Monmouth Real Estate Investment Corporation NYSE:MNR

FQ4 2019 Earnings Call Transcripts

Tuesday, November 26, 2019 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS (GAAP)	0.09	0.24	166.67	0.10	(0.04)	0.12
Revenue (mm)	40.60	40.60	0.00	42.30	158.69	158.52

Currency: USD
Consensus as of Nov-26-2019 12:45 PM GMT

	- EPS (GAAP) -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.10	(0.36)	NM
FQ2 2019	0.12	0.26	116.67 %
FQ3 2019	0.10	(0.03)	NM
FQ4 2019	0.09	0.24	166.67 %

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Call Participants

EXECUTIVES

Eugene W. Landy
Founder & Chairman

Michael P. Landy
CEO, President & Executive Director

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

Richard P. Molke
Vice President of Asset Management

Susan M. Jordan
Vice President of Investor Relations

ANALYSTS

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

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

Jason R. Idoine
RBC Capital Markets, Research Division

Michael William Mueller
JP Morgan Chase & Co, Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning, and welcome to Monmouth Real Estate Investment Corporation's Fourth Quarter and Fiscal Year-end 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-K that we filed with the SEC yesterday, we have filed an unaudited annual and fourth quarter supplemental information presentation. This supplemental information presentation, along with our 10-K, 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 statement 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 annual 2019 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

I would now 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 report our results for the fiscal year ended September 30. Fiscal 2019 was a successful year for Monmouth. During the year, we acquired 3 brand-new Class A, build-to-suit industrial properties containing 824,000 total square feet for a total cost of $138.6 million. In keeping with our business model, all 3 properties are leased long term to investment-grade tenants. These acquisitions will generate annualized rental revenue of $8.8 million and have a weighted average lease maturity of 11.6 years.

We continue to experience strong demand for our properties as evidenced by our 98.9% occupancy rate at fiscal year-end. Subsequent to the fiscal year-end, we leased up our 60,000-square-foot facility in Richmond, Virginia, for 12.5 years, thereby bringing our current occupancy rate up to 99.2%. During fiscal 2019, we also completed a 155,000-square-foot building expansion for approximately $8.6 million at one of our properties in the Cincinnati MSA. This building expansion resulted in an $821,000 increase in initial annual rent, bringing the total annualized rent up to $2.1 million. In addition, the lease was extended to a new 15-year term with 2% annual escalations expiring on February 2034.

In connection with this expansion, we obtained a 10.6-year fully amortizing second mortgage loan of $7 million at a fixed interest rate of 3.85%. The maturity of the second mortgage loan coincides with the maturity of the property's first fully amortizing mortgage loan, which is at a fixed interest rate of 3.77%.

During the fourth quarter, we acquired one property for $25.5 million comprising a brand-new Class A, built-to-suit distribution center with 350,000 square feet. This distribution center is situated on 46 acres in Lafayette, Indiana, and is leased to Toyota for 10 years. This property is immediately adjacent to the modern 3.3-million-square-foot Subaru plant that employs over 6,000 people and where over 400,000 cars were manufactured last year. Toyota represents an excellent new addition to our investment-grade tenant roster, and we look forward to growing this relationship over time.

Subsequent to fiscal year-end, we acquired another property for $81.5 million, consisting of a newly constructed 616,000-square-foot distribution center situated on 79 acres in the Indianapolis MSA. This property is leased to Amazon for 15 years. The Indianapolis industrial market represents one of the largest logistics hubs in North America, and this acquisition further enhances our large presence in this strong market. With this acquisition, our total portfolio currently has a gross leasable area of 22.9 million square feet and a weighted average building age of 9.1 years, a land-to-building ratio of 5.2:1 and a weighted average lease term of 7.8 years. Approximately 80% of our rental revenue is generated from investment-grade tenants with the remaining 20% generated from strong unrated companies. These strong key metrics compare very favorably to those of our peers.

With regards to our current acquisition pipeline, we've entered into agreements to purchase 4 properties for $150.5 million, comprising 1 million square feet of new Class A, build-to-suit industrial buildings situated on 171 acres. 3 of these properties are leased to FedEx and 1 is leased to Magna Seating of America. These future acquisitions will have a weighted average lease term of 14.2 years. Subject to our due diligence, we anticipate closing each of these transactions upon completion and occupancy, which is currently expected to be during fiscal 2020 and the first quarter of fiscal 2021. In connection with 1 of these 4 properties, we have entered into a commitment to obtain a 10-year fully amortizing mortgage loan of $9.4 million with a fixed interest rate of 3.47%. We expect to increase our acquisition pipeline further during fiscal 2020.

During fiscal 2019, we raised approximately $74 million in equity capital through our dividend reinvestment plan. Of this amount, a total of $16.9 million in dividends were reinvested this year, representing a 26% participation rate. We also raised $58.2 million in net proceeds through our Preferred Stock ATM Program with the sale of 2.4 million shares of our 6.125% Series C Preferred Stock. In addition, in October 2018, we completed our first common stock offering since 2014 with the sale of 9.2 million shares, generating net proceeds of approximately $132.3 million.

Subsequent to the fiscal year-end, on November 15, 2019, we amended our unsecured credit facility and added a term loan which increases our borrowing capacity, extends our maturity and reduces our borrowing rates. Kevin will have more details to share with you on this later.

With regard to the overall U.S. industrial market, our property sector continues to perform exceptionally well. As per Cushman & Wakefield's third quarter report, net absorption for the third quarter was 48.7 million square feet. This brings year-to-date net absorption to 148.4 million square feet and represents the 38th consecutive quarter of positive net absorption. Net absorption is expected to eclipse 200 million square feet for the sixth consecutive year. The U.S. industrial vacancy rate remained unchanged during the quarter at a record low of 4.8%. Weighted average asking rents increased 3.2% over the prior year period to $6.57 per square foot. Currently, there is approximately 338 million square feet of industrial product under construction, representing a 16% increase over the prior year period.

The overall U.S. economy is holding up well with Q3 real GDP growing at 1.9% despite the ongoing trade tensions and a cooling global economy. U.S. rail volumes, however, have now posted 9 consecutive months of year-over-year declines as last year's record numbers had a lot to do with pulling investments forward in order to get ahead of the increased tariffs. Consumer spending continues to be the big driver of U.S. growth and for the first time ever this holiday season, is expected to reach the $1 trillion mark in total retail sales. E-commerce is expected to be approximately $135 billion, representing 14% of total holiday sales.

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

Richard P. Molke
Vice President of Asset Management

Thanks, Mike. With respect to our total property portfolio, our occupancy rate stood at 98.9% at year-end, representing a 70 basis point decrease from a year ago and unchanged sequentially. Subsequent to fiscal year-end, effective November 1, 2019, we entered into a new 12.5-year lease with 2% annual rent escalations with Locke Supply Co. at our previously vacant 60,000-square-foot facility in Richmond, Virginia. The GAAP rent is $325,000 per year, representing $5.42 per square foot over the life of the lease. This new lease has driven our occupancy rate 30 basis points higher to 99.2% currently.

As of September 30, our weighted average lease maturity was 7.6 years compared to 8.1 years a year ago. Our weighted average rent per square foot increased 3% to $6.20 as of the fiscal year-end as compared to $6.01 at the end of fiscal 2018.

From a leasing standpoint, in fiscal 2019, 11 leases, representing approximately 1.5 million square feet or 7% of our gross leasable area, were scheduled to expire. 10 of the 11 expiring leases, representing 1.4 million square feet or 93% of the expiring GLA, have either been renewed or re-leased. 7 of these 10 leases, representing approximately 1.1 million square feet, were lease renewals. These 10 leases result in a weighted average lease term of 7.6 years, a 3.7% increase in rental rates on a GAAP basis and a 5.1% decrease on a cash basis. Given the long lease durations, combined with a net lease structure secured by strong credit tenants, we place more emphasis on the GAAP rent spreads than the cash rent spreads.

As previously reported, the one remaining lease that did not renew is our 105,000-square-foot facility located in the Buffalo, New York MSA. We currently have only one other vacancy, which is our 81,000-square-foot facility located in the Pittsburgh MSA which became vacant in fiscal 2018. These 2 properties totaling 186,000 square feet and representing only 80 basis points of our total gross leasable area are currently being actively marketed.

In fiscal 2020, 2% of our gross leasable area, consisting of 5 leases totaling 410,000 square feet, is scheduled to expire. While it is still early in our new fiscal year, to date, we have renewed 1 of these 5 leases, representing 89,000 square feet or 22% of the 410,000 square feet up for renewal. This renewed lease is for a 5-year term and has a GAAP lease rate of $5.78 per square foot. The initial cash rent is $5.50 per square foot. This results in an increase of 1.8% on a GAAP basis and a decrease of 3.2% on a cash basis.

I look forward to reporting continued progress in the next few quarters. 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. I will start off by discussing some of our key financial indicators for the fourth quarter and then moving to some of our key financial indicators for the full fiscal year.

Funds from operations, or FFO, which excludes unrealized securities gains or losses for the 3 months ended September 30, 2019, were $20.3 million or $0.21 per diluted share as compared to $18.1 million or $0.22 per diluted share for the same period a year ago, representing a decrease in FFO per share of $0.01. Adjusted funds from operations, or AFFO, which excludes securities gains or losses, were $20.1 million or $0.21 per diluted share for the recent quarter as compared to $17.7 million or $0.22 per diluted share a year ago, representing a decrease in AFFO per share of $0.01.

Our results were modestly impacted by the timing of our equity issuance in October 2018 and by the 70 basis point reduction in our occupancy compared to the prior year. We expect the combination of our recent $81.5 million acquisition leased to Amazon for 15 years, our $150.5 million acquisition pipeline comprising 1 million square feet as well as a 30 basis point recovery in occupancy since the fiscal year-end to positively contribute to per share earnings and cash flow going forward.

Rental and reimbursement revenues for the quarter were $40.6 million compared to $36.6 million or an increase of 10.9% from the prior year. Net operating income increased $3.4 million to $33.6 million for the quarter, reflecting an 11.4% increase from the comparable period a year ago. This increase was due to the additional income related to the 7 properties purchased during fiscal 2018 and the 3 properties purchased during fiscal 2019. As Michael mentioned earlier, we acquired one brand-new property leased to Toyota for 10 years containing 350,000 square feet for $25.5 million during the recent quarter.

Same-property NOI for the 3 months ended September 30, 2019, decreased slightly by 0.2% on a U.S. GAAP basis and increased slightly by 0.2% on a cash basis. The 20 basis point decrease in U.S. GAAP same-property NOI was primarily due to the 80 basis point decrease in same-property occupancy, partially offset by increased rent. The 20 basis point increase in same-property cash NOI was primarily due to the increased rent, partially offset by the 80 basis point decrease in same-property occupancy.

Net income attributable to common shareholders was $22.7 million for the quarter as compared to $7.8 million in the previous year, representing a $14.9 million increase. This increase in our net income attributable to common shareholders was mostly 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 stockholders' equity. Excluding the effect of this accounting rule change related to the $14 million in unrealized gains on our securities portfolio during our fourth quarter, net income attributable to common shareholders would have been $8.7 million for the current quarter compared to $7.8 million for the prior year quarter, representing an 11.8% increase.

I would now like to cover the financial results for the full fiscal year. FFO, which excludes unrealized securities gains or losses for the full fiscal year 2019, was $81.2 million or $0.87 per diluted share as compared to $69.8 million or $0.89 per diluted share for the same period a year ago, representing a decrease in FFO per share of $0.02. AFFO, which excludes securities gains or losses, was $0.85 per diluted share for fiscal 2019 as compared to $0.87 per diluted share a year ago, representing a year-over-year decrease of $0.02.

Rental and reimbursement revenues for the year were $158.5 million compared to $139.2 million or an increase of 13.9% from the prior year. Net operating income increased $16.4 million to $131.2 million for the year, reflecting a 14.3% increase from the comparable period a year ago. Net income attributable to common shareholders was $11 million for the full year as compared to $38.8 million in the previous year, representing a $27.8 million decrease. Excluding the effect of the accounting rule change related to unrealized loss on our securities portfolio and excluding the prior year's nonrecurring realized gain on the sale from 4 industrial properties and prior year nonrecurring realized gain on sales of marketable securities, net income attributable to common shareholders would have been $35.7 million for the current year compared to $31.2 million for the prior year, representing a 14.4% increase from the prior year.

Same-property NOI for the 12 months ended September 30, 2019, decreased slightly by 0.8% on a U.S. GAAP basis and 0.3% on a cash basis. The 80 basis point decrease in U.S. GAAP same-property NOI and the 30 basis point decrease in same-property cash NOI were primarily due to the 90 basis point decrease in same-property occupancy, partially offset by increased rent.

As of the end of the fiscal year, our capital structure consisted of approximately $840 million in debt, of which $745 million was property-level fixed-rate mortgage debt and $95 million were loans payable. 89% of our mortgages and loans payable are fixed rate with a weighted average interest rate of 4% as compared to 4.1% in the prior year. We also had a total of $348 million in perpetual preferred equity at year-end. Combined with an equity market capitalization of approximately $1.4 billion, our total market capitalization was approximately $2.6 billion at year-end, representing a 1% increase from a year ago. From a credit standpoint, we continue to be conservatively capitalized with our net debt-to-total market capitalization at 32% and our net debt plus preferred equity to total market capitalization at 45% at year-end.

For the fourth quarter ended September 30, 2019, our fixed charge coverage was 2.4x, and our net debt-to-adjusted EBITDA was meaningfully reduced from 7.1x in the prior year period to 5.9x at fiscal year-end.

From a liquidity standpoint, we ended the year with $20.2 million in cash and cash equivalents. As Michael mentioned earlier, subsequent to the fiscal year-end, we amended our unsecured line of credit facility, increasing the maximum availability of our revolver from $200 million to $225 million with an additional

$100 million accordion feature, bringing the total potential availability up to $325 million. In addition, the amended credit facility extended the maturity date of our revolver from September 2020 to January 2024 with options to extend further. Furthermore, the amended facility was enhanced with the $75 million term loan, which matures January 2025, resulting in the total potential availability under both the revolver and the term loan of up to $300 million and up to $400 million, including the $100 million accordion feature. The amended line of credit and the new term loan increases our borrowing capacity, extends our maturity, and depending on our leverage ratios, reduces our borrowing rates by a range of 5 to 35 basis points. The revolver currently bears interest at an interest rate of 3.21%. We currently have $215 million available under our new revolver as well as an additional $100 million potentially available from the accordion feature.

To reduce floating interest rate exposure on our term loan, we entered into an interest rate swap agreement to fix LIBOR on the entire $75 million for the full duration of the term loan, which is at an all-in interest rate of 2.92%.

This year, we fully repaid a total of 5 loans associated with 5 properties with unamortized balances totaling $12.5 million which unencumbered approximately $100 million worth of properties. The continued substantial growth of our unencumbered asset pool enhances our financial flexibility and further strengthens our already strong credit profile.

At fiscal year-end, we held $185.3 million in marketable REIT securities, representing 8.7% of our undepreciated assets. This compares to a balance of $154.9 million held at the end of the prior year. At year-end, our REIT securities investments reflected $49.4 million in unrealized losses as compared to $24.7 million a year ago.

During the year, we earned dividend income from our securities portfolio of $15.1 million as compared to $13.1 million in fiscal 2018. The performance of our securities portfolio improved substantially during the quarter and continued to improve subsequent to the quarter end. Historically, we have aimed to limit the size of our REIT securities portfolio to no more than approximately 10% of our undepreciated assets. As we announced earlier this year, it is now our goal to opportunistically reduce the size of our REIT securities portfolio to ultimately be no more than 5% of our undepreciated assets. There have been no open market purchases or sales of REIT securities since this announcement was made.

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. Despite a very competitive market, Monmouth has been very successful in sourcing high-quality acquisitions and generating qualitative growth. We closed a large acquisition lease to Amazon subsequent to our fiscal year-end. And with a long-term lease-up of our building in Richmond, Virginia, we recently increased our portfolio occupancy rate back over 99%. We have a substantial 1 million-square-foot acquisition pipeline in place, which we expect to increase further, and this will help drive our performance going forward. We have strengthened our already strong balance sheet and have ample capital to fund our future growth.
We'd now be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Rob Stevenson of Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Rich, did I hear you say that there's 5 leases in fiscal 2020 and you've renewed 1 of them?

Richard P. Molke
Vice President of Asset Management

That's correct.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. Of the other 4, how much square footage is that now?

Richard P. Molke
Vice President of Asset Management

Roughly 300,000 square feet left. One building in the Hartford, Connecticut market leased to Kellogg's is not renewing, which we discussed on the last call; and 3 buildings left, which we've been in discussion with all of them. And as we close those, we'll update you accordingly.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Are any of those other 3 FedEx? Or are they all FedEx?

Richard P. Molke
Vice President of Asset Management

They are not FedEx. None of them are FedEx.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. Because I was going to say usually, they give you a little bit more advanced warning than 10 months or so if they've got to move out and they have to be moving into something else. Okay.

What was the cap rate on the Amazon acquisition?

Michael P. Landy
CEO, President & Executive Director

Rob, we really don't want to get into cap rates on individual deals. Let's just say we will -- it will be highly accretive.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

What was the -- then the cap rate on all fiscal 2019 acquisitions?

Michael P. Landy
CEO, President & Executive Director

It was in the low 6s.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, Kevin, you guys had the annual amounts, but how much in the fourth quarter did you guys do on the DRIP and the stock issuance stuff and then also on the Preferred Stock ATM?

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

So for the Preferred Stock ATM we did for the year, I guess we had listed...

Michael P. Landy
CEO, President & Executive Director

$58.2 million in Preferred ATM in fiscal '19. Already in the first quarter, we've done another $35 million.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

And how much of that $58 million was in the fourth quarter?

Michael P. Landy
CEO, President & Executive Director

A lot. I think with the yield curve inverting and short-term rates, 3 fed cuts in a row, a lot of the demand was in the fourth quarter, but I don't have the exact number in front of me.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then how much of the DRIP and stock purchase program was in the fourth quarter?

Michael P. Landy
CEO, President & Executive Director

Let's see. That comes in pretty ratably. So we did $74 million throughout the year, and that's just quarter-by-quarter, pretty equivalent.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then last one for me. Typically in previous years, in the K, you guys have had a disclosure with all the individual investments in the securities portfolio. Did I miss that? Or did that drop out this year?

Michael P. Landy
CEO, President & Executive Director

No. It's in the K.

Operator

Our next question comes from Michael Mueller of JPMorgan.

Michael William Mueller
JP Morgan Chase & Co, Research Division

Yes. A couple of questions. I guess, first, for the $150 million of acquisitions that are set to close in 2020 and first quarter '21, can you walk through like a rough timing of like when in 2020 you expect that to occur and then how much in 2021?

Michael P. Landy
CEO, President & Executive Director

Sure thing, Mike. Roughly 12% of the $150.5 million pipeline is scheduled to close in the second quarter of fiscal '20, about 40% is scheduled to close in the third quarter and a little under 50%, 48% is in the first quarter of 2021.

Michael William Mueller
JP Morgan Chase & Co, Research Division

Got it. Okay. And then I guess as you're thinking about renewing leases and just kind of signing new leases down the road, I mean, do you think there's going to be an opportunity to either drive increased bumps in leases or kind of push rent spreads a little more than they have been?

Michael P. Landy
CEO, President & Executive Director

Well, the industrial market is very tight, as you know, under 500 bps of vacancy. Rents are at record levels, so yes. The short answer is yes, but we focus on quality assets, quality tenants, long-term leases. We're virtually full. It's very expensive to carry vacant buildings. We only have 80 basis points of vacancy currently, and the leases that were consummated in fiscal '19 had a weighted average lease term of over 7 years.

So we're focused on delivering visible, reliable income streams as opposed to getting the record for biggest leasing spreads where you're taking any tenant for any term. So as long as we get the investment-grade tenants for 7 -- over 7 years, we're happy with that. But the short answer is yes. It's a tight market, and everybody is expecting rents to go higher.

Michael William Mueller
JP Morgan Chase & Co, Research Division

And maybe one last question. For the $150 million of acquisitions that are in the pipeline now, I mean, how should we think about equity funding for those? Should we assume that some of the securities portfolio is liquidated for that? Or will the securities portfolio just kind of hover where it is and it will shrink as you grow the rest of the company in which you'll pull equity from traditional equity issuance?

Michael P. Landy
CEO, President & Executive Director

Well, yes. We have multiple sources of capital, as we discussed earlier. The DRIP and SIP has been running at an annual rate of over $70 million. The ATM has been running at about $60 million. The securities portfolio is $190 million-ish currently unencumbered. We could borrow $90 million plus against that at slightly over 2%. We could harvest gains from the portfolio. So we have multiple sources of capital, and the pipeline is spread out, and the pipeline is expected to grow. I'm pretty confident that next quarter, we'll be reporting an even larger pipeline.

Michael William Mueller
JP Morgan Chase & Co, Research Division

Okay. And last question. Do you anticipate liquidating any of the securities portfolio going forward or to use that for funding? Or should we think of it as staying kind of status quo as it is, and again, the funding will come from all the other sources that you mentioned like the DRIP and everything?

Michael P. Landy
CEO, President & Executive Director

Well, it rose $14 million over the quarter, and it's up about $20 million since, total. And as Kevin mentioned, opportunistically, we will be reallocating capital from the securities portfolio into our core business. I know that you'd like to see it disappear altogether. We announced it will be from 10% ceiling, self-imposed ceiling, to 5%. And to the extent it's increasing as a percentage of gross assets, that's just through capital appreciation, and we view that as a good thing. Gene, anything you want to add?

Eugene W. Landy
Founder & Chairman

Well, on a variety of the topics, we value liquidity greatly. The portfolio is in great shape. The value of our properties is going up. Everything is rosy, but where you are concerned, at some point, there'll be a downturn, and so we keep the company as liquid as possible. We've been moving -- we've been raising capital in the preferred market, and we're very proud of that. We keep the securities portfolio because of liquidity, and the securities portfolio has been going up, but we have it. And we have the ability to raise cash very quickly, and we have a company that is doing very well.

All the REITs are benefiting from this remarkable interest rate environment where you can borrow money long term at very low rates, and it's good for real estate. It's good for the values of real estate, and it certainly makes our portfolio more valuable. And when you look at the amounts of money we could borrow against that portfolio, we're in a very strong financial shape, and we continue to improve it. The only reason we keep doing any common stock issuances is just as a base to go ahead and issue another $100 million of preferred.

Operator

Our next question comes from Michael Carroll of RBC Capital Markets.

Jason R. Idoine
RBC Capital Markets, Research Division

This is Jason on for Mike. I just had a question on the investment pipeline behind the 4 build-to-suits. Just wondering kind of what the breakdown of that looks like if you're focused on more build-to-suits or kind of what the characteristics of that portfolio are.

Michael P. Landy
CEO, President & Executive Director

Yes. It's primarily build-to-suits because you get a better cap rate than the on-the-spot cap rate. You get a brand-new building, and you get a long-term lease to an investment-grade tenant. So we're very picky on what a Monmouth asset is. Most assets that come through our desk, most deals are not either long-term leases to investment-grade tenants, brand-new buildings, well-located buildings. So there's a lot of hurdles you have to get over to be a Monmouth asset.

So what's driven our growth over the years and we've tripled in size over the last 7 years has been the build-to-suit market. The additional deal that I think is going to be consummated this week is a new name for us, an A-rated credit in the Pittsburgh market, and we'll have more to talk about that in the next quarter. But the pipeline continues to grow, and we continue to successfully source Monmouth-type deals.

Operator

Our next question comes from Craig Kucera of B. Riley FBR.

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

I know last quarter, you disclosed that the pipeline at that point in time of $219 million was at a -- like a 6.2% cap rate. Can you give us some color on what the $150 million is as of today on a cap rate basis?

Michael P. Landy
CEO, President & Executive Director

Yes. It's a little bit higher than that but not much.

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

Okay. That's what I figured. And as far as the space that got leased up in Richmond, it looks like the rent is effectively the same as what United Technologies was paying. But did Locke Supply require significant tenant improvements?

Richard P. Molke
Vice President of Asset Management

No. They weren't that big. Really, the -- it's the straight-line, free rent that they were given for that long-term lease.

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

Got it. And just circling back to your commentary on the 2 vacant buildings, you mentioned that you're marketing those. Are you marketing them for sale? Or are you just continuing to try to lease up or both?

Richard P. Molke
Vice President of Asset Management

It's always our preference to lease, but we put them on the market for sale and for lease to see what the market bears.

Eugene W. Landy
Founder & Chairman

If I can add. Being an old sailor, the one property is on the Ohio River, sits on a bluff. And with the growth of inland water transport, we don't mind it being vacant a while. The long-term prospects for that property are excellent.

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

Okay, great. Just going to your G&A expense. I know going from 2017 to 2018, you had a pretty healthy pickup but pretty flat here in 2019 relative to '18. Are you seeing the need to add more bodies over the next year? Or are you pretty well staffed up?

Michael P. Landy
CEO, President & Executive Director

Well, just to go over the numbers real quickly before I answer your question, G&A went up only 3.5%. Gross assets went up 10.2%. Gross revenue went up 14%. So G&A went down as a percentage of assets from 46 bps to 43 bps, and G&A as a percentage of revenue went down from 5.8% to 5.2%, so 60 bps. So the company is getting more and more efficient.

But yes, the answer to your question is, over time, we're -- this is our first call from our new offices and they're about twice as big as our old offices, and we can double the staff. But we plan and think long term, so this is something that's not going to happen in the next few quarters, but at least we do have the ability now in place to take the staff and double it as the portfolio continues to grow.

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

Got it. And just speaking to the move to the new headquarters, is there a significant increase in kind of your new office space rent? I think I saw on the K, it was somewhere in the $400,000 range. Is it material to what you were paying?

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

I mean if you just look at it, stand-alone, is it material? Yes. The old rent was about $200,000, so it almost doubled. But is it material as far as to G&A? I wouldn't call it material.

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

Okay. And one more for me. Just following up on the Amazon distribution center you closed earlier in October. Is that a flat lease? Or are there any escalators baked in there?

Michael P. Landy
CEO, President & Executive Director

No. The Amazon is 2% bumps, and FedEx has announced that the U.S. daily parcel shipments are going to double from 50 million currently to 100 million packages a day by 2026, so double in a very short period of time, just 6 years. And you saw what happened with FedEx. We moved them in Charleston to a bigger building, and Amazon took the old building. They took the old building at a 17% increase of what the prior rent was with 3% annual escalations. So a tremendous demand for logistics space, and we are seeing more and more escalations, as I mentioned to the earlier question, about the tight markets.

Operator

Our next question comes from Barry Oxford of D.A. Davidson.

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

Great. Just to build on the capital markets question. When I look at kind of earnings per share going into 2020, you guys did an offering. You had a little bit of drag from lease-up and stuff. It seems like you're not going to have the need to raise as much capital as you did in '19, and we should get the benefits of a fair amount of acquisitions coming online. So should we see that per share kind of ramping up? Is that the way to think about it or not necessarily?

Michael P. Landy
CEO, President & Executive Director

No, absolutely, Barry. And it's historically been the case. When we access the capital markets, there's a short-term drag because of the denominator effect. And then we put the money to work in accretive acquisitions, and you see earnings per share go back up. So I think a year ago, first quarter of 2019 was our record earnings. That was a $0.23 quarter. And I think we will get back there and exceed that as we close our pipeline transactions.

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

Great. I just wanted to make sure I was thinking about that correctly. So your equity needs will just really come off in your fiscal 2020 just come off your DRIP?

Michael P. Landy
CEO, President & Executive Director

That's correct. We're not big serial issuers of equity or big participants in the capital markets. We did an equity raise in October of '18. Prior to that was 2014. Prior to that was 2010. So I think we're set for the time being given the sources of capital we were discussing earlier.

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

Well, thank you very much, operator. Before we sign off, I'd like to thank Susan Jordan, our Vice President of Investor Relations. After 17 years with Monmouth, Susan has announced that she will be retiring at the end of this calendar year. Susan has been a pleasure to work with, and her dedication and grace have been an inspiration to us all. So on behalf of the entire company, thank you, Susan. It has truly been a great honor to work alongside you for the past 17 years.

Susan M. Jordan
Vice President of Investor Relations

Thank you, Mike. It's truly been my honor and privilege to have worked with you, Gene and the rest of the Monmouth team as well as our loyal shareholders and business partners for these past 17 years. Thank you all very much.

Now moving on to the close. We would like to thank the participants on this call for their continued support and interest in our company. As always, we are available for any follow-up questions. On behalf of Monmouth, we would like to wish everyone a happy, healthy holiday season and a very prosperous new year. We look forward to reporting back to you after our first quarter.

Operator

The conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately 1 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 10134297.
Thank you, and please disconnect your lines.