S&P Capital IQ

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Monmouth Real Estate Investment Corporation

NYSE:MNR

FQ3 2017 Earnings Call Transcripts

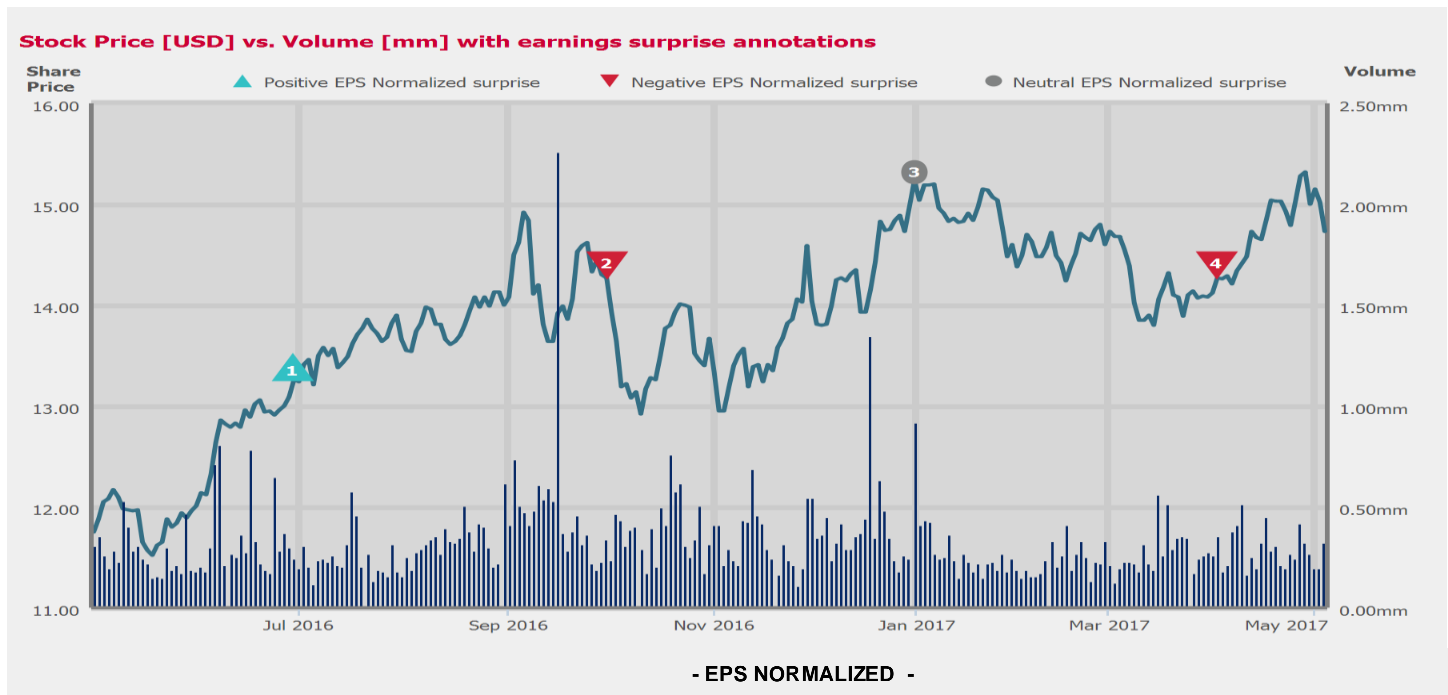
Thursday, August 10, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.08	0.07	(22.22 %)	0.10	0.30	0.40
Revenue (mm)	28.81	28.61	(0.69 %)	31.48	113.71	133.27

Currency: USD

Consensus as of Jul-11-2017 12:20 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.08	0.09	12.50 %
FQ4 2016	0.08	0.07	(22.22 %)
FQ1 2017	0.08	0.09	0.00 %
FQ2 2017	0.08	0.07	(22.22 %)

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Founder and Chairman

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Presentation

Operator

Good morning, and welcome to Monmouth Real Estate Investment Corporation's Third Quarter 2017 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 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 2017 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; Kevin Miller, Chief Financial Officer; Richard Molke, Vice President of Asset Management; and Michael Landy, President and Chief Executive Officer.

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

Michael P. Landy
Chief Executive Officer, President and Director

Thanks, Susan. Good morning, everyone, and thank you for joining us. Monmouth had a very productive third quarter in the midst of a very productive year. During the quarter, we acquired 5 brand new Class A built-to-suit facilities. These acquisitions contain a total of 1.4 million square feet at an aggregate cost of $152 million. Three of these acquisitions are leased to FedEx Ground and the remaining 2 are leased to Bunzl Distribution and Autoneum.

The lease terms range from 7 to 15 years, with a weighted average lease term of 14.4 years. From a run rate standpoint, we expect these 5 properties to generate a combined total of approximately $10 million in annual rent. We financed all 5 of these properties with a total of $99.9 million in mortgage financing, at an average interest rate of 3.78% and an average debt maturity of 14.8 years.

Because 4 of the 5 acquisitions did not close until the last week of the quarter, their favorable impact on our earnings was not a factor during the recent quarter, but will be very apparent going forward.

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Subsequent to quarter end, we acquired a brand-new 354,000 square foot Class A facility for $40.6 million, leased for 15 years, to FedEx Ground in the Charlotte MSA. This property is situated on 57 acres in Concord, North Carolina, which is a suburb of Charlotte and is adjacent to our FedEx Smart Post facility. As the result of this new acquisition, we now own a 2-property, 116-acre campus in the Charlotte market situated alongside Interstate 85.

We continue to be very excited about our best-in-class acquisition pipeline, which now contains 4 properties consisting of 1 million square feet, representing an aggregate cost of $88.7 million. We anticipate closing these 4 transactions during the remainder of fiscal 2017 and the first half of fiscal 2018.

In keeping with our business model, these future acquisitions comprise brand new, well located, build-to-suit properties currently under construction. These properties contain long-term net leases, with a weighted average lease maturity of 10.6 years.

In addition, 2 of the 4 pipeline acquisitions will be leased to investment-grade tenants. These properties are situated near major airports, major transportation hubs and manufacturing plants that are integral to our tenants' operations. The weighted average cap rate on these future transactions is 6.9%. Subject to satisfactory due diligence, we anticipate closing these transactions upon completion and occupancy.

Our portfolio occupancy increased 20 basis points from 99.6% in the prior year period to a sector-leading 99.8% at quarter end. Our gross leasable area at quarter end comprised 17.9 million square feet, consisting of 105 properties geographically diversified from coast-to-coast across 30 states. Our weighted average building age is 9.4 years, providing Monmouth with one of the youngest and most state-of-the-art portfolios in the industrial REIT sector.

Through the first 3 quarters, we have generated 12% portfolio growth by acquiring 7 industrial properties totaling approximately 1.9 million square feet at an aggregate cost of $208.1 million. The significant portfolio growth our company has enjoyed has been and will continue to be achieved without sacrificing our high standards. Our portfolio was built one high-quality acquisition at a time, and that discipline will remain a hallmark of our business philosophy going forward.

With regards to leasing activity, in fiscal 2017, approximately 9% of the company's gross leasable area, consisting of 13 leases totaling 1.5 million square feet was scheduled to expire. I am pleased to report that thus far, 10 of the 13 leases have been renewed. 9 of the 10 leases that have renewed thus far, represent approximately 1.3 million square feet or 83% of the expiring square footage.

These renewed leases contain an average GAAP lease rate of $5.61 per square foot and a cash lease rate of $5.49 per square foot. This represents a 1.2% decrease on a GAAP basis and a 4.4% decrease on a cash basis. While the weighted average leasing spreads achieved on these 9 leases renewed thus far in fiscal 2017 are slightly negative on a GAAP basis, given our strong tenant base, we are very pleased with achieving a weighted average lease maturity of 6.5 years. 1 out of the 10 renewed leases, our 87,500 square-foot building, leased to FedEx in Fort Myers, Florida, renewed for only 8 months because they have moved their operations to our newly constructed 214,000 square foot building at the Southwest Florida International Airport.

Of the 3 remaining leases that are set to expire, we leased up our 1 nonrenewal, which is our 36,000 square-foot property in Urbandale, Iowa. The new lease is with FBM Gypsum Supply of Illinois and is for 10.2 years at an annualized rent of approximately $172,000, representing a 33% increase over the prior lease rents. This new lease will commence in November. The remaining 2 leases that are set to expire during fiscal 2017 are expected to be renewed.

A continuing theme here has been to capitalize on this protracted period of historically low interest rates by extending our debt maturities out as far as possible, and by reducing our cost of capital throughout our capital structure.

During the quarter, we finished successfully replacing all $111 million of our high-dividend Series A and Series B

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Preferred Stock, which had a weighted average coupon of 7.75% with our new 6.125% Series C perpetual preferred stock. This will result in approximately $1.76 million in annual preferred dividend savings going forward.

During the quarter, we also entered into an At-the-Market preferred equity program, in which we may sell up to $100 million worth of our 6.125% Series C preferred stock. We began selling preferred shares through the ATM preferred stock program on July 3, 2017. Thus far, we've raised approximately $15.6 million at a weighted average yield of 6%.

Real estate is a long-term asset class and therefore we believe in funding our investments with long-term capital. We believe using a combination of permanent, low-cost preferred equity and long-term debt best positions the company going forward.

With regards to the overall U.S. industrial market, the secular shift to e-commerce, coupled with high consumer confidence and record low unemployment continue to be strong demand drivers. The ISM Manufacturers Index has been in expansionary territory for 11 consecutive months.

Net absorption for our property type has now been positive for a record 29 consecutive quarters, with just under 60 million square feet of positive net absorption in the recent quarter. Net absorption is expected to eclipse 225 million square feet for the fourth year in a row. This has caused the national industrial vacancy rate to tighten further to 5.3% currently. This strong demand is driving average asking rents 4.6% higher from the prior year period, representing $5.62 per square foot currently.

New construction is on the rise, with approximately 240 million square feet in new construction currently taking place. Approximately 70% of the 107 million square feet in delivered space so far this year has been spec space, fueled by widespread pre-leasing success, which has been averaging around 50% due to continued strong demand for modern industrial space.

Reaffirming the continued shift taking place in consumer spending, yesterday's Wall Street Journal had an article featuring our new FedEx Ground distribution center in Mesquite, Texas. As the article states, this industrial property was built on the site that was once one of the largest shopping malls in Texas. The digital economy is reshaping the world of real estate in profound ways. Today, Monmouth is clearly benefiting from having anticipated these changes well in advance of their occurrence.

And now Kevin will provide you with greater detail on our results for the third quarter of fiscal 2017.

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

Thank you, Michael. Core funds from operations for the third quarter of fiscal 2017 were $15.4 million, or $0.21 per diluted share. This compares to Core FFO for the same period one year ago of $12.8 million or $0.19 per diluted share, representing an increase of 11%.

Adjusted funds from operations, or AFFO, which excludes securities gains or losses were $0.19 per diluted share for the recent quarter, which is unchanged from the prior year period. Our AFFO per diluted share increased 6% sequentially.

As Michael mentioned, because 4 of the 5 recent property acquisitions did not close until the very end of the quarter, most of the favorable impact from the substantial recent acquisition activity will not be evident until our fourth quarter results.

Rental and reimbursement revenues for the quarter were $28.6 million compared to $24.1 million, or an increase of 19% from the prior year.

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Net operating income increased $3.5 million to $24 million for the quarter, reflecting a 17% increase from the comparable period a year ago. This increase was due to the additional income related to the 8 properties purchased during fiscal 2016, and the 7 properties purchased during the first 3 quarters of fiscal 2017.

Net income excluding depreciation was $19 million for the third quarter compared to $14.3 million in the prior year period, representing an increase of 33%. Again, this improvement was driven largely by the substantial acquisition activity that has occurred over the past year.

With respect to our properties, as Michael mentioned, end of period occupancy increased 20 basis points, from 99.6% in the prior year period to 99.8% at quarter end. Our weighted average lease maturity as of the quarter end was 7.8 years as compared to 7.1 years at the end of the prior year period, representing a 10% increase. Our weighted average rent per square foot increased 4% to $5.91 as of the quarter end, as compared to $5.66 a year ago.

With regards to our same property metrics, for the current 9-month period, our same property occupancy decreased 30 basis points, from 100% to 99.7%, and our same property NOI increased 0.4% on a GAAP basis and 1.6% on a cash basis.

Our acquisition pipeline now contains 1 million square feet, representing $88.7 million, comprised of 4 total 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 3 of the 4 acquisitions. The combined financing terms for these 3 acquisitions consists of $38.3 million in proceeds, representing 65% of total cost, with a weighted average interest rate of 4.3%. Each of the 3 financings are 15-year, self-amortizing loans. These 3 acquisitions will result in a weighted average levered return on equity of over 14%.

Thus far during fiscal 2017, we fully repaid 15 mortgage loans, totaling approximately $35.3 million, with fixed interest rates ranging from 5.25% to 7.38% associated with 14 of our properties. These newly unencumbered properties generate over $10 million in net operating income annually.

As of the end of the quarter, our capital structure consisted of approximately $677 million in debt, of which $555 million was property level fixed rate mortgage debt and $122 million were loans payable. 82% of our total debt is fixed rate, with a weighted average interest rate of 4.2% as compared to 4.6% in the prior year period.

We also had a total of $210 million in perpetual preferred equity at quarter end. Combined with an equity market capitalization of approximately $1.1 billion, our total market capitalization was approximately $2 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 44% at quarter end.

In addition, our net debt less securities to total market capitalization was 28% and our net debt less securities plus preferred equity to total market capitalization was 39% at quarter end.

For the 3 months ended June 30, 2017, our fixed charge coverage was 2.4x, and our net-debt-to-EBITDA was 6.9x. The ratio of our net debt less our REIT securities portfolio to EBITDA was 5.8x.

We view the increase in these ratios as temporary, as we've recently incurred much of this debt to fund acquisitions towards the end of the quarter, whereas the run rate EBITDA from such recent acquisitions will be fully reflected in our next quarter.

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From a liquidity standpoint, we ended the quarter with $11.7 million in cash and cash equivalents. In addition, we have $100.5 million in marketable REIT securities, with $8.8 million in unrealized gains, in addition to the $2.3 million in gains realized over the 9-month period.

The $2.3 million in net realized gains in fiscal 2017 to date includes the $1.5 million in gains that were realized during the recent quarter. At quarter end, our $100.5 million REIT securities portfolio represented 6.6% of our undepreciated assets.

Additionally, we had $90 million available from our credit facility as of the end of the quarter 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
Chief Executive Officer, President and Director

Thank you, Kevin. I'm very proud of the productivity and success that has been ongoing at Monmouth. Many of our metrics illustrate the virtuous path upon which we've been progressing. Our financial position has now been meaningfully enhanced by the addition and growth of our low coupon perpetual preferred equity outstanding.

Our AFFO dividend payout ratio has strengthened considerably, and provides a substantial margin of safety as well as future growth potential.

Our 50-year history of success could not have been possible without a conservative focus, a strong balance sheet and ample sources of liquidity. Due to the positive efforts from the talented team here at Monmouth, each of these vital aspects has never been stronger than they are today.
We'll now be happy to take your questions.

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Question and Answer

Operator

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

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Given Mike's comments about the dividend, Kevin, where are you guys in terms of minimum payout for REIT status? In other words, how much longer can you keep growing earnings at this pace without being forced to increase the dividend?

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

Our current dividend -- AFFO payout ratio is about 84%, and we definitely in the past, we've had a much higher dividend payout ratio, and we've now finally achieved a dividend payout ratio where we can consider raising the dividend. And it's -- of course, that's a Board of Directors decision, and that's certainly something we're going to be discussing in the near future.

Michael P. Landy
Chief Executive Officer, President and Director

Can I just add something to that? On the spectrum of REITs that pay out a minimum of taxable income, and if taxable income grows are forced to raise their dividend, we are far from that end of the spectrum. Because we have long-term leases to investment-grade credits, we've always paid out a high percentage of our earnings, and at times a 100% of FFO. And it's very stable, because the income is protected by strong credits, and you saw in the financial crisis, our rents continued unabatedly, our earnings and occupancy continued unabatedly and our dividend was unscathed throughout the financial crisis. So, we're on the end of the spectrum that's paying out a high percentage of earnings. We're not a REIT that's going to be forced to raise their dividends because taxable income has grown.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay, because I mean it's been basically 2 years since the last dividend increase, and so I was just trying to figure out where you were in terms of your numbers and how the board was going to be thinking about that over the next couple of meetings.

Michael P. Landy
Chief Executive Officer, President and Director

Well, very good. So to add to that, as Kevin mentioned, with a 16% cushion, that's not even including the 4 acquisitions that we closed at the end of the quarter, that cushion's only going to increase. And so we feel we have a good margin of safety, and certainly the potential to raise our dividend if the board sees fit.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then how much of the 1 million square foot, $88 million pipeline is FedEx?

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Michael P. Landy
Chief Executive Officer, President and Director

Only about 12%. Is that right Kevin?

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

Yes, that's correct. So yes, it's just 1 FedEx deal at the moment out of 4.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, given your conversations and what you guys monitor out of them, how is FedEx's growth plans looking for the next couple of years? Is calendar '18 and '19 looking similar to '15, '16, '17, in terms of their demand for new space? Or are things slowing with them? From their, whatever it is, 10, 15, 20 projects a year that they have been doing, how would you characterize that these days?

Michael P. Landy
Chief Executive Officer, President and Director

Well, I would begin by saying, first of all, I'm not an authorized FedEx spokesperson. They are a public company, I encourage you to listen to their quarterly calls and you'll get a really good feel for where they're going as far as their growth. Having said that, what's going on with consumer spending, moving from main street to cyberspace, there's tremendous demand. There's 247 million square feet of industrial construction taking place right now. Much of that is e-commerce related. And so these networks need to continue to grow as more and more market share moves online. I think it's approaching 18% of -- not counting food, fuel and autos, consumption is moving online, and that's just going to continue. So we've been expanding buildings, we've been expanding parking lots, we've been doing big new FedEx acquisitions, 15-year leases, and I anticipate that to continue.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then you guys in -- I know that you guys are still working on a couple of '17 leases. When you look at '18, you got about just under 8% of base rents expiring. Any – out of those leases, any known non-renewals at this point?

Michael P. Landy
Chief Executive Officer, President and Director

Yes, there are. There's -- I'll turn it over to Rich, he'll give you the exact number, but before I turn it over to Rich Molke, our Vice President of Asset Management, it's early to talk about '18, but we have some really good news thus far. 7 of the 16, we have either signed leases or signed RFPs, and the rents are coming in strong at plus 6% GAAP increase. And the terms are, I believe, it's over 7 years of weighted average lease maturity. But as far as nonrenewals, I think there's 3 or 4, Rich? What's the detail?

Richard P. Molke
Vice President of Asset Management

So far, we have 3 that we know definitively. Caterpillar is moving out of the Griffin building that we have, but the Atlanta MSAs had real strong net absorption, so we believe we're going to participate in that shortly and, hope to give you good news on that in the ensuing quarters. Kellogg is moving out some of our small buildings, 2 of them for 2018. We're entertaining LOIs on both of those, so same story there. Hopefully we get to report good news in the ensuing quarters.

Michael P. Landy

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Chief Executive Officer, President and Director

Yes. And just to add to that, it's a very tight industrial market in the U.S. and we're 99.8% occupied. And the few vacancies we see coming, there's a good group of potential tenants and potential buyers. So, I don't anticipate much downtime, if any. These buildings are highly saleable, and these are highly desired by tenants. So, I don't see -- while we won't have 100% retention, I don't see vacancy going much lower than the current 99.8% rate we're enjoying at the moment.

Operator

Our next question comes from Craig Kucera of FBR Capital Markets.

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

You had a pretty healthy pickup in your interest and dividend income this quarter. Was that just due to cash balances before redeeming the preferred or was there something else in there?

Michael P. Landy
Chief Executive Officer, President and Director

No, no. Interest and dividend income is solely from our securities portfolio. So that's the result of an increase in the size of the portfolio. Quarter-over-quarter, it went from -- a year ago, it was $83 million, and then it was $100 million at the end of this quarter. So that's the increase in the size of the portfolio and the increase in the weighted average yield of the portfolio.

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

Got it. That sounds like that's a fairly recurring common number.

Michael P. Landy
Chief Executive Officer, President and Director

Yes, sir.

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

Okay, with the ATM proceeds that are coming in, I think you mentioned you've done about $16 million in the first few weeks. Are you finding that demand to be pretty steady and are you anticipating using those proceeds to pay down the line of credit?

Michael P. Landy
Chief Executive Officer, President and Director

Well, the preferred ATM is a new program for us. We've had a very successful Dividend Reinvestment Plan for decades, with about 20% participation of existing shareholders that we could rely on quarter after quarter. But given this unique environment of 0% and sub-0% interest rates, we never thought we'd have a 6.125% coupon without an investment grade rating. It wasn't that long ago you need a highly-rated issuer to be at 6.125%. So because we have this ability to issue low-coupon perpetual preferred, we want to go out on the yield curve as far as possible, perpetual capital is as far as you could go, and we redeemed high 7% coupon preferred. Our balance sheet's never been stronger, and we will use that capital to fund our pipeline, to fund expansions, to look for opportunistic investments and, of course, in the short term, pay down our line and pay down debt. We are already low-levered, so it's really going to be a good adjunct to grow

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our portfolio going forward. It's just unusual that you have this sub-0% interest rate environment. I think we're going to one day look back and wonder how could it even happen. And so we're trying to take advantage of that and increase our capital structure with as much local bond and perpetual preferred as we can. And there is strong demand. And your question about demand, there's been net redemptions in the preferred equity arena. People are going to borrow short, it's more accretive, interest rates are low, and you could borrow short at a lower rate. So, it's been net redemptions of preferreds and there is very strong demand. I can't give you a run rate of how much we will be raising, but we can raise up to $100 million and we hope to achieve that.

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

Right. You closed a significant amount of property in the second quarter -- I'm sorry, the third quarter of fiscal, and another property here, as we got into the fourth quarter of fiscal. I think you generally had a pipeline of about $250 million this year. Clearly, you closed much of that recently, but are you -- as you survey your merchant builders that you talk to, are you seeing ample opportunities for that to sort of beef back up again? Or are you likely just to maybe see, maybe a slower acquisition pace of growth, certainly beyond what you have under contract?

Michael P. Landy
Chief Executive Officer, President and Director

Well there's good news and bad news there, Craig. Good news is there's demand for modern industrial space and you know, in the financial crisis, the pipeline of new development was completely shut, and it's slowly ramped up to normal levels of 0.25 billion square feet annually, and that's where we are today. And there is demand for more. The amount of supply does not even come close to equilibrium with demand. So, the good news is, we need more modern industrial space. The difficulty is there's too much capital chasing the deals that are out there. And you know, an acquisition at one price is very opportunistic, at another price, it's a mistake. And interest rates are edging higher and cap rates are edging lower, and we're going to -- as I said in our prepared remarks, continue to grow the company one high-quality acquisition at a time. We have bids on deals, I hope to win them. But I am sensing a greater amount of competition and a lot of new entrants into the industrial arena. It's the favorite property type now, and competition is fierce.

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

Just going to your renewals, I know they average down about 1.2% on a GAAP basis. Were there any outliers that pulled that down? Or was the average just sort of flat to modestly down?

Michael P. Landy
Chief Executive Officer, President and Director

A couple of things on the renewals that I would talk about. While our peers are generating 5% to 10% year-over-year same-store NOI growth and our leasing spreads are slightly negative, we're consciously looking for term. I mean, there was a long-term renewal with Coca-Cola, several 10-year renewals with FedEx, and the Coca-Cola was a 10-year renewal as well, and -- it's a different model. So we can lock in a 10-year lease with investment-grade credit. That's a financeable asset that we could borrow sub-4% money for 15 years. So it's not just an analysis of our same-store metrics versus their same-store metrics. It's an analysis of the strong credit quality, the underlying probability of collecting that rent, the finance ability of the asset. And so, I think, if you look at the ability to expand properties, we've expanded 14 properties over the last 3 years. These tenants have strong businesses and they're growing. So if some REITs are managing their occupancy lower, just to push the envelope and see where the tipping point is in leasing spreads. We're looking to keep our occupancy high, deliver the high-quality predictable income streams. So -- I told you our 2018 numbers and- they're more in line with our peer group, up 6% on a GAAP basis, but there weren't any outliers. It was just our conscious decision to go for term rather than every nickel we could get and take any tenant we could get.

Operator

The next question comes from John Benda of National Securities Corporation.

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John Richard Benda
National Securities Corporation, Research Division

Could you talk about some of the trends that you've been seeing since the completion of the Panama Canal expansion? I know that you spoke about it in the past and you happened to be very positive before. So what would be the effects of the -- explicit effects from what you have seen?

Michael P. Landy
Chief Executive Officer, President and Director

We're seeing tremendous effects. It reminds me of, way back at the turn of the century, we were saying that industrial was the new retail. All the demand from consumer spending was going to move online. And people had their heads in the sand and said, "It's never going to happen, and the retail sector was ironclad." And so with the Panama Canal, when it was under construction, we were saying with all the clerical workers disrupting labor, year after year, holding the economy hostage because they had the leverage to do so, the Panama Canal will allow goods to move from Asia directly to the east coast ports, and it will take that threat and neutralize it. And now we're seeing it. I mean it's 8% shipping container growth on the east coast versus 4.5% on the west coast. 70% more of the shipping container growth is coming to the east coast ports. So there's just no denying that the Panama Canal has enabled the global supply chain to shift in our direction.

John Richard Benda
National Securities Corporation, Research Division

Okay. And then with the FedEx facility in Mesquite, Texas. In your current footprint, are you seeing more and more kind of mall owners looking to sell properties that are being targeted by large industrial space operators? Are you thinking you'll be seeing a lot more of that in your portfolio?

Michael P. Landy
Chief Executive Officer, President and Director

Yes. On a national level, industrial is the new retail, there are malls that are -- we predicted that crickets would be chirping and there's malls with crickets chirping. Now, I think it's -- the Armageddon scenario is overblown, and these retail REITs are very creative and they're creating experiential centers, and they're going to do just fine. But they have their work cut out for them. And some of the malls, due to all the store closures, will find themselves obsolete and a higher and better use could very well be industrial, as the Wall Street Journal portrayed with our acquisition in the Dallas MSA with the new FedEx Distribution Center on a space that was once the largest enclosed mall in Texas.

Operator

[Operator Instructions] The next question comes from Michael Boulegeris of Boulegeris Investments Inc.

Michael Boulegeris

Congratulations on your sustained qualitative growth and the more efficient balance sheet that you secured over the past year.

Michael P. Landy
Chief Executive Officer, President and Director

Thanks, Mike.

Michael Boulegeris

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In terms of the -- Mike, the pipeline, your discussion, you have a blue chip roster and great insights -- prescient insights into e-commerce with your FedEx relationship. Might this provide some competitive advantage as you compete in this more intense environment for new acquisitions?

Michael P. Landy
Chief Executive Officer, President and Director

Well, I think that competitive advantage is, being a 50-year-old company, people see that we're not -- although the capital markets are wide open, we are not one of those guys to just get into a pie eating contest, take all that capital and go buy anything. As you see we're very discriminating, very selective, we transact with a desire to treat all partners, looking for a mutually beneficial outcome. So I think it's really our 50-year history that's bringing us deals. I know that the FedEx locations are becoming the magnet for other retailers to set up their e-commerce fulfillment centers. So you're seeing people building around our FedEx distribution centers, because that's where they need to set up their tents. And so we are seeing synergistic-type deals. But I think the main thing is just our history, the fact that we have a lot of skin in the game and the reputation that we have. Gene do want to answer that? You've been very quiet.

Eugene W. Landy
Founder and Chairman

By profession, I am an attorney, and I tell you it's impossible for attorneys to draft every provision of an agreement that is going to satisfy both sides of the agreement. Some things have to be just understood from an ongoing relationship. If your tenant wants to double the size of the building, there's no way to draft a lease, binding the landlord to double the size of the building 10 years from now without knowing what the cost will be then. So, we basically have good faith provisions in it, and we have done our best to live up to those provisions and the tenants appreciate it. And that gives you a competitive advantage. You don't want to put, $10 million, $20 million worth of improvements in a building and then 5 years later, find out you need to double the size of the building, and the landlord is not cooperating in doubling the size of the building. So it's relationships, that we continue to do more than we are required by the language of the agreement. And that gives us a really good advantage. And the other advantage is when we're bidding on properties with merchant builders we've done business with in the past. They certainly want to have us be the winning bidder, because they've had a good relationship with us for 10, 15 years, and that gives us an advantage. So we are very pleased with the pipeline and very proud of it. And we're really building it one building at a time, a great portfolio.

Michael Boulegeris

That's helpful, Gene. And along those lines, perhaps the timing is somewhat unpredictable, and maybe out of your hands when there are property expansions. But did you or Michael, have any comments on that possibility in fiscal year '18?

Michael P. Landy
Chief Executive Officer, President and Director

Well I would just say, as far as the ratio of land to our buildings, we have a plentiful amount of land. So our tenants have strong, thriving, growing businesses, and we have the land to accommodate expansion requests, not on every one of our assets, but on many. And I don't have anything specific, there's a lot of potential things brewing, but I won't comment further till we have things in writing.

Michael Boulegeris

Very well. And finally, Michael, you or maybe, Gene, from a historic standpoint, do you sense that from a longer-term view that this global QE, the benign monetary central bank policies are maybe not only suppressing cap rates or are pressuring down cap rates but also it seems to mask the growing value or NAV of your existing properties. Did you have any thoughts on that?

Michael P. Landy

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Chief Executive Officer, President and Director

Yes, I'll go first, and I know Gene has thoughts as well. This negative interest rate environment is not sustainable. It creates tremendous disallocations of capital -- dislocations of capital. It's the mirror image of negative amortization loans, and we know how that ended. So the fact that there's trillions of dollars globally where the lender is paying to lend, makes no sense at all. It's not sustainable, and real estate has benefited and our balance sheet has benefited tremendously. So -- but we're certainly fearful for what will happen when they try to unwind this and let interest rates normalize, and we're keeping a lot of dry powder to take advantage of that opportunity because there's fewer stocks, there's less liquidity in the public market. The robots have taken over the public market. So there's a potential for a major correction, and we certainly want to be prepared and ready to take advantage if something like that should occur. Go ahead, Gene.

Eugene W. Landy
Founder and Chairman

The basics of real estate, are total return, and there's been too much concentration on current return of funds from operation. We believe the country will grow 4% to 6%, and we are anticipating inflation of 4% to 5%. So when I look ahead 10 or 15 years, the value of our company will grow substantially. In that period -- then if we go back to just looking at FFO, and as Michael pointed out, we anticipated that interest rates will rise, and that will have a negative effect on the REIT industry to the extent that it'll impact the current FFO. But if you weigh both sides of the equation, where the FFO is going to go when you have to deal with more normal 5%, 6%, 7% interest rates, and you weigh that against the growth of the economy, the value of our properties, the irreplaceable land, my summation is that -- our REIT will do well, as we have in the past, in trying times and in prosperous times. So we think we have a good business model.

Michael P. Landy
Chief Executive Officer, President and Director

Let me just make a forward-looking statement. The best is yet to come.

Operator

And 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
Chief Executive Officer, President and Director

Well thank you, Carrie. I'd like to thank everyone for joining us on this call, and for their continued support and interest in our company. Thanks to the team at Monmouth for helping to deliver these great results. We are always available for any follow-up questions, and we look forward to reporting back to you in late November with our fiscal year-end results. Thank you.

OperatorThe 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 10107965. Thank you, and please disconnect your lines.

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