S&P Global
Market Intelligence

Monmouth Real Estate Investment Corporation NYSE:MNR

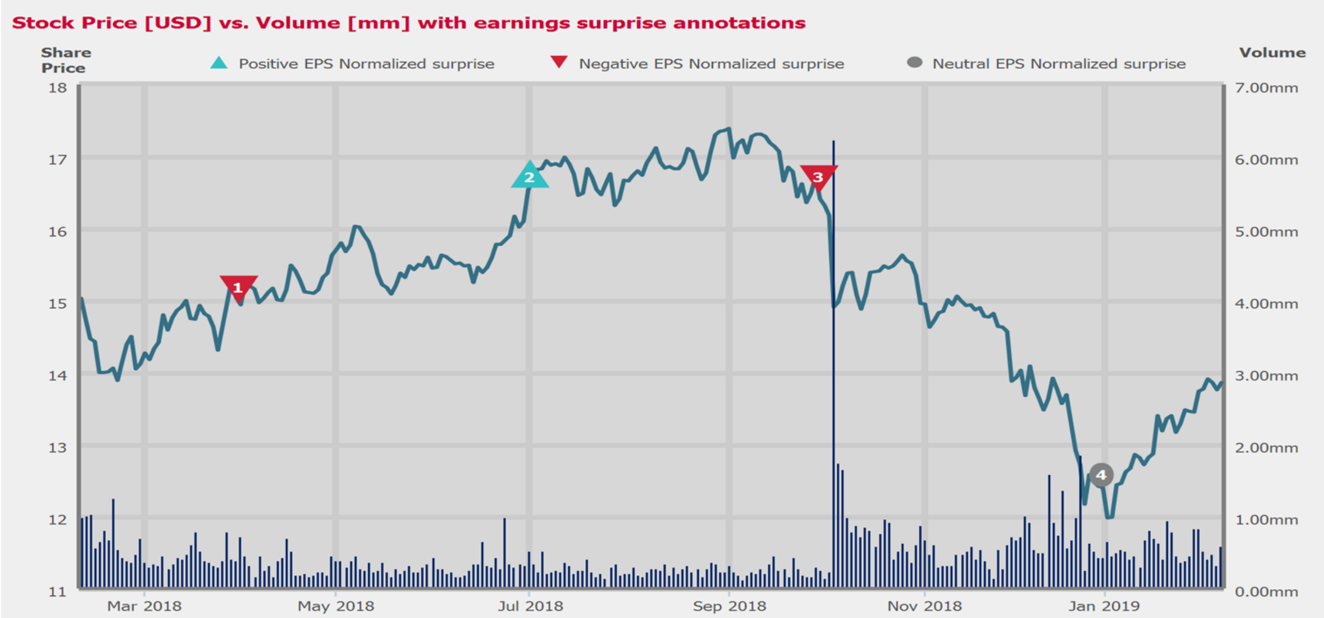
FQ1 2019 Earnings Call Transcripts

Friday, February 08, 2019 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.10	(0.36)	NM	0.12	0.45	0.54
Revenue (mm)	40.62	39.15	(3.62 %)	41.05	163.92	189.72

Currency: USD
Consensus as of Feb-08-2019 12:59 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.13	0.10	(23.08 %)
FQ3 2018	0.11	0.13	18.18 %
FQ4 2018	0.12	0.09	(25.00 %)
FQ1 2019	0.10	(0.36)	NM

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Call Participants

EXECUTIVES

Michael P. Landy
President & Chief Executive Officer

Eugene W. Landy
Founder & Chairman

Kevin S. Miller
CFO, Chief Accounting Officer, Treasurer

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

Jeremy Metz
BMO Capital Markets Equity Research

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

OTHERS

James Gordon – Gordon Finance LLC

Presentation

Operator

Good morning, and welcome to Monmouth Real Estate Investment Corporation's First 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 first quarter supplemental information presentation. This supplemental information presentation, along with our 10-Q, are available on the company's website at mreic.reit.

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

Thanks, Susan. Good morning, everyone, and thank you for joining us. We are pleased to report our results for the first quarter ended December 31, 2018.

Following 14.5% AFFO-per-share growth in fiscal 2018, our first quarter fiscal 2019 AFFO per share has increased 4.5% from both the prior year quarter as well as sequentially. This 4.5% increase was achieved despite the short-term dilutive effect of our issuance of 9.2 million common shares in October. This offering generated net proceeds of approximately $132.3 million and represented our first common stock offering since 2014.

Our core FFO of $0.24 per share and our AFFO of $0.23 per share represents our highest quarterly earnings ever. As anticipated, we put some of the proceeds to work during the quarter with the acquisition of 2 brand-new Class A built-to-suit properties. These acquisitions were purchased for an aggregate cost of $113.1 million and comprised 474,000 total square feet. 1 property located in Trenton, New Jersey is leased to FedEx Ground for 15 years through June 2032. This 347,000 square foot distribution center is situated on 62 acres and is centrally located between New York City and Philadelphia. This asset is in very close proximity to the New Jersey Turnpike and is in one of the most highly concentrated consumer and business markets in the world.

The other property is a 126,500 square-foot distribution center situated on 29 acres in Savannah, Georgia leased for 10 years, also to FedEx Ground, through October 2028. The port of Savannah is a primary distribution center for the U.S. and represents a growing market for Monmouth. The port of Savannah is the fourth largest port in the U.S., and due to the recently completed Panama Canal expansion, it has been the fastest-growing port in North America for the past several years. We are very pleased with these recent acquisitions as they further strengthen strategic locations of our portfolio in light of the evolving global supply chain.

Following last year's 12.7% growth in our gross leasable area, at the end of the first quarter, our gross leasable area has increased to approximately 21.6 million square feet, representing 13% growth over the prior year period. As of the quarter end, our portfolio consisted of 113 properties geographically diversified across 30 states.

Our weighted average lease maturity at quarter end increased to 8 years from 7.9 years in the prior year period. Subsequent to the quarter end, we completed a 154,800 square-foot building expansion for $9.1 million at 1 of our properties located in the Cincinnati MSA. This resulted in a new 15-year lease going out through January 2034. This building expansion resulted in increased annual rent of approximately $900,000 for a total initial annual rent of $1.8 million with 2% annual increases throughout the 15-year lease. As those of you who have followed Monmouth for a while know, many of our assets contained substantial additional acreage that, when put to work to accommodate our tenants strong and growing businesses, results in excellent incremental returns. This recent large building expansion in Cincinnati represents another case in point.

During the quarter, we grew our acquisition pipeline to include agreements to acquire 2 new built-to-suit properties containing 882,000 total square feet, representing $122.4 million in future acquisitions. One of these future acquisitions is a new 613,000 square-foot built-to-suit property currently under construction. This property is leased to Amazon for 15 years. This acquisition is scheduled to close some time during the fourth quarter of fiscal 2019.

The other future acquisition is a new 270,000 square-foot built-to-suit property currently under construction leased for 15 years to FedEx Ground. This acquisition is scheduled to close some time during the first half of fiscal 2020. In keeping with our business model, both of these acquisitions are very well located Class A projects. In connection with 1 of these properties, we have entered into a commitment to obtain an 18-year fully amortizing mortgage loan of $52.5 million with a fixed interest rate of 4.27%. Subject to satisfactory due diligence, we anticipate closing these transactions upon completion and occupancy.

As most of you know, in addition to allocating capital into our core business of owning high-quality industrial assets, we look for dislocations between real estate valuations in the private real estate market versus the public REIT market. The public REIT market displayed tremendous volatility during the recent quarter, and we were able to opportunistically allocate $33.5 million into liquid real estate investments at what we believe to be compelling valuations. While in the short-term REIT securities can be highly volatile, similar to other equities, in the longer term, they generally perform in line with the underlying real estate that they represent. As such, we limit our REIT securities investments exposure to no more than 10% of our gross assets.

While private market real estate valuations were very stable throughout the quarter, December marked the largest monthly decline in public REIT valuations ever. This was followed by January's V-shaped recovery, marking one of the strongest months ever.

It is amazing how increasingly short-term oriented the public equity markets have become. The frenetic turbulence triggered by hyperactive and often automated fund flows can result in excellent investment opportunities for long-term patient real estate investors that are willing to look at both markets and react accordingly. Investing in liquid real estate is a strategy that we've employed opportunistically since the late 1990s, and it has served us very well by enhancing our liquidity and increasing our investment opportunities.

At the end of the quarter, our $145.8 million securities portfolio represented 7.1% of our gross assets and was generating approximately $14 million in annual income.

Getting back to our core business, the U.S. industrial property market. 2018 marked another very strong year for industrial real estate. Fourth quarter national net absorption came in at 63 million square feet, marking the 35th consecutive quarter of positive demand. Total net absorption for the year exceeded 200 million square feet for the sixth year in a row. The national average vacancy rate continues to come down and is currently at 4.5%, marking record low.

New industrial development also continues to increase in order to embrace e-commerce demand and omnichannel consumption. The total industrial pipeline under construction here in the U.S. is currently 279 million square feet, up 3% over the prior quarter. This past holiday season saw the best retail sales figures in 6 years, with total retail sales increasing by 5.1% over the prior year period and e-commerce sales increasing by 19.1%. Cap rates for U.S. industrial assets continue to compress to record lows, as more and more entrants seek to own industrial property portfolios.

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 rate is currently 98.9%, representing a 60 basis point decrease from a year ago. Our weighted average lease maturity increased from 7.9 years a year ago to 8.0 years as of the quarter end. Our weighted average rent per square foot increased by 4% to $6.22 as of the fiscal year end as compared to $5.99 a year ago.

From a leasing standpoint, in fiscal 2019, approximately 7% of our gross leasable area is scheduled to expire, representing 12 leases, totaling approximately 1.5 million square feet. Thus far, 5 of the 12 leases have been renewed, representing approximately 803,000 square feet or 54% of the expiring square footage. These 5 lease renewals have a lengthy weighted average lease term of 8.4 years and a weighted average lease rate of $4.55 per square foot on a GAAP basis and $4.46 on a cash basis. This represents a decrease in the weighted average lease rate of 5.4% on a GAAP basis and a 10.8% decrease on a cash basis. The main driver for the decrease in the lease renewal rate was 1 5-year renewal for 184,000 square-foot facility located in Dallas, Texas leased to Carrier Enterprise, a division of United Technologies. Excluding this 1 lease renewal, the remaining 4 lease renewals have a substantial weighted average lease term of 9.4 years and represent an increase in the weighted average lease rate of 6.3% on a GAAP basis and a 1.3% increase on a cash basis.

2 of the 12 leases coming due this year did not renew and are currently vacant. 1 of the 2 leases that did not renew was our 92,000 square foot facility located in Charleston South Carolina, which was leased to FedEx Ground. FedEx did not renew in this facility because they moved their operation to our newly constructed, much larger 265,000 square foot facility, which is also located in Charleston. The new 265,000 square foot facility is leased to FedEx Ground for 15 years through June 2033. The other lease that did not renew was a small 60,000 square foot facility located in Richmond, Virginia that was leased to Carrier Enterprise. Both our 92,000 square foot facility located in Charleston, South Carolina and our 60,000 square foot facility located in Richmond Virginia are currently being marketed. The 5 remaining leases that are set to expire this fiscal year are currently under discussion, and these discussions went well during the quarter. We expect to have more to share with you in the ensuing quarters.

A few final points that I'd like to make before I turn it over to Kevin is to keep in mind that because 80% of our rental revenue is derived from long-term leases to investment-grade tenants, we have historically had very high tenant retention rates, averaging approximately 90%, and we expect that to continue to be the case going forward. These high tenant retention rates, combined with the long-term lease renewals and the net lease we structure provides for far lower recurring CapEx than would be the case if our buildings turned over more rapidly. Additionally, with a weighted average building age of only 8.6 years, we have the youngest and most modern property portfolio in our sector, and obviously, that, too, results in lower recurring CapEx.

And lastly, it's worth noting that it is far more expensive to induce a tenant to move into your building than it is to retain a tenant. For all these reasons, we favor our business model of having long-term leases to investment-grade tenants.

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

Kevin S. Miller

Chief Financial Officer

Thank you, Rich. Core funds from operations for the first quarter of fiscal 2019 were $21.4 million or $0.24 per diluted share. This compares to core FFO for the same period 1 year ago of $16.9 million or $0.22 per diluted share, representing a 9.1% increase. Adjusted funds from operations, or AFFO, which excludes net realized gains on our securities investments, was $21 million or $0.23 per diluted share for the quarter as compared to $16.5 million or $0.22 per diluted share in the prior year period, representing a 4.5% improvement. On a sequential basis, AFFO per share increased 4.5% over the prior quarter as well.

As Michael mentioned, these per share increases in core FFO and AFFO were achieved despite the short-term dilutive effect of issuing 9.2 million additional shares this past October in our first common stock offering since 2014. As we continue to put this $132.3 million in new capital to work, we anticipate continuing to meaningfully grow our per share earnings going forward. It is worth repeating that our $0.24 core FFO per share and our $0.23 AFFO per share achieved this quarter represents record high quarterly earnings for Monmouth.

Rental and reimbursement revenues for the quarter were $39.1 million compared to $33.5 million or an increase of 17% from the previous year's quarter. Net operating income, or NOI, which we define as recurring rental and reimbursement revenues less property taxes and operating expenses, was $32.3 million for the quarter, reflecting an 18% increase from the comparable period a year ago.

Our net income showed a loss of $27.9 million for the first quarter as compared to positive net income of $17.6 million in the previous year's first quarter. This large decrease in our net income was due to an accounting rule change in which unrealized gains and losses in our securities investments are now reflected on our income statement. Prior to the adoption of this accounting rule change, unrealized gains and losses reflected as change in shareholders' equity. This is the first quarter in which we adopted this new GAAP rule. Unfortunately, going forward, this will, at times, result in large swings, both up and down in our net income. The 258% decrease in net income this quarter was primarily driven by a $42.6 million increase in the unrealized loss on our securities portfolio. Excluding the effect of this accounting rule change, net income from continuing operations would have been $14.7 million, representing a 20% 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.

As Michael mentioned earlier, during the quarter, we acquired 2 newly constructed industrial properties for a total of $113.1 million. One of the acquisitions, a 347,000 square-foot distribution center to leased to FedEx Ground for 15 years in Trenton, New Jersey, was $85.2 million. We financed this transaction with a 15-year fully amortizing mortgage loan in the amount of $55 million at a fixed interest rate of 4.13%.

The other acquisition, a 127,000 square-foot distribution center also leased to FedEx Ground in Savannah, Georgia for 10 years, was $27.8 million. We financed this transaction with a 15-year fully amortizing mortgage loan in the amount of $17.5 million at a fixed interest rate of 4.4%.

Same-property NOI decreased slightly by 0.7% on a GAAP basis over the prior year period and decreased 0.2% on a cash basis. This slight decrease was primarily attributable to the 130 basis point decline in same-property occupancy percentage from 100% at the prior year quarter end to 98.7% as of the current quarter end.

As of the end of the quarter, our capital structure consisted of approximately $898 million in debt, of which $772 million was property-level fixed-rate mortgage debt and $126 million were loans payable. 86% of our debt is fixed rate with a weighted-average interest rate of 4.1% as compared to 4.2% in the prior year period.

Our weighted average debt maturity for our fixed-rate debt was 11.8 years at quarter end as compared to 11.5 years in the prior year period. This represents one of the longest debt maturity schedules in the entire REIT sector.

Taking our maturities out even further, we also had $288 million outstanding on our Series C 6.125% perpetual preferred equity at quarter-end. Combined with an equity market capitalization of $1.1 billion, our total market capitalization was approximately $2.3 billion at quarter-end.

From a credit standpoint, we continue to be conservatively capitalized with our net debt to total market capitalization at 38%, fixed charge coverage at 2.6x and a net-debt-to-adjusted EBITDA at 6.3x for the quarter.

From a liquidity standpoint, we ended the quarter with $12.8 million in cash and cash equivalents. We also had $90 million available from our credit facility as well as an additional $100 million potentially available from the accordion feature.

In addition, we have $145.8 million in marketable REIT securities, representing 7.1% of our undepreciated assets with an unrealized loss of $67.4 million at quarter-end. It is important to point out that this past December marked one of the biggest declines in public equity valuations in a 1-month period ever. Since the quarter end, the valuation of our securities investments has improved by approximately $27 million, thereby reducing our unrealized loss of $67.4 million to approximately $40 million currently. Our securities portfolio currently generates approximately $15 million in annual dividends.

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

Michael P. Landy
President and Chief Executive Officer

Thanks, Kevin. To summarize, following the substantial growth achieved in fiscal 2018, our first quarter represents a strong start to the new year. Our record high $0.23 per-share AFFO achieved this quarter is up 4.5% year-over-year as well as sequentially, resulting in a conservative 74% AFFO dividend payout ratio. Our occupancy rate remains excellent at 98.9%, reflecting the mission-critical nature of our properties. We have put together an exceptional industrial property portfolio by being very selective in acquiring 1 high-quality asset at a time. Our 2 new pipeline projects currently under construction are indicative of our contingent adherence to the highest standards. We anticipate that our property portfolio will continue to benefit from the opportunities presented by the digital economy and the evolving global supply chain. Lastly, our new annual report is now up on our website. This report represents an excellent resource for understanding our company and our future outlook, and therefore, we strongly encourage you to read it. As always, we put a lot of time and thought into our annual reports, and we're especially proud of this year's edition. If you'd like to receive a hard copy, please contact our IR department, and we'll be happy to FedEx it off to you.

We would now like to open it up to questions.

Question and Answer

Operator

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

Jeremy Metz
BMO Capital Markets Equity Research

Just wanted to quickly go back to the 2019 renewals, the 5 leases you have left here. If we strip out the 1 FedEx lease, which I understand typically happens much closer to expiration, if we look at the other 4, you mentioned discussions went well. I was wondering if you can expand on this a little. And then maybe talk about it is there anything unique going on here that they haven't renewed yet?

One of your peers was talking about pulling a bunch of leases forward. Tenants are obviously focused on holding on to mission-critical assets. So maybe these are just back-end loaded in your fiscal year, and that's one of the drivers, but any color here would be great.

Michael P. Landy
CEO, President & Executive Director

Yeah, no I did hear about other of our peers pulling things forward. We're confident we'll have a high tenant retention rate this year. We're already looking at some renewals in 2020 but not bringing them forward. Historically, as Rich said in the prepared remarks, we've averaged over 90% retention, and I think Rich did a good job illustrating all the savings as far as recurring CapEx when you have long duration leases to credit tenants and modern buildings, et cetera. So -- but as far as specifically drilling down on the 5 remaining properties, Rich, anything you want to add?

Richard P. Molke
Vice President of Asset Management

I'd just add that I mentioned on our last call as well that discussions were going well then, and we do feel that we're going to be able to flip our GAAP spreads positive by the end of this year. So there's really nothing further that's out of sync with what has normally happened as far as renewals.

Michael P. Landy
CEO, President & Executive Director

One thing I'll add is that's unusual this year is, historically, we have long duration renewals, but this year, they're exceptionally long. I think the average is 8.5 years. And if you back out the United Technologies renewal, there are over 9 years of renewal spreads. So the lease durations are excellent. The credit quality is excellent, and we anticipate flipping the negative leasing spreads positive as these 5 leases get executed.

Jeremy Metz
BMO Capital Markets Equity Research

And so based on that spread, it doesn't sound like any of the remaining are facing the same sort of supply risk issue that the United Technologies building had down in Texas. Is that fair?

Michael P. Landy
CEO, President & Executive Director

That's fair.

Jeremy Metz
BMO Capital Markets Equity Research

And then in terms of the 2 vacates you had, are you looking to sell these? Or what's the plan for those?

Michael P. Landy

CEO, President & Executive Director

Go ahead, Rich.

Richard P. Molke
Vice President of Asset Management

So those are both up for sale and for lease, but we've had really good traction already on those. So hopefully, in the next few quarters, we can give great updates on those 2.

Michael P. Landy
CEO, President & Executive Director

And we'd rather find a tenant than sell those assets, great locations, great assets. So ideally, we'll be retenanting those buildings.

Jeremy Metz
BMO Capital Markets Equity Research

Okay. And just one last one, sticking with the vacates. One of them you mentioned in your opening remarks· it was a FedEx building where they outgrew their space and they moved into a new facility with you guys. As you look across the portfolio, you've been partners with FedEx dating back to the early '90s, is there any way to quantify how much of their space is similar to where they've outgrown it? And need to move? Or it's just older? Or possibly that they need to expand?

Michael P. Landy
CEO, President & Executive Director

Yes, it has been a recurring theme. I can rattle off several markets where that's occurred, and it will probably continue to occur. The buildings now are, because of omnichannel consumption, require a lot more square footage, a lot more trailer parking, a lot more employee parking. So there is a certain percentage of older FedEx's that will probably get replaced with newer buildings. In some markets, they keep both, the new building and the older smaller building. But we have the youngest -- looking at the whole portfolio as a whole, we have the youngest weighted average building age. So we've already done, I think, the heavy lifting as far as transitioning the smaller, older buildings into these state-of-the-art giant facilities.

Operator

The next question comes from Rob Stevenson with Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Mike, given the lead time your typical deals take given that they are developments that you buy, is there anything at this point that's out there that you expect to close acquisition wise other than the Amazon deal at the end of the fourth quarter in fiscal '19?

Michael P. Landy
CEO, President & Executive Director

No. Under contract deals are what we announce, and those are the 2 under contract. There's other deals we're bidding on and really can't talk about them until we get something concrete. The FedEx in 2020, originally, that was early second quarter 2020 asset, and they're discussing now changing the parameters, making it an even larger facility. If that happens, that will slide and become a third quarter 2020 asset, but a bigger building, even though it's already a very big building. So these things are fluid, under discussion and the pipeline grew over the quarter and hopefully, the pipeline will continue to grow. We've done $221 million in acquisitions over the last 2 quarters, plus we did the $10 million expansion in Cincinnati. So we've been generating good growth and expect that to continue, albeit the market's highly competitive, there's a lot of new entrants into the industrial property sector. As you follow the other REITs, there are REITs in other property types that are trying to dispose of nonindustrial assets and rotate into industrial and mimic, essentially, our business model, and we take that as a compliment. I guess imitation is the most sincere form of flattery, but we were early in seeing industrial gain market share from the shift in consumer spending to online shopping, and it's been discovered.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

And do you guys have any other expansions underway currently or likely to kick off in the next couple of quarters?

Michael P. Landy
CEO, President & Executive Director

There are things under discussion, but until we have a concrete document, we can't go further on that.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then beyond the FedEx Ground in Charleston and the Carrier in Richmond, where else do you have vacancy in the portfolio today?

Michael P. Landy
CEO, President & Executive Director

Yes, we own an industrial park in the Pittsburgh market. It's one of our -- it's our only multi-tenant facility. And I guess, one of the buildings in that park, about 80,000 square-foot building is vacant. Shell has a cracking plant going up. I think it's a $5 billion investment Shell Oil is making just a couple miles north of the property. So there should be good demand for that 80,000 square feet. So those are the 3 vacancies, and that's everything out of a 113 property portfolio going on 22 million square feet.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, Kevin, was there any rent payments in last quarter in -- from either the FedEx Ground that's now vacant or the Carrier that's in the earnings numbers? Or were they vacated and non-rent-paying during the quarter? Just trying to figure out in terms of run rate earnings.

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

Yes, their leases went through November so there was a couple of months of rent in there.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then last one for me. I think you guys said that you invested $33.5 million incrementally last quarter in the securities portfolio. Has there been any incremental investment, thus far, in the fiscal second quarter?

Michael P. Landy
CEO, President & Executive Director

Yes. Fiscal second quarter, early January, had an additional $15 million.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then is that of -- between the 2 of those, the first quarter and the second quarter investments, are there any new stock positions there? Or anything that you sold out of? Or did you guys just buy more of the same?

Michael P. Landy

CEO, President & Executive Director

Yes, we haven't sold anything. Pricing is such that we anticipate holding what we own indefinitely. As far as new holdings, yes, there were some preferred names that we own the common already, but the preferred market represented a good opportunity so we now own some of the preferred instruments of some of the common names that are in our portfolio. Other than that, it was increased investment in some of the names. We're happy with the securities portfolio and it has served us very well. I think the programs out there, whoever's programming the computers has them really making short-term decisions and not -- they're not investing for the long term. I think nothing is more indicative of that than the pronounced selloff in December down 16%. And then with interest rates going up, the quick return to risk on and REIT securities up 16%. So by having the securities portfolio, we were able to rapidly take advantage of those opportunities. On the topic of securities, Gene wants to add something.

Eugene W. Landy
Founder & Chairman

I just want to add, everybody puts together both the common portfolio and the preferred portfolio, and they are somewhat different. We have an almost perfect record with the preferred. Preferred – the REIT preferred stocks have performed extremely well over 30, 40 years, and we've had some go down in price. We've had some suspend the dividends, but if we invested in the 6% or 7% preferred, we've gotten the 6% or 7% preferred for decades. And instead of sitting with cash at 1.5%, we sit with a modest preferred portfolio. It's different in concept than from the common portfolio. The common portfolio is, in our mind, liquid real estate. And we invest in the common portfolio because it is the equivalent of real estate and long term, you will get the equivalent performance as to owning the buildings. And again, the principal reason we do it is long-term liquidity. The capital structure of a REIT is very important for its long-term performance. And over the years, having liquidity has enabled Monmouth REIT to continue the dividend in very difficult times. We've been able to continue the expansion of buildings when there was turmoil in the market, and so liquidity is what we strive for and we've gotten liquidity. And I continue to recommend REIT stocks to everyone. I think REITs in general are a great investment.

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 was the rent or cap rate on the new acquisitions that are in the pipeline today?

Michael P. Landy
CEO, President & Executive Director

Craig, I don't think we got into that, but we're very pleased. Cap rates are north of 6, not much north of 6, average cap rate is 6.15% on the 2 15-year brand-new Class A properties in our pipeline. So excellent cap rates relative to where things are trading at the moment.

Eugene W. Landy
Founder & Chairman

And excellent terms on the mortgages we put on the property, so we are still getting the spreads that we seek in the -- that is necessary for our business plan.

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

Got it. And so I know you only locked in the 1 loan, which I think you said was at 4.27%. Is that -- I think, historically, you guys have done about 200 basis points. Are you looking to potentially dipping inside? Or was the cap rate on the Amazon building a little bit higher than 6.15%?

Michael P. Landy
CEO, President & Executive Director

No, the spread is inside 200 bps, but not much inside 200 bps. And it's a 15-year deal, as Gene mentioned. The 200 basis point spread that we've historically gotten is an average. We've gone as low as 125 basis point spreads. We were spoiled by discovering industrial before everybody else piled in, and we were getting close to 400 basis point spreads 4 years ago, but today the spreads have come in, and you're talking about 185 basis point spreads. We're happy with that, we can get levered returns on equity in the low teens, 12%, 13% levered returns of equity, and that will be very accretive for our earnings.

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

Got it. And just shifting back to the remaining leases that are expiring this year. Should I infer based on your comment about GAAP spreads flipping positive that the average rents there are kind of right around to slightly below market on sort of what's left in those 5 leases?

Richard P. Molke
Vice President of Asset Management

No. I would say that they are at market or a little bit below, but they are -- these are important buildings to our tenants so that the ones that we're in discussion with, they're going to be staying.

Michael P. Landy
CEO, President & Executive Director

Market's tough. Each building is unique when market rent is quoting a per square foot number and our buildings have way more land, way more parking with way larger trailer courts on face value, you may say it's above market, but that asset has the acreage and the market rate for that larger parcel is a higher rent than the normal average. And when you take out the United Technologies lease, the spreads are up 6.5%. So we're getting good leasing spreads. It was kind of a little noise in the data that one large rolldown took things negative. You back that out, and we're getting pretty sizable positive leasing spreads.

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

Got it. And one more for me. Post the equity raise, you guys did deleverage. I guess, kind of how do you think about leverage and sort of what's your ultimate purchasing power from the equity raise you completed in the last quarter and sort of your continued flow of DRIP funds coming in?

Michael P. Landy
CEO, President & Executive Director

Well, historically, we've run the company at a net-debt-to-EBITDA range from the high 6s to the high 5s. We're right in that range now at 6.3 down from 7.1 just the prior quarter. But all leverage ratios aren't equal. We're talking about EBITDA generated by investment-grade tenants on long-term leases, in as Rich mentioned, in mission-critical facilities. So I think all else being equal, that is very low leverage. And then, in addition, the belt and suspenders part of our balance sheet is that we have this war chest. We have $185 million in liquid real estate securities at the moment and free and clear, and that you could borrow currently 50% against at 3%. So if you gave us, conservatively speaking, $0.50 on the dollar for that $185 million war chest of liquid real estate, your net-debt-to-EBITDA ratios would be even healthier. So that's how we look at it. We're a 51-year-old company, so obviously maintaining a fortress balance sheet is something that enabled us to endure that long.

Eugene W. Landy
Founder & Chairman

If I could add one thing. We believe one pillar of our capital should be the preferred stock. We think long term, we look ahead 10, 20, 30 years, the property values will go up, the more leverage you have it really compounds and produces tremendous returns for our shareholders. So one pillar of our capital is preferred. And to the extent right now the market isn't open, but it will reopen and we will, again, add to that pillar and we like the preferred stock. We prefer -- we prefer preferred stock at a higher cost than short-term bank loans.

Michael P. Landy
CEO, President & Executive Director

Now I think Kevin wanted to jump in on a similar theme, the maturities, the perpetual preferreds go out to eternity, which Monmouth as a long-term investor relishes, and then our debt maturities go out. Well, Kevin, you wanted to say something. Am I stealing your thunder or am I in a totally different vein.

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

No, you're in the same vein, but I also wanted to add when you talk about the debt ratios, Mike talked about the strength of the revenue that's a portion of that debt ratio. I just wanted to just touch on the debt portion that not all debt's the same, that we have long-term maturities that Mike has mentioned, 11.8 years on our fixed-rate debt. 86% of our debt is fixed rate. 4.1% interest rate on that. And then also I just want to point out that the debt, it's self-amortizing debt for the most part. So we don't have to worry about balloon payments and any big payments coming up quickly.

Michael P. Landy
CEO, President & Executive Director

So these are all important points when you're looking at net-debt-to-EBITDA ratios and comparing us with our peers.

Operator

The next question comes from James Gordon with Gordon Investments.

James Gordon - Gordon Finance LLC

I would like to comment on the portfolio of REIT securities and particularly on a statement made by Eugene Landy in a couple of conference calls away. He said that you apply the same underwriting standards,

careful underwriting standards to your REIT investments as you do to your individual properties. I thought that was quite notable. I went back, and I tried, as a long-term investor, to figure out what's your underwriting standards could be with respect to the securities that you list in your portfolio. I've had a lot of difficulty with that, particularly with respect to the REITs that hold retail shopping centers. And I wonder, if Mr. Landy would comment, what is the nature of your underwriting standards so that we can better understand the investments that you're making?

Michael P. Landy
CEO, President & Executive Director

Sure. This is Mike Landy, I'll go first, and then, Mr. Landy, if he wants to chime in can do so. To find an asset that meets our industrial property portfolio criteria, one has to thread several needles. It has to be a single tenant, net lease, long-term, investment-grade, modern, well-located asset. So that's what we do with over 90% of our assets. We have a second line of business. Everybody's clamoring into being the next Monmouth, to be in industrial, to have a portfolio that is as coveted as our portfolio. We're not imitators. We're innovators. We look at real estate values in all property types in all geographies. Liquid real estate is underwritten the same as hard assets. In fact, we're very fortunate that we have a bigger private market to benchmark valuations against. So it's not rocket science when you're looking on the computer at valuations, and because of the short-term nature of the market, you're seeing things go awry and prices that you would never think possible. December was a good example. So as allocators of capital, to raise equity in October, watch the market fall dramatically in December and be able to swoop in and take advantage of that opportunity is going to serve our long-term shareholders very well. Some people think it's picking stocks, and we, long term, it performs, as Gene mentioned, in line with the real estate. Our thesis with getting away from industrial and mitigating and hedging that focus into the last mile, which essentially brick-and-mortar is, it’s infill last mile industrial, that's what it historically was, it's going to serve us well in the long term. We've seen Amazon invest in brick-and-mortar retail.

Amazon talked about drone delivery, never really took off. People are talking about same-day delivery. It's so highly unprofitable. We are only seeing that in a handful of markets. We keep hearing about "free shipping" but Amazon spent $27 billion on shipping last year, over $9 billion in the last quarter alone. That's up over 20% year-over-year, and shipping costs are just going to continue to go up.

So for 5,000 years people needed a physical presence on Main Street to pick up goods and to return goods, and that's always going to be there. And for some reason, the market has created this Armageddon doomsday scenario where nobody will touch brick-and-mortar retail. And we don't have huge exposures there, but we're happy to have some exposure there, and time will tell how it plays out. Did we answer your question? Next question.

Operator

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

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

Mike, just to kind of build on the mark-to-market. You've talked about the current leases that are coming up. But if you pull leases forward from 2020, is there decent mark-to-market there as far as those leases being under market price? Or not necessarily?

Michael P. Landy
CEO, President & Executive Director

We have a great slide in our slide deck. It's up on our website. It's currently Slide #26, and it shows the expirations going all the way out to 2034 and what percentage of GLA, what percentage of annual base rent and what the current weighted average rent per square foot is. And I have that slide in front of me. The answer to your question is yes, we have good, positive roll up potential. The leases that are coming due in 2020 have an average rent per square foot of $5.56 and in 2021 $4.57.So yes, I don't see a roll down risk, and I see positive leasing spreads in the ensuing years.

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

Great, great. And then Mike, a bigger picture question. Do you feel that the Fedex stock price performance is weighing on your stock?

Michael P. Landy
CEO, President & Executive Director

I don't think so. I don't know. I think if I can venture a guess on what's weighing on our stock. It would be more selling than buying. That's as far as I can go on that.

Operator

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

Michael P. Landy
CEO, President & Executive Director

Yes. I appreciate that. I'm going to let Susan wrap it up. Thank you.

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 are all available for any follow-up questions. We look forward to reporting back to you after our second quarter. Thank you.

Operator

This conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately one hour. To access this replay, please dial U.S. toll-free 1 (877) 344-7529 or international 1 (412) 317-0088. The conference ID number is 10126909. Thank you, and please disconnect your lines.