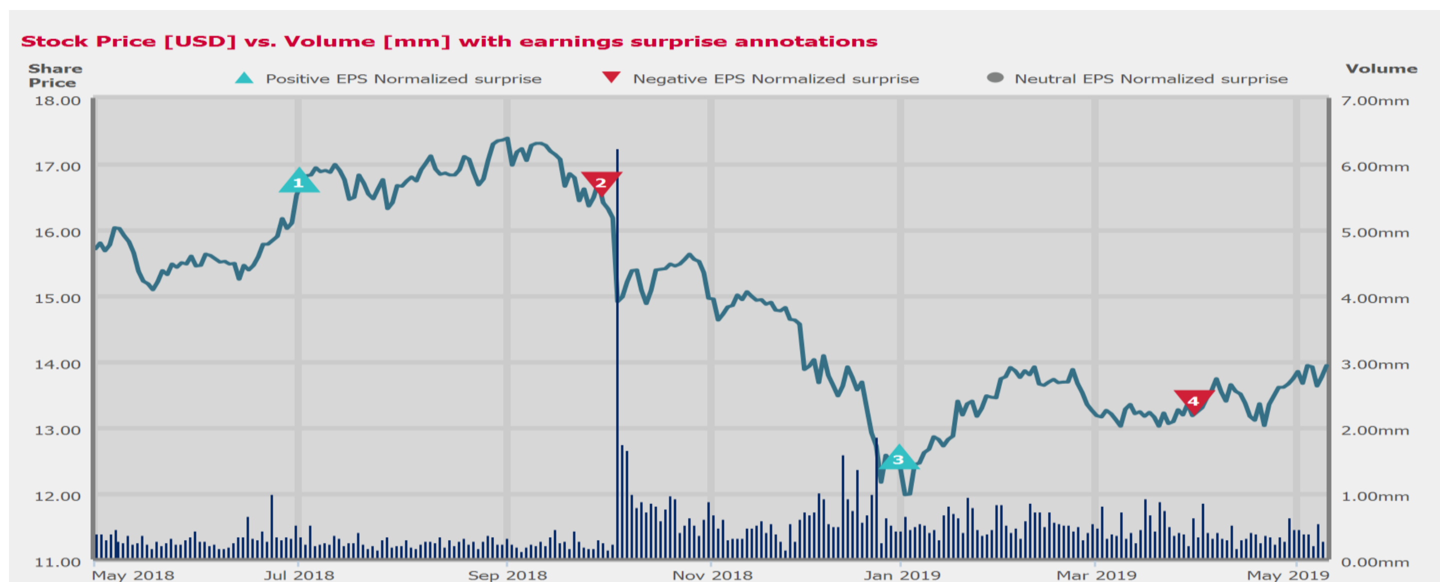
FQ2 2019 Earnings Call Transcripts

Friday, May 10, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.12	0.09	▼ (25.00 %)	0.12	-	0.53
Revenue (mm)	40.12	39.31	▼ (2.02 %)	40.37	161.23	168.62

Currency: USD
Consensus as of Mar-29-2019 4:43 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	0.11	0.13	▲ 18.18 %
FQ4 2018	0.12	0.09	▼ (25.00 %)
FQ1 2019	0.10	0.11	▲ 10.00 %
FQ2 2019	0.12	0.09	▼ (25.00 %)

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Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

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Presentation

Operator

Good morning, and welcome to Monmouth Real Estate Investment Corporation's Second Quarter 2019 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
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'd 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 second quarter 2019 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. We are pleased to discuss our results for the second quarter ended March 31.

Following last quarter's record earnings, our AFFO per share of $0.21 this quarter represents a 4.5% decrease over the prior year period and an 8.7% sequential decrease. The sequential decrease in AFFO per share is attributable to a reduction in dividend income from our securities portfolio and the impact of our October equity offering, combined with additional equity raised pursuant to our dividend reinvestment plan.

This year-over-year decrease in AFFO per share is attributable to the impact of our October equity offering combined with additional equity raised pursuant to our dividend reinvestment plan as well as a modest increase of vacancies in our portfolio.

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We expect that the combination of our recently completed building expansion and our significantly increased acquisition pipeline will contribute positively to our earnings in the ensuing quarters.

From a portfolio standpoint, during the first 2 quarters of fiscal 2019, we grew our GLA by 628,000 square feet, representing a 9% increase year-over-year. This was achieved through the acquisition of 6 brand-new Class A properties at an aggregate cost of $285.8 million. By the quarter end, our portfolio comprised 113 properties with 21.8 million rentable square feet, geographically diversified across 30 states.

Our occupancy rate was 98.9%, representing a reduction of 30 basis points from a year ago. Our weighted average lease maturity at quarter end increased to 8 years from 7.8 years in the prior year period, representing a 3% increase.

Effective March 1, we completed a 155,000 square foot building expansion for a total project cost of $8.6 million at one of our properties located in the Cincinnati MSA. This building expansion resulted in an $821,000 increase in the annual rent of the property, bringing the total annualized rent up to $2.1 million. In addition, the lease was extended to a 15-year term, expiring on February 2034. We will get the full run rate benefit of this expansion in the next quarter and beyond.

As mentioned, our acquisition pipeline grew substantially during the quarter to $245.9 million, effectively doubling our pipeline as reported in the first quarter. We now have 5 built-to-suit development projects representing 1.9 million square feet with a weighted average lease term of 13.7 years, either currently or soon to be under construction.

In keeping with our business model, all these projects are subject to long-term leases to investment-grade tenants. Of these 5 properties, 2, comprising 772,000 square feet, are leased for 15 years to FedEx Ground; and 1, comprising 613,000 square feet, is leased for 15 years to Amazon. The remaining 2 properties, consisting of 503,000 square feet, are leased to Toyota and Magna automotive.

From a timing standpoint, we expect to close on 2 of these acquisitions for approximately $107 million, representing 963,000 square feet or approximately 50% of our current pipeline during this fiscal year. The remaining 3 build-to-suit projects, representing $138.9 million, containing approximately 925,000 square feet, are expected to close in fiscal 2020.

To take advantage of today's attractive interest rate environment, we have already locked in very favorable financing for 2 of these acquisitions. The combined financing terms for these 2 acquisitions consist of $69.5 million in proceeds, representing 65% of the total cost. These financings have a weighted average interest rate of 4.27%. One mortgage is a 15-year self-amortizing loan and the other is an 18-year self-amortizing loan, representing a weighted average term of 17.3 years.

These built-to-suit acquisitions are all well-located, state-of-the-art industrial assets and will represent excellent additions to our high-quality portfolio. As always, these future acquisitions are subject to satisfactory due diligence, and we anticipate closing these transactions upon completion and occupancy.

Turning to the overall U.S. industrial market outlook. Following last year's strong performance, 2019 is off to a good start with approximately 26 million square feet of positive net absorption during the first quarter. This extends the record streak of positive net absorption to 36 consecutive quarters or 9 straight years.

As for Cushman & Wakefield's first quarter industrial market report, the national average vacancy rate remains near record lows at 4.9% currently, representing a 10 basis point improvement from the prior year. This increased demand is driving rents higher to an average asking rent of $6.41 per square foot, representing a 4% increase over the prior year period.

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Currently, there is approximately 309 million square feet of new industrial construction taking place in the U.S., representing a 24% increase over the prior year period. Similarly with last year, approximately 2/3 of this new supply is speculative development.

Despite weakness abroad, the U.S. economy continues to show considerable strength, with the April unemployment rate of 3.6% marking the strongest level in 50 years. First quarter real GDP weighed in at an annualized rate of 3.2%, driven primarily by increased exports and inventory investment, following 2.2% real GDP growth in the prior quarter.

As you are likely well aware, demand for industrial space is highly correlated with GDP growth, and a healthy first quarter number is a positive indicator for a continuation of what is now the strongest industrial property expansion ever recorded.

And now let me turn it over to Rich so he can provide you with more detail on the property level as well as our progress on the leasing front.

Richard P. Molke
Vice President of Asset Management

Thank you, Mike. With respect to our property portfolio, our occupancy stood at 98.9% at quarter end, representing a 30 basis point decreased from a year ago and unchanged sequentially. As mentioned, our weighted average lease maturity increased from 7.8 years a year ago to 8.0 years as of quarter end.

Our weighted average rent per square foot increased by 5.4% to $6.23 as of quarter end as compared to $5.91 a year ago. Our weighted average rent is 3% below the national average asking rent of $6.41 per square foot, representing good embedded rent growth potential.

From a leasing standpoint, in fiscal 2019, 12 leases representing approximately 1.5 million square feet or 7% of our gross leasable area, were scheduled to expire. 8 of the 12 expiring leases, representing 1.2 million square feet or 80% of the expiring GLA, have since been either renewed or released, resulting in a weighted average lease term of 7.2 years and a 2.4% increase in rental rates on a GAAP basis and a 5.7% decrease on a cash basis. 7 of these 8 leases, representing approximately 1.1 million square feet, were lease renewals.

The 4 remaining leases coming due this year did not renew. As previously reported, 1 of the 4 leases that did not renew was our currently vacant 92,000 square foot facility located in Charleston, South Carolina, which was leased to FedEx Ground. FedEx did not renew in this facility because it was replaced by our newly constructed 265,000 square foot facility nearby. The new 265,000 square foot facility is leased to FedEx Ground for 15 years through June of 2033.

In addition, our 105,000 square foot facility located in Buffalo, New York leased to FedEx Ground through August will not be renewing because it has been replaced by our recently constructed 339,000 square foot facility. The recently constructed 339,000 square foot facility is leased to FedEx Ground for 15 years through March 2031.

The remaining 2 leases include our small 60,000 square foot facility located in Richmond, Virginia, previously leased by United Technologies and a small retail tenant that was leasing 2,000 square feet in our retail shopping center located in Somerset, New Jersey.

Our only additional vacancy is an 81,000 square foot facility in the Pittsburgh MSA, which became vacant in fiscal 2018. These 5 properties, totaling 339,000 square feet and representing 1.6% of our total gross leasable area, are currently being actively marketed, and we expect to have more to share with you in the ensuing quarters.

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And now Kevin will provide you with greater detail on our financial results.

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

Thank you, Rich. Core funds from operations for the second quarter of fiscal 2019 were $19.6 million or $0.21 per diluted share. This compares to core FFO for the same period 1 year ago of $16.8 million or $0.22 per diluted share, representing a 4.5% decrease from the previous year.

Adjusted funds from operations, or AFFO, were $19.2 million or $0.21 per diluted share for the recent quarter as compared to $16.8 million or $0.22 per diluted share a year ago, also representing a 4.5% decrease from the prior year period.

These decreases were attributable to the impact of our 9.2 million share offering this past October and the issuance of 1.5 million shares pursuant to our dividend reinvestment plan as well as an increase in vacancies in our portfolio. Given our substantial $245.9 million acquisition pipeline, we expect to meaningfully grow our per share earnings going forward.

Rental and reimbursement revenue for the quarter were $39.3 million compared to $34.3 million, representing an increase of 14% from the previous year. Net operating income was $32.5 million for the quarter, reflecting a 15% increase from the comparable period a year ago. This increase was due to the additional income related to the 6 industrial properties purchased since the prior year period.

Net income attributable to common shareholders was $23.8 million for the second quarter as compared to $7.4 million in the previous year second quarter, representing a 222% increase. This large increase in our net income attributable to common shareholders was due to the accounting rule change, in which unrealized gains and losses on our securities investments are now reflected on our income statement. Prior to the adoption of this accounting rule change, unrealized gains and losses were reflected as a change in shareholders' equity.

As we mentioned during our prior quarter's call, this will, at times, result in large swings both up and down in our net income attributable to common shareholders. The 222% increase in net income attributable to common shareholders this quarter was primarily driven by the $15.6 million decrease in the unrealized loss on our securities portfolio.

Excluding the effect of this accounting rule change, net income attributable to common shareholders would have been $8.3 million, representing an 11.6% increase from the prior year quarter. We will continue to report our core FFO and AFFO results exactly as we always have as these metrics back out these nonrecurring, noncash fluctuations and are more indicative of our recurring performance.

With regards to our same-property metrics for the current 3-month period, our same-property NOI decreased 1.4% on a GAAP basis and 0.8% on a cash basis. These slight decreases in same-property NOI were mostly due to a 90 basis point decrease in same-property occupancy to 98.7%.

One of the many favorable attributes of having a high-quality industrial portfolio leased to investment-grade tenants is we receive a lot of property expansion requests. During the past 5 years, we have completed 18 property expansions at an aggregate cost of $70.3 million. These expansions resulted in lease extensions ranging from 10 to 15 years and economic returns averaging 10% unlevered.

However, because we removed building expansions from our same-property portfolio, our same-property results understate our overall portfolio performance.

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As of the quarter end, our capital structure consisted of approximately $884 million in debt, of which $754 million was property-level, fixed-rate mortgage debt and $130 million were loans payable. 85% of our total debt is fixed rate with a weighted average interest rate of 4.1%. We also had $299 million in perpetual preferred equity at quarter end. Our total debt plus preferred equity, combined with an equity market capitalization of $1.2 billion, results in total market capitalization of 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 35.8%, our net debt plus preferred equity to total market capitalization at 48.2%, our fixed charge coverage at 2.4x and our net debt-to-adjusted EBITDA at 6.4x.

From a liquidity standpoint, we ended the quarter with $16.4 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 $177.4 million in marketable REIT securities at quarter end, representing 8.5% of our total undepreciated assets.

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. In summary, given strong industrial sector fundamentals, we continue to be very optimistic about the prospects of our property portfolio and the potential for future earnings growth associated with the continuing successful execution of our large acquisition pipeline.
We'd now be happy to take your questions.

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Question and Answer

Operator

[Operator Instructions] The first question today comes from Frank Lee with BMO.

Frank Lee
BMO Capital Markets Equity Research

It's good to see you guys completed the building expansion in Ohio this quarter and you're able to get some additional rent and term. Can we see any additional expansion type projects potentially start this year?

Michael P. Landy
CEO, President & Executive Director

Yes. We have about 5.2:1 land-to-building average, so our 113 properties have ample land for expansion. I think Kevin mentioned in the prepared remarks that looking backwards, we've done $70 million in expansions over the last 5 years. It's 18 building expansions. We have nothing to report on this call.

I'll turn it over to Rich, maybe he can add some more color. But expansions are a real benefit to our portfolio. It's been an ongoing source of taking a lease maturity that's currently 8.5 years going out and extending it even further because we get these expansions. So when you have a cash flow such as ours secured by investment-grade tenants, you're going to get your weighted average lease term. It's not going to fall short. And because of the additional land, you're going to actually do better than that. Rich, anything brewing on the expansion front you want to share at this time.

Richard P. Molke
Vice President of Asset Management

Yes. We're always talking, but nothing definitive.

Michael P. Landy
CEO, President & Executive Director

Okay.

Frank Lee
BMO Capital Markets Equity Research

Okay. And then also now with the securities book at 8.5% of undepreciated assets and then getting closer to your 10% self-imposed cap, like what are your thoughts on where the securities book stands today?

Michael P. Landy
CEO, President & Executive Director

Our thoughts are as follows. We're really pleased with our pipeline. We have about a $0.25 billion pipeline, all brand-new built-to-suits set to come online, roughly 50% in fiscal '19 and the other 50% looking like the second half of fiscal '20. So given we have that runway of allocating capital to our core business, we would like to take the portfolio lower. We will be reallocating capital from the securities portfolio into closing those deals. And so I see it going lower. And once we get it

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lower, I'd like to keep it lower.

We have a portfolio of roughly $180 million. And given the gains in some holdings and the losses in others, we could access about $100 million at cost right now in capital without taking any realized gains or realized losses. So we'll watch the portfolio closely. The markets have been volatile and there's a lot of things overhanging the broad market. But our core business is single-tenant, net-leased industrials on long-term leases to investment-grade tenants. We now have $0.25 billion pipeline in front of us so we can allocate the portfolio into that and take it down closer to 5% of gross assets.

Operator

The next question comes from Rob Stevenson with Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

When you were talking earlier about the vacant assets being marketed, is that being marketed for sale or marketed for lease?

Richard P. Molke
Vice President of Asset Management

They're always marketed for both. But going into the spring quarter, we've had a lot of activity on the leasing front. So feel really good about filling some vacancies in the near term and having occupancy trend higher.

Michael P. Landy
CEO, President & Executive Director

Just to share our philosophy on that, Rob, if I can just jump in. Thanks, Rich. If I could just jump in. Ideally, we're a small company we've got 113 properties. We're rounding up 22 million square feet, we want to keep all our assets. We get unsolicited calls to buy properties from us. There's a lot of demand. It's a seller's market. But we're looking to grow. So ideally, the 5 vacant properties we have, we fill them with tenants. But we cast as wide a net as possible. And if you're going to market it, you might as well market it for sale or lease and take the best deal at hand.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then in terms of the 4 nonrenewals this year, one of them vacated in the first quarter. Am I correct?

Richard Molke
Vice President of Asset Management

That's correct.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

And then FedEx is August, and then the Richmond and the retail -- and the small retail tenant, when do those leases expire?

Michael P. Landy

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CEO, President & Executive Director

They've all expired, except the FedEx in the Buffalo market.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And how significant is the quarterly or annual rent on that asset for modeling purposes?

Michael P. Landy
CEO, President & Executive Director

For modeling purposes, the Cheektowaga FedEx, they moved out of that to another newer building of ours. But the rent's above market. It's -- Rich, correct me if I'm wrong. It's about $2 above market.

Richard P. Molke
Vice President of Asset Management

Right around there.

Michael P. Landy
CEO, President & Executive Director

Yes. So it's -- we'll take a roll down, but we have good interest and hopefully we'll get a strong investment grade credit in there.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then last one from me. Kevin, did you guys -- are there -- I mean the securities portfolio increased during the quarter. Was that all just increases in REIT stock prices? Or did you guys buy anything during the quarter?

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

It's a combination of both. It's about $15 million increase in unrealized and about $16 million of purchases.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Any new positions in there?

Michael P. Landy
CEO, President & Executive Director

No.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So the $16 million that was deployed was into existing positions?

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

That's correct.

Operator

The next question comes from Michael Carroll with RBC Capital Markets.

Michael Albert Carroll
RBC Capital Markets, LLC, Research Division

Mike, can you talk a little bit about, I guess, you've said that you want to get the securities book down to 5% of gross assets. What's the timing on that? I mean is it going to be more of a match funding as when you close on your -- the core pipeline, that you'll sell down the securities portfolio? Or you -- have you already started doing that?

Michael P. Landy
CEO, President & Executive Director

No. It is the former. Like you said, we have a runway in front of us with $0.25 billion in 5 acquisitions, half scheduled to close this fiscal year, the second half scheduled to close in the latter part of 2020. And so that's the timeline I envision ratably taking the portfolio down.

Michael Albert Carroll
RBC Capital Markets, LLC, Research Division

Is 5% kind of a new target? I mean once you kind of get to that level, are you going to stay there? Or how are you thinking about that.

Michael P. Landy
CEO, President & Executive Director

Yes. I think we want to kind of watch and see how things go. The best part about having a securities portfolio is the flexibility it brings to the balance sheet. It served us well for so long. Since the late '90s, we've had the portfolio. Looking at cumulative returns, it's generated over $50 million in dividend income and realized gains of over $30 million. So it's been a great -- and that's just since 2010. So it's been a good adjunct to the -- to our balance sheet. But we've gotten to the size as a pure-play industrial REIT where it's creating a distraction somewhat. And so the negative aspects are perhaps outweighing the positive aspects. But when we take it down to 5, we'll revisit how it's performing.

Michael Albert Carroll
RBC Capital Markets, LLC, Research Division

Okay. And then how do you think about reallocating that portfolio? I mean do you do that on a quarterly basis? I know in some of the holdings, there's been some negative news regarding their dividends. I mean how do you look about that?

Michael P. Landy
CEO, President & Executive Director

Well, we're long-term investors. We look through the short-term issues. A lot of our portfolio is tilted towards the retail sector. We were really early in embracing industrial benefiting from consumer spending migrating from traditional brick-and-mortar to e-commerce. And the next chapter, in our opinion, is going to be more of a symbiotic relationship between

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the e-tailers and the brick-and-mortar stores. And everybody's talking about store closures, there's been about 6,000 store openings in 2019. So we're taking a long-term view. And we didn't expect things to turn around on a quarterly basis, and yet some of our retail holdings are already strongly profitable and some are strongly weak. So we'll just have to keep watching. But I think the main thing to understand is the company at a smaller size needed to have the securities portfolio it was a great adjunct, and to some extent, we're outgrowing it.

Michael Albert Carroll
RBC Capital Markets, LLC, Research Division

Okay. And then can you talk a little bit about your FedEx portfolio today? I mean after the expected move-outs or the FedEx moving out to more modern facilities, how many of the facilities that you currently lease would you consider modern facilities that FedEx wants to be at versus the smaller facilities that they're looking to move out of into some of these more bigger properties?

Michael P. Landy
CEO, President & Executive Director

Yes. So our weighted average building age overall, looking at the FedEx bucket and the non-FedEx bucket, is about 8.5 years. And then looking at the FedEx bucket, it's even more youthful. So most of the portfolio has migrated to large, state-of-the-art, highly automated, processing over 15,000 packages per hour where FedEx had made substantial investments in these buildings. So I don't see that trend where they're moving out of the older building in certain markets and we're retaining them in the market, but retaining them by providing bigger and better space. I think we've made most of that shift already and you're not going to see a significant amount of that going forward.

Operator

The next question comes from Michael Mueller with JPMorgan.

Michael William Mueller
JP Morgan Chase & Co, Research Division

A couple of questions here. First of all, can you give us some color on the 5.7%, I think it was, negative cash rent spread? Just was it 1 building? Is it broad-based? And just what's the background there.

Michael P. Landy
CEO, President & Executive Director

Yes. It was largely one building, United Technologies in Carrollton, Texas. And the thinking there is, again, we take a long-term view and these are single-tenant, net-leased properties to investment-grade tenants. And by working with that tenant, getting the lease down to market, keeping them in the building for 5 years, they are now making substantial investments in that facility. They have long-term aspirations to stay there.

So I think the market is very fixated on leasing spreads and that number jumps out when you look at it versus some of our peers who aren't net-leased and therefore they need big leasing spreads to cover increased taxes, increased insurance, increased OpEx. We're net-leased so, we don't -- it's apples-to-oranges in comparing leasing spreads. But our thought process on the one that really drove down the leasing spreads this year was to work with our tenant and live to fight another day with them. And they're very happy about it and they're making substantial investments in the building, as I said. And we'll see what happens 5 years from now on that renewal. Rich, anything you want to add?

Richard P. Molke
Vice President of Asset Management

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No. That's the philosophy. And yes, we don't have any other that were significant cash decreases.

Michael William Mueller
JP Morgan Chase & Co, Research Division

Got it. Okay. And then on the 2 FedEx buildings where the leases didn't renew, you said one was $2 above market in Buffalo. What about the other one? And then, I guess what's the context and the color in terms of why it's above market? What happened in the marketplace where, I guess, market rents declined?

Michael P. Landy
CEO, President & Executive Director

Well, that one's above market because we expanded it, and in order to recoup the -- we expanded it 3 times, Rich is pointing out. So the rents just got above market to recoup the money in expanding the building. We got all our costs back for making the building that much bigger and now we have to roll down to market. Anything else, Rich?

Richard P. Molke
Vice President of Asset Management

So Charleston is right at market and has been expanded. And the thing to remember with these 2 buildings is there's about 100,000 feet with 18 acres of land. So they're highly configurable, and going forward, they can serve a lot of uses, have expansion capabilities, and we feel really good about them.

Michael William Mueller
JP Morgan Chase & Co, Research Division

Got it.

Michael P. Landy
CEO, President & Executive Director

If I could just steal Rich's thunder real quick. So we have 98 -- 99 -- what's the 98.9% occupied, worst-case scenario with the Cheektowaga coming off lease, we'll be 98.4%.

Richard P. Molke
Vice President of Asset Management

4.

Michael P. Landy
CEO, President & Executive Director

And there's good demand in all 5 vacant properties. So our sense is occupancy is going to head higher going forward.

Michael William Mueller
JP Morgan Chase & Co, Research Division

Got it. Okay. And last question from me. I think you gave this in the fourth one, the -- I guess it's, for you, it would've been, well, last quarter call heading into first quarter here. So heading into Q3, what is the dividend income run rate for the quarter based on -- when you factor in, I guess, the CBL suspension and just kind of the other cut?

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Michael P. Landy
CEO, President & Executive Director

Yes. So factoring in everything that's been announced and everything that's occurred, it's going to be similar to the run rate last quarter. It's going to be about a $3.5 million run rate quarterly, about a $14 million run rate annually and -- because it grew, the portfolio grew a bit. So we're on track for maintaining $3.5 million in quarterly dividends, including everything that's been announced.

Operator

The next question comes from Craig Kucera with B. Riley FBR.

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

I may have missed this, but what is the average initial yield on the acquisition pipeline as we stand today?

Michael P. Landy
CEO, President & Executive Director

Yes. It's so competitive out there. We used to get so granular and tell you everything that's happening transaction by transaction. And for competitive purposes, I want to keep my cards closer to the vest going forward. But I will say low 6s is the average cap rate on our 5-property, built-to-suit portfolio with a weighted average lease maturity of 13.7 years, $245.9 million in acquisitions and 1.9 million square feet.

Michael P. Landy
CEO, President & Executive Director

Okay. Gene should jump in at this point because I know it's hard for him to just be tight-lipped and he has a lot -- he probably wants to add. So I'll turn it over to Gene. You can answer what you were going to say and catch up on anything else.

Eugene W. Landy
Founder & Chairman

No, I just wanted to point out that cap rates are important, but spreads are important, too. And we're getting some of the lowest interest rates, the longest terms, great percentages so that the business is a very good business right now. And we're doing more and more business with investment-grade tenants. The leases are longer, in some cases, 15 years. So between the financing and the cap rates, it's a very profitable business.

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

Okay. Great. I guess with Amazon's announcement to shift Prime to 1-day shipping, are you seeing any shift in the market yet as far as maybe where properties are being constructed or any acceleration in new development?

Michael P. Landy
CEO, President & Executive Director

Well, I'll answer your question this way. What e-commerce is finding is that cumulative sales are going up exponentially, but cumulative shipping costs are going up at an even greater rate. So it's getting less and less profitable to answer that last mile part of the equation. So they need to build -- they're going to keep going and keep growing, and Amazon is

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about half of the $500 billion in U.S. e-commerce sales. They're going to need more sortation centers. They're going to need a lot of facilities to handle returns. There's oversized goods that nobody envisioned people ordering to be delivered to their homes. So therein lies what we believe to be the answer that traditional brick-and-mortar retail has to converge with e-commerce and be part of the equation in how these goods, in a profitable manner, get distributed.

But clearly, Amazon is investing heavily in engaging and building out their network. But I will bring up that 80% of the FedEx network is business-to-business. Only 20% is business-to-consumer. 100% of Amazon's distribution is business-to-consumer or consumer-to-consumer. So they're serving 2 different purposes. And for FedEx's network, Amazon is about 1% of total sales.

Operator

The next question comes from Merrill Ross with Boenning and Scattergood.

Merrill Ross
Boenning and Scattergood, Inc., Research Division

Historically, as we see this year with the 2 move-outs, FedEx moved when they wanted a larger facility despite the fact that, as you mentioned, Mike, they put a ton of money into those properties. So is that -- suggests that each of the properties in your pipeline will have expansion capacity in order to kind of retain that tenancy longer than the initial lease terms of -- you mentioned 13 years, with the ability to grow alongside them? That's one question. And the second question is in relation to Amazon in particular. Is it possible that, ultimately, the properties that you operate for -- own for them and lease to them would have a more flexible use in the future if they tried to convert them to like warehouse pickup locations for those large items, in particular, that you mentioned?

Michael P. Landy
CEO, President & Executive Director

Yes. All right. So the first part of your question, looking at our pipeline, the land-to-building ratio of our pipeline is greater than our whole portfolio even though our portfolio is pretty ample. Land-to-building at 5.2:1, the pipeline is 7:1. So yes, Merrill, absolutely, when these strong Fortune 100 companies take on a new built-to-suit property for a 15-year term, they are baking into their equation 15 years from now how much bigger are they going to be and they're trying to factor in additional capacity. Because nobody wants to move, it's very costly to move, that's the last thing they want to do.

So the only time we lose tenants with a portfolio such as ours primarily is because they've outgrown the building and we can't accommodate their growth. So whenever there's land available contiguous to one of our properties, we try to buy it because we don't want to lose these tenants for lack of capacity.

As far as the uses, the automation, the state-of-the-art of the robotics and the sortation equipment in the building keeps evolving and so that's another reason why they're doing additional lease term. To amortize the tens of millions of dollars required to automate these facilities, warrants an additional lease term. So if your question was upon move-out are the building's easily configurable for additional tenants, I'll let Rich answer that part.

Richard P. Molke
Vice President of Asset Management

Yes. These are -- as they come off, you can just see the amount of activity that we get, and that bodes well for the amount of uses that we can service going forward with these.

Operator

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

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

Mike, just kind of building on that cash mark-to-market. What do you see in the portfolio kind of going forward over the next few quarters that we might see from a cash mark-to-market out of the portfolio?

Michael P. Landy
CEO, President & Executive Director

I'm not sure I understand the question. Are you talking about property portfolio? Are you talking about securities portfolio?

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

No. The property. The property. So when the leases roll over, we had the kind of that negative 5.7% that Mike alluded to. But what do you see going forward on a mark-to-market basis on the leases that you have rolling [by 2020]?

Michael P. Landy
CEO, President & Executive Director

Yes. All right. So I guess the one thing I always point to in answering that question is our company presentation is on our website and Slide 25 shows all our lease maturities and how much is expiring on any given year as a percentage of GLA and as a percentage of annual base rent. And in looking at that, we don't have a lot leases rolling in '20 and they're at an average rent rounding up of $5.5 a square foot. I think in our prepared remarks, you heard the weighted average asking rent in the U.S. right now is $6.41. So the prospects for cash roll-ups, that's a broad-brush analysis looking at the whole nation, but certainly -- there's good potential for embedded rent growth.

And then that slide goes on through 2034. And looking at all the ensuing years, I don't see a year where you have substantial above-market rents. The high is 2026, the rents start hitting the $7 range. But prior to that, they're all substantially lower. And who knows what rents are going to be in 2026. And our lease maturities go out to 2034.

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

Right. Got you. Got you. Okay. And then, Mike, you want to close on about $107 million before the fiscal -- your fiscal year-end. Is that going to be more your fiscal 4Q or 3Q when we're trying to model that out? Or should we think different?

Michael P. Landy
CEO, President & Executive Director

Yes. I think to be conservative, let's say fourth quarter.

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

Okay. Okay. Okay. And Mike, last question. On a big picture question, when we look at the China trade wars and the potential to slow port container traffic, would you anticipate that to have an effect on the industrial market? Or not

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necessarily?

Michael P. Landy
CEO, President & Executive Director

Yes. Well, Gene's the seaman. I'll turn it over to Gene first. I definitely have some thoughts, but go ahead.

Eugene W. Landy
Founder & Chairman

We don't expect -- the trade war is something everyone is worried about. But at the end of time, both countries need each other very, very badly. We get merchandise at the lower cost. China gets valuable trade. The dollars get reinvested back in the United States. I've always been an advocate of international trade. Nothing lifts the wellbeing of the entire world population than trade and trade has grown exponentially for the 4, 5 decades I've been in the business. And there are billions and billions of people in India and China and the rest of the world. We can see nothing but increased need for facilities and infrastructure. We need to modernize our ports. We need to modernize our railroads. We need to modernize our roads. And the volume of business we do today, 40 years ago wasn't even dreamed of. And we anticipate over the next 40 years, the volume will be huge.

So we don't worry about the negotiations in Washington today, it's very short term. And long term, the prospects for transportation and distribution are excellent. It creates wealth that companies specialize in certain items and they produce extra items at the very lowest cost, and so we trade back and forth and the wealth of the world increases. So Monmouth REIT is very optimistic about the need for warehouse space and being part of this wonderful system.

Michael P. Landy
CEO, President & Executive Director

Well, it's hard to add to that. The only thing I'll add is our portfolio in America is tilted towards the locales that are business-friendly. And what Gene is saying is that trade will move to where it's less regulated and it's more hospitable for commerce to take place without any hindrances. You saw what happened with a major company in New York and you're seeing that throughout the U.S. And there's pro-business states. And if you look at our portfolio, we purposely positioned our assets where things are more accommodating for free capitalism and goods to move. And so whether the supply chain shifts to Southeast Asia or Mexico, it will still be a growing population, and a growing American economy.

Operator

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

Susan M. Jordan
Vice President of Investor Relations

Thank you, operator. I'd like to thank everyone for joining us on this call and for their continued support and interest in Monmouth. As always, we're available for any follow-up questions. We will be presenting at NAREIT's REITweek Conference next month in New York, and we hope to see some of you there. We look forward to reporting back to you after our third quarter. Thank you.

OperatorThis conference has now concluded. Thank you for attending today's presentation. A teleconference replay will be available in approximately 1 hour. To access the replay, please dial U.S. toll free (877) 344-7529 or international toll 1 (412) 317-0088. The conference ID number is 10128987. Thank you again and please disconnect your lines.

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