Monmouth Real Estate Investment Corporation NYSE:MNR

FQ3 2020 Earnings Call Transcripts

Wednesday, August 05, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.15	0.27	80.00	0.08	(0.50)	0.42
Revenue (mm)	42.92	41.78	(2.66 %)	43.66	169.77	222.54

Currency: USD
Consensus as of Jul-21-2020 3:46 PM GMT

- EPS (GAAP) -			
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	0.09	0.24	166.67 %
FQ1 2020	0.11	0.04	(63.64 %)
FQ2 2020	0.09	(0.77)	NM
FQ3 2020	0.15	0.27	80.00 %

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 8

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Presentation

Operator

Good morning, and welcome to the Monmouth Real Estate Investment Corporation's Third Quarter 2020 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

It is now my pleasure to introduce your host, Ms. Becky Coleridge, Vice President of Investor Relations. Thank you. Ms. Coleridge, you may begin.

Becky Coleridge
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 2020 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

Having said that, I'd like to introduce management with us today: Eugene Landy, Chairman; Michael Landy, President and Chief Executive Officer; Kevin Miller, Chief Financial Officer; and Richard Molke, Vice President of Asset Management.

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

Michael P. Landy
CEO, President & Executive Director

Thanks, Becky. Good morning, everyone, and thank you for joining us. Monmouth's fiscal third quarter was a very productive one, and I am happy to report our results.

During the quarter, we acquired 2 buildings comprising 356,000 square feet for $60.5 million. These assets are located in the Greensboro, North Carolina and Salt Lake City, Utah MSAs. Both of these brand-new build-to-suit properties are leased for 15 years to FedEx. We financed these acquisitions with two 15-year fully amortizing mortgage loans, totaling $38.7 million at a weighted average interest rate of 3.12%. This brings our total acquisitions thus far in fiscal 2020 to $160 million, comprising 1.1 million square feet. We have generated 5% growth in our gross leasable area this year and a 7% increase over the comparable prior year period.

We also grew our acquisition pipeline during the quarter to a current total of $218.7 million. Our pipeline consists of 4 new buildings, all leased to investment-grade tenants totaling 1.5 million square feet currently under construction. These properties have a weighted average lease term of 16.8 years. Approximately, 49% of our 1.5 million square foot pipeline is leased to FedEx ground for 15 years, 43% is leased to Home Depot for 20 years and the remaining 8% is leased to Amazon for 10 years. The 120,000 square foot Amazon acquisition is expected to close before the end of this fiscal year with the remaining 1.4 million square feet leased to FedEx and Home Depot expected to close during fiscal 2021.

We are currently working on additional deals and anticipate further growing our acquisition pipeline in the ensuing quarters. Tenant rent collections for Monmouth during the COVID-19 pandemic have been excellent. Broken down monthly, they are as follows: For March, 100%; for April, 99.6%; for May, 97.9%; for June, 99.4%; and for July, 99.6%. For the month of August, we expect total rent collections to be consistent with July at 99.6%.

Our resilient occupancy and rent collection results during these challenging times highlights the mission-critical nature of our portfolio and underscores the essential need for our tenants' operations. To date, we have agreed to a total of $438,000 in deferred rent, which represents just 31 basis points of our total annual base rent.

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We are also happy to report that we are now in the early stages of several parking expansion projects for our largest tenant, FedEx. These expansions will result in increased rents and increased lease terms. While it is still early in the process, Rich will have more to share with you on the scope and timing of these parking expansion projects.

Our portfolio is nearly fully occupied with a current occupancy rate of 99.4%. This rate was unchanged versus the prior quarter and represents a 50 basis point increase over the same prior year period. Monmouth's portfolio is now in its sixth consecutive year of being over 98% occupied. Our weighted average lease term at quarter end was 7.2 years, representing our seventh consecutive year of having a weighted average lease term in excess of 7 years. Our gross leasable area now comprises 23.3 million square feet, consisting of 118 properties, geographically diversified across 31 states with strategic concentrations around the Gulf, Sunbelt and East Coast port regions.

Approximately, 81% of our rental revenue is generated from investment-grade tenants, with the remaining 19% generated from strong unrated companies. Our weighted average building age is 9.5 years, which represents one of the youngest portfolios in the industrial REIT sector.

With regards to the overall market outlook, demand for industrial real estate remains robust as the COVID-19 pandemic has created a surge in online shopping. E-commerce sales as a percentage of total retail sales have nearly doubled during the quarter from 15% to 27%. While e-commerce should continue to be the biggest catalyst driving industrial space demand, the COVID-19 pandemic has also brought about a reconfiguration of supply chains which should translate into increased demand for U.S. industrial real estate. There is a current trend towards deglobalization and less reliance on China that should result in increased domestic manufacturing. Additionally, following a multi-decade move towards leaner inventories and just-in-time supply chain strategies, inventory-to-sales ratios are trending back up due to the pandemic as companies now seek to keep more inventory on hand in order to guard against supply chain disruptions. This trend should also result in increased demand for our property type.

As per Cushman & Wakefield's second quarter industrial report, net absorption for the quarter came in at 44 million square feet, bringing the midyear total to just under 90 million square feet of positive net absorption. The national average vacancy rate increased by 40 basis points during the quarter to 5.3%, most of which is being driven by smaller tenants in older buildings.

U.S. industrial asking rents were up 2.1% year-over-year to $6.58 per square foot at quarter end. Currently, there is 314 million square feet of industrial space under construction, of which approximately 2/3 is speculative space and 1/3 is built-to-suit.

And now let me turn it over to Rich, 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

Thank you, Mike. With respect to our property portfolio, as stated, our occupancy rate stood at 99.4% at quarter end, representing a 50 basis point increase from a year ago and unchanged sequentially. Our weighted average lease maturity decreased to 7.2 years compared to 7.8 years 1 year ago. Our large acquisition pipeline has a weighted average lease term of 16.8 years. So that, coupled with our multiple expansion projects, will drive our weighted average lease term higher. Our weighted average rent per square foot increased by 2% to $6.35 as compared to $6.23 a year ago. Our weighted average rent is 3.5% below the national average asking rent of $6.58 per square foot, representing good embedded rent growth potential.

From a leasing standpoint, as previously reported in fiscal 2020, 5 leases representing approximately 410,000 square feet or 2% of our gross leasable area were scheduled to expire. 4 of the 5 expiring leases representing 355,000 square feet or 87% of the expiring gross leasable area have been renewed. These 4 leases result in a weighted average lease term of 4.2 years and a 12% increase in rental rates on a GAAP basis and a 4.4% increase on a cash basis. The one property that did not renew is a 55,000 square-foot building in the Hartford, Connecticut MSA. This property has been vacant since March of this year. The small property is currently being marketed for sale or lease and the interest thus far has been good. Our only other vacancy consists of an 81,000 square-foot building at our industrial Park in Monaca, PA. This property is situated in close proximity to a giant $7 billion cracker plant currently being built by Royal Dutch Shell. Upon completion, we expect the cracker plant will drive increased demand for our industrial park.

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With regards to our fiscal 2021 lease expirations, next year, we have 10 properties totaling 1.2 million square feet whose leases come due. There are currently no move-outs that we are aware of, and discussions regarding lease renewals are proceeding favorably.

With regards to the FedEx ground parking expansion projects, we currently have 5 separate parking expansions underway. These 5 projects are expected to cost approximately $11 million. From a timing standpoint, we hope to have these 5 projects completed by November. These parking expansion projects will enable us to capture additional rents while lengthening the terms of our leases. We are also in discussions to expand the parking at approximately 12 additional locations, bringing the total expansion projects to 17. We expect to have more details to share with you in the ensuing 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. Funds from operations, or FFO, which excludes unrealized securities gains or losses, or $0.20 per diluted share for the recent quarter, representing a $0.01 decrease or 4.8% over the prior year period. Adjusted funds from operations, or AFFO, which excludes securities gains or losses, or $0.20 per diluted share for the recent quarter, also representing a $0.01 decrease or 4.8% over the prior year period. The quarterly year-over-year $0.01 decline in FFO and AFFO is primarily attributable to a $1.9 million increase in preferred dividend expense as a result of an increase in preferred shares outstanding as well as a $1.3 million decrease in dividend income from our securities portfolio, partially offset by a $2.5 million increase in net operating income.

Given our 2 recent acquisitions purchased in late May, totaling $60.5 million, which will generate their full rental revenue run rate next quarter, coupled with our $218.7 million acquisition pipeline, our ongoing and future property expansions and our 50 basis point increase in occupancy over last year's quarter, we expect to meaningfully grow our per share earnings going forward. In addition, the dividend income in our securities portfolio was down by $1.3 million or 36% this quarter versus the prior year period as many REITs have either reduced or suspended their dividends in order to deal with the fallout from the COVID-related shutdowns. We continue to monitor our securities portfolio closely as the COVID pandemic continues to unfold.

Rental and reimbursement revenues for the quarter were $41.8 million compared to $38.5 million, representing an increase of 8% from the prior year. Net operating income increased $2.5 million to $35.2 million for the quarter, also reflecting an 8% increase from the comparable period a year ago. This increase was due to the additional income related to 1 property purchased since the prior year period during fiscal 2019 and the 4 properties purchased during the first 3 quarters of fiscal 2020.

Net income attributable to common shareholders was $26.9 million for the third quarter as compared to a net loss attributable to common shareholders of $3.1 million in the previous year's third quarter, representing a $30 million increase. This increase in our net income was primarily driven by a $31.2 million variance from an unrealized loss on our securities portfolio of $11.6 million during the prior year quarter to an unrealized gain on our securities portfolio of $19.6 million during the current year quarter. As you know, a recent accounting change requires that our securities portfolio is marked to market quarterly and that the changes are reflected in our net income. The securities markets have seen heightened volatility this year, and that is what is driving the big increase in our net income this quarter.

With regards to our same-property metrics for the current 3-month period, our same-property NOI increased by 20 basis points on a GAAP basis and by 170 basis points on a cash basis. These increases were primarily due to a 50 basis point increase in our same-property occupancy from 98.9% in the prior year period to 99.4% currently. As mentioned, our acquisition pipeline now contains 1.5 million square feet, representing $218.7 million, consisting of 4 property acquisitions, leased on an average for 16.8 years to Amazon, FedEx and Home Depot. These acquisitions are scheduled to close during fiscal 2020 and 2021.

To take advantage of today's attractive interest rate environment, we've already locked in financing for 3 of our 4 acquisitions. The financing terms for these acquisitions are some of the most favorable we have ever achieved. The combined terms of these 3 financings are as follows: $113.8 million in proceeds, representing 62% of the total cost with a weighted average interest rate of 3.1%. These financings consist of two 15-year and one 17-year self-amortizing loans with a weighted average maturity of 16 years. We expect these acquisitions to generate a levered return of approximately

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13%. We have continued to build up our unencumbered asset pool. Thus far, during fiscal 2020, we have fully repaid 2 mortgage loans with fixed interest rates ranging from 5.5% to 5.54% associated with these properties. These newly unencumbered properties generate over $1.1 million in net operating income annually.

Our capital structure at quarter end consists of approximately $884 million in debt, of which $804 million was property level fixed-rate mortgage debt with a weighted average interest rate of 4% as compared to 4.03% in the prior year period. Our weighted average debt maturity on our fixed-rate mortgage debt is 11.2 years, representing one of the longest debt maturity schedules in the REIT sector.

Our loans payable consists of a $75 million term loan and a $5 million margin loan. The $75 million term loan has a corresponding interest rate swap agreement to fix LIBOR at an all-in interest rate of 2.92%. The margin line rate of interest on our securities portfolio is currently 0.75%. The $5 million in margin debt outstanding was paid off subsequent to the quarter end. We also had a total of $434 million in perpetual preferred equity at quarter end. Quarter end, our total debt plus preferred equity, combined with an equity market capitalization of approximately $1.4 billion, results in total market capitalization of approximately $2.7 billion.

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 of 48% at quarter end. For the 3 months ended June 30, 2020, our fixed charge coverage was 2.3x, our net debt to adjusted EBITDA was 6.2x.

From a liquidity standpoint, we ended the quarter with $12.1 million in cash and cash equivalents. In addition, we held $118.9 million in marketable REIT securities at quarter end, representing 5.4% of total undepreciated assets. Additionally, we had $225 million available from our credit facility as of the quarter end as well as an additional $100 million potentially available from the accordion feature.

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

Michael P. Landy
CEO, President & Executive Director

Thanks, Kevin. Monmouth went into the global pandemic very well positioned with a strong balance sheet, a high-quality tenant roster, nearly full occupancy and a well-covered dividend. As a result of the government shutdowns, e-commerce sales surged dramatically during the quarter, and the consumer is now more reliant than ever on the Internet for shopping. This has created tremendous demand for many of our properties with operations increasing to 7-day work weeks and multiple property expansions scheduled in order to accommodate the strong demand.

As Kevin mentioned, the COVID-19 pandemic has had a material negative impact on certain REIT sectors, particularly in retail, and that is reflected in the 36% reduction in the dividend income generated during the recent quarter. While it is impossible to know how long the current situation will last, we expect that the diminution in cash flow from our securities portfolio will be largely offset by continuing improvements in our core industrial portfolio. The performance of our best-in-class industrial property portfolio during this downturn has been exceptional, and we expect that to continue to be the case going forward.
We'd now be happy to take your questions.

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Question and Answer

Operator

[Operator Instructions] And our first question will come from Frank Lee of BMO.

Frank Lee
BMO Capital Markets Equity Research

Mike, can you talk about what you're seeing in terms of competition in the acquisitions market now versus pre-COVID? You mentioned on the last call that the buyer pool has substantially diminished, and just wondering if buyers have returned now? And are you seeing any new entrants into the buyer pool as well?

Michael P. Landy
CEO, President & Executive Director

Yes, that's correct. Things are very fluid out there, and while last quarter, the buyer pool did diminish, it's come back and then some. The lanes have narrowed. There's a lot of capital out there allocated for commercial real estate and it's reluctant to invest in office and retail and hotels, and it's very interested in embracing industrial. Clearly, the spotlight has been on industrial and continues to be on industrial. But I guess, what has changed post pandemic is it's more discriminating capital, whereas prior to the pandemic cap rates really compressed regardless of building age or credit quality of the tenancy. And today, what we've always done, single-tenant net lease properties on long-term leases to investment-grade tenants, is exactly the sort of assets everybody is looking for. So while we were hoping the trend would continue that we'd be able to get more favorable spreads, interest rates post pandemic are lower than ever before and cap rates are actually lower than pre-pandemic, for the product we do, the long-term leases to investor grade tenants. So the buyer pool has actually increased as of now.

Frank Lee
BMO Capital Markets Equity Research

Okay. And then second question I have. As you're working on your 2021 expirations now, can you talk a little bit more about how those conversations are going? Are tenants continuing to move forward or are even some -- considering some delaying some decision-making? And then also, it looks like the expiring rents are lower than the rents that expired in 2020. Are you expecting a similar roll up on rents or potentially higher than what you achieved on your 2020 renewals?

Michael P. Landy
CEO, President & Executive Director

Very good, Frank. I'll turn it over to Rich on that. But before I do, let me just say that our tenants, we have a weighted average maturity of over 7 years for 7 years and counting now. And it went from last year 7.8 years to 7.2 years of weighted average lease maturity. But with a pipeline, as Rich mentioned, of 16.8 years of weighted average lease term and the multiple expansion projects that will extend the leases, you know with Monmouth, you're going to get cash flow in excess of 7.2 years. And our retention rate has been very high, and that's largely driven by our largest tenant FedEx and all our tenants are investment grade. And so the leases get renewed. It's true FedEx moves out on occasion. But for the most part, they stay forever. They're still in the first building that we purchased with FedEx, and that was in 1993, and they're still in that building today. So with Monmouth, when companies report weighted average lease terms, you’re pretty confident you're going to get the number where we report, and you should be confident you're going to get in excess of that because the leases renew and the properties get expanded and so the leases get extended. Having said that, Rich, anything on the rents that you're seeing for 2021 versus 2020 and everything else Frank was inquiring about.

Richard P. Molke
Vice President of Asset Management

So of the 10 buildings, I'd say a lot of those discussions have been in earnest now. It took a little while for them to come out of the woodwork during the pandemic. I would say it's still a landlord's market. So you could expect that these roll-ups are going to happen, and we don't have any known move-outs at this time. So shooting for 100% retention and that's how '21 is shaping up today.

Michael P. Landy

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CEO, President & Executive Director

If I could just add to that, they slice and dice real estate rents per square foot, and so Rich reported the national average rent is $6.58 and our in-place rents are below that, so 3.5%, I think, was the number he quoted of embedded rent growth potential. But not everything is equal. And our real estate has way more acreage. Our pipeline is over 8:1 land to building ratio, and that's our acquisition pipeline. Our in-place portfolio, the FedEx properties have 6:1 land to building ratios. And the portfolio on a whole -- as a whole has 5:1. So per square foot if our rents are lower than market and our coverage is greater than market, our rents are even that much lower than market. So the potential to roll our leases higher is even greater than comparing things as though all else is equal because they have to pay rent for this additional parking and this additional land.

Operator

Our next question comes from Rob Stevenson of Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Mike, just to follow-up on the acquisition question. You talk about where pricing and cap rates are today versus a year or two ago. I mean, is all of this interest in -- increased interest pushing cap rates down and pricing up demonstrably? Or is it at the margins? How are your yields for your sort of core sort of FedEx, Amazon, et cetera, assets trending at this point?

Michael P. Landy
CEO, President & Executive Director

Yes. As Kevin mentioned, the financing we just locked in is some of the most favorable financing terms we've ever achieved. We were locking in around 3%, in some cases below, 15-year fully amortizing loans and industrial and e-commerce and digitally aligned properties are in favor. So the acquisitions we closed on this quarter, the cap rates were in the low 6s because they were consummated deals over 12 months ago, and you get a premium for forward commitments on new build-to-suit product. But today, those cap rates would be well inside 5.5. So that should give you an indication of how demonstrably things have moved.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And so that 5.5 is roughly where the incremental deals that you signed this quarter are going to wind up falling out 12 months from now or later on this year when you close them?

Michael P. Landy
CEO, President & Executive Director

No, I didn't say all that because they're not on the spot. They're not income-producing at the moment. And if they were, I would agree with that statement. But because they’re new constructions and some of them aren't coming on until 12 months from now, there's a lot of uncertainty between now and then. So you get a yield premium for taking on that uncertainty. So to answer your question, yes, our pipeline does not have a weighted average cap rate with a 6 in front of it. But no, it is not sub 5.5.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then is FedEx breaking ground on any new large-scale facilities in the immediate area of yours? In other words, ones that might wind up replacing your facility as the lease expires at this point that you know of?

Michael P. Landy
CEO, President & Executive Director

Not that I know of, but they are expanding the ground network. So there will be big FedEx ground distribution centers going up with 15-year lease terms, and we hope to acquire those that are in great locations.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

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Okay. And then, Kevin, what's your incremental appetite for preferred stock here given where the 10-year yield is and where your common stock is? And can you remind us what the upper limit for preferred is as a percentage of your capital stack?

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

Well, we take the position that preferred, never comes due. It's perpetual equity. Even though it's 6.125% right now, which sounds high, I guess, in the current market. We don't like it to be more -- we're not going to take it much more higher than it is now. It's about $430 million, maybe the most, like $500 million would probably be the max on that. And it's callable in a year about September 2021, and we'll see where rates are then, and that's a huge potential to potentially take that out and have a cost savings depending on how rates are at that point.

Michael P. Landy
CEO, President & Executive Director

So Rob, if I could just add to Kevin's remarks, it's 16% of our capital stack right now. And as Kevin mentioned, 20%, 25% of the capital stack gets to be the threshold. But we're long-term investors. We buy assets, we want to hold them forever. And perpetual preferred equity is permanent capital, and the principal payment is never due. It never matures. So to build a portfolio with long-term capital is, in our mind, very advantageous, even though it's more expensive than shorter-term capital. It's permanent capital. The principal never matures. And then with the debt capital we have on our balance sheet, that has a long-term maturity of over 11 years. So on the topic of debt ratios, some people have a very dogmatic view that 6:1 net debt-to-EBITDA is higher gearing than 4:1 as though everything is equal. But everything is not equal, and we have long-term leases to investment-grade tenants. The pandemic was a black swan event. This isn't an academic discussion. We have right before us a real-life exercise in the tide going out and we have almost full occupancy and 100% collection. So we have the muscle to push the higher gearing. And if you have short-term leases to mom-and-pops, 4:1 on paper looks like lower leverage and a safer balance sheet. But what good does 4:1 do you if you're not maintaining an occupancy level and you're not collecting your rents, suddenly, 4:1 is less safe than 6:1. So again, not all is equal, and I think we're proving that, just like we did in the financial crisis. And the same could be said for dividend payout ratios. A lot of companies with a theoretically safe cushion have temporarily suspended their dividend. It went to 0. And here, Monmouth with 80%, 85% payout ratio is very secure, and our dividend will prove resilient.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. Just -- my last one is just a follow-up on that. Companies that have cut their dividend to next to nothing or suspended their dividends. In the securities portfolio, how much tolerance do you have to continue to hold names that aren't producing income and are unlikely to produce any meaningful income in the near future? Are those trades to purchase income producing assets? How are you guys thinking about the buy, sell, or hold decision on some of those names now that the dividends have been impacted and are likely to be so for the foreseeable future?

Michael P. Landy
CEO, President & Executive Director

Well, it reminds me of 2008, 2009. We went through it. The securities portfolio is a small percentage of the overall company. And so while it's the best of times for our core business and the worst of times for our securities portfolio, it's not a tale of two cities. It's a small factor. And to sell the securities now when REITs are required to pay out taxable income and there's a lot of progress being made on both the vaccine front and the therapeutic front, so we won't be in this lockdown environment forever, and companies will be required to reinstate dividends. So there's really no need. We've seen that our earnings are stable without the income from the securities portfolio. And in time, the income will come back.

Operator

Our next question comes from Sarah Tan of JPMorgan.

Mei Wen Tan
JPMorgan Chase & Co, Research Division

This is Sarah Tan for -- on for Michael Mueller. So just a question on the portfolio -- the securities portfolio run rate. Could you talk about the run rate we should be using in our model going forward from next quarter onwards?

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Michael P. Landy
CEO, President & Executive Director

Sure. I think a conservative run rate would be $2 million a quarter, $8 million annually. And hopefully, it will grow from there as companies need to reinstate their dividends. But a good conservative run rate would be $2 million a quarter.

Operator

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

Michael Albert Carroll
RBC Capital Markets, Research Division

Mike, can you provide some color on how you plan on funding your near term investments? I know you have $220 million that's agreed upon, which is a pretty high number. Mean if you plan on keeping the preferreds at these current levels with not adding much, I mean, do you need to issue common equity to fund some of those deals? I guess, what's the plan there?

Michael P. Landy
CEO, President & Executive Director

No. The plan is mostly preferred equity. We've locked in the debt financing, as Kevin mentioned, for 3 of the 4 deals and -- or maybe I mentioned that in the prepared remarks. But anyhow, that plus preferred equity will be the source. We have a common ATM that we instituted in February. And the pricing is nowhere near where we would execute. Historically, Monmouth Real Estate has traded at 1.5x the treasury note rate, "risk-free rate." And 2 years ago, the treasury rate was about 300 basis points, and we were about 1.5x the T note rate. And then a year ago, it was 2%. Today, the treasury notes at 50 basis points and the spread is over 9x. Our dividend is a multiple of 9 years of treasury income in 1 year of our dividend. So it's not a time where we can access the common equity market. It's unsustainable to be trading at these levels. 1.5x is normal, 9.4x currently is not even close.

Michael Albert Carroll
RBC Capital Markets, Research Division

So you would add another $80 million to $100 million on your preferred capital stack to be able to fund that $220 million investments you have planned then?

Michael P. Landy
CEO, President & Executive Director

Potentially, yes. Never say never. As the company grows, keeping it at 25% of the capital stack is not out of the question. There's other REITs that are completely financed with perpetual preferred equity, and they're some of the best performers. Gene seems to want to get in on action. Is that correct?

Eugene W. Landy
Founder & Chairman

Yes. You're focusing again on one aspect of our capital stack, and you have to realize that we have a whole group of FedExes that are being expanded. As they get expanded, we get a 10-year new lease and then those properties can be financed. So our basic way of financing is to have a nice 10-year lease and go to the insurance companies and borrow 10-year money 60%, 65% of the value of the properties. The value of the properties are going up. The leases are being extended. We have a whole bunch of properties that are either free and clear or have very small mortgages on them. And as we pay off $50 million in mortgages on some properties, we free up $100 million to $150 million, $200 million in value, which can be refinanced for $100 million, $150 million of sub-3% financing. So our basic business plan is still to do deals above 5% and refinance at 3% and have a good current margin. Our long-term plan is that what are rents going to be in the year 2028, only 8 years from now? And we're watching the inflation potential and while doing deals sub 6%, 5.5%, even 5%, to some buyers, that seems to be a low return on real estate. But the total return is the current income plus whatever the value of the property is at the end of the lease. And there was a possibility because the government is spending trillions of dollars, when we get to 2028, the value of these properties will be much higher than they are today. And when you look at Monmouth REIT's capital structure and potential, that should be put into your equation.

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Michael Albert Carroll
RBC Capital Markets, Research Division

Okay. And then I guess, to fund that equity portion, if you're not happy with your common equity price, I mean, would you consider or have you considered doing some type of joint venture or asset sales to fund that remaining, I guess, 40-plus percent and so you don't have to access the preferred market?

Michael P. Landy
CEO, President & Executive Director

Well, the answer is that I'd prefer not to, but perhaps Gene has another view.

Eugene W. Landy
Founder & Chairman

Yes, we're well aware that some large holders of properties similar to ours have done joint ventures, and there's a lot of pluses in doing those joint ventures. Your cost of capital short-term goes down. But when you take in a partner at 4%, you still take in the partner at 4%. And the values that I just talked about, which can be 100% over 10 years, you're now sharing with that so-called 4% partner. So doing joint ventures is a way of raising capital, it's a way of improving your current income in the short or medium term. But we are looking at total returns that are substantially above 5%, 5.5% the return we do on a current lease. And so we don't want to share that with our partner. We think our partner gets a very, very good deal. And you make your choice with what you do, but we don't have to do joint ventures, again. We have investment-grade tenants. And as we pay down the mortgages and as we get renewals of the leases, we view that we can get ample financing to finance the $250 million a year in our pipeline.

Michael P. Landy
CEO, President & Executive Director

If I could just add to that, the past is prologue for the future. And I know you've been saying we need to raise equity ever since I've known you, which is only a couple of years, but the past is we raised common equity in 2010, in 2014, in 2018, so perhaps in 2022. But we have no trouble raising equity or raising preferred or raising capital.

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

Kevin. I just wanted to add one other thing. We have many tools in our toolbox. We have the line of credit, $225 million available and $100 million accordion feature if we chose to use it. We generate funds from operations. And I just wanted to just reiterate of that $218.7 million pipeline, about 62% of it's locked-in financing with record-breaking interest rates. 3.1% is the weighted average interest rate on those 3 loans, and it's got a weighted average term of 16 years. So that's long-term money at a very low rate.

Operator

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

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

Mike, I think traditionally, when you complete an expansion, you earn about a 10% return on incremental capital through a higher rent at the building. Is that ballpark for sort of what you're thinking about this first round you're completing by November?

Michael P. Landy
CEO, President & Executive Director

Yes. Rich is spearheading all of these expansion projects, and he's doing a great job. So Rich, you want to add to that?

Richard P. Molke
Vice President of Asset Management

Yes. I'd say that's what we're shooting for is a 10% with a 10-year extension on all of them and to the extent that some of these happen at our 15-year lease properties we're going to try to kick them out 15 years from the date of completion.

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So those discussions are going well, and it looks like just from what we've seen so far, about $2.5 million per expansion, some were bigger, some were less and so that's kind of how it's shaking out for now.

Michael P. Landy
CEO, President & Executive Director

Yes. That's a key point Rich has made. So the big ones, I think, we certainly have a lot of negotiating flexibility. The smaller ones, less so, but the blend will come out around where you said.

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

Got it. And a few quarters ago, you had a deal with Komatsu that fell out because you couldn't get it negotiated at the parent level. Is that deal unlikely to come back? Or is that still a potential to come back in the pipeline?

Michael P. Landy
CEO, President & Executive Director

No. I think it's highly unlikely that it will come back into the format that Monmouth would be interested in acquiring it. It may very well come to market and somebody else may want to purchase it with no parent guarantee and a weaker tenant on the lease. We're not interested. But we're having no trouble sourcing deals. The shadow pipeline, how many we win remains to be seen, but we're seeing a lot of deals, and we're bidding on a lot of deals. And hopefully, we'll have a larger pipeline to report when we next report to you.

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

Got it. And, I think, you mentioned that the Amazon building you're looking to close here in your fiscal fourth quarter was 8% of your square footage. Can you put a dollar value on that?

Michael P. Landy
CEO, President & Executive Director

Sure. Sure. So let me give you the breakdown of our pipeline in dollar terms. The total pipeline is $218.7 million, 7% of which is the Amazon deal, and that will close this year in our fiscal fourth quarter; 33% will be closing, ideally, everything is under construction, so things could slide, but 33% as of now is scheduled to close in the first quarter of fiscal '21; 44% is scheduled to close in the second quarter of fiscal '21; and then the remaining 16% not till the last quarter of 2021.

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

Great. And, I guess, finally, you did mention your shadow pipeline. Are you seeing any -- have there been any shifts as far as what merchant builders are showing you or is it still kind of the same typical group of tenants that you've seen in the past?

Michael P. Landy
CEO, President & Executive Director

Well, there's a ton of Amazon deals out there. I mean every day you just get inundated with e-mails on all these last mile and cold storage, million square footers. Amazon is a huge part of the market out there right now. And FedEx has a lot of FedEx deals. As far as additional -- the large companies are now realizing they have to gravitate more towards an omnichannel supply chain. And so to accommodate an omnichannel supply chain, they need modern buildings, automated buildings. So you're seeing the large retailers wake up and realize brick-and-mortar is not going to be 85% of the consumer spending. It's going to be a continuing market share migrating from traditional shopping to digital. So you are seeing the big retailers look to expand their presence. And a lot of them, we have relationships with. So we're working on growing the pipeline.

Operator

Our next question comes from Merrill Ross of Compass Point.

Merrill Hadady Ross

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Compass Point Research & Trading, LLC, Research Division

You mentioned, Mike, that you thought that the dividend suspensions in the securities portfolio were temporary, but you also just said, again, that you think the changes to the supply chain are caused by digital shopping. So do you think those changes are permanent or also temporary?

Michael P. Landy
CEO, President & Executive Director

Well, what is permanent is that the consumer spending behavior, even people who were reluctant to ever shop online, were forced to. They were locked down. And the only way to get goods was to go on the Internet, open up an account and figure out how to buy things online. So there is a permanent paradigm shift moving from traditional brick-and-mortar to online. Having said that, it's clear that this $22 trillion economy, of which 2/3 is consumer spending cannot all be online. People need to be able to go to stores and buy things. So there is room for both. There's a need for both. And so brick-and-mortar retailers are not all disappearing. And retailers who tenant their centers are not all disappearing. They're going through a very difficult period. But at some point, schools will reopen, business travel will return and shopping in traditional brick-and-mortar stores will come back as well.

Merrill Hadady Ross
Compass Point Research & Trading, LLC, Research Division

Yes, in the meantime I think that the pandemic accelerated the trend towards more experiential offerings at the brick-and-mortar retail level.

Michael P. Landy
CEO, President & Executive Director

Yes. They tried to diversify to restaurants and it seemed to be working out quite well, and then you can't even go to restaurants. So it's been really a perfect storm hitting the retail sector. But this too shall pass.

Operator

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

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

Great. Mike, can you talk a little bit about the port activity where your facilities are and the activity of the port container traffic in? I imagine that it's down somewhat. And has that had an effect on those marketplaces or those submarkets that are in fairly close to those ports?

Michael P. Landy
CEO, President & Executive Director

Well, the catalyst in shifting the market share from West Coast ports to East Coast ports was the expanded Panama Canal, which came online in June of 2016. And suddenly, it went from a 60-40 split to a 50-50 split with shipping containers 3x the size of the ships coming up through the Gulf and the Eastern seaboard. And then you had the tariff war with China, and that had the supply chain moving to other locations and less dependent on the Asia Pacific route. And now you have fear that we're going into this protracted cold war and the supply chain is realizing we can't be dependent on China for antibiotics and military equipment. And so the supply chain is going to be continuing to shift closer to home or re-onshoring of manufacturing. And we have set up our portfolio to be positioned to business-friendly locations and intermodal ports and seaports that will benefit from a return, a resurgence of domestic manufacturing. So I'd be very concerned if I was totally dependent upon the China West Coast trade route because that's being rethought. And it's going to take time. You're not going to see it overnight. But I think with about 60% of our revenue coming from what we call the Golden Triangle, which is the Sun Belt and the Southeast region of the country, I think we're certainly well positioned. And then you factor on top of that, the fiscal situation in a lot of these states and cities, the huge budget deficits and the wanton destruction taking place and the outflow of the population towards more business friendly, safer locales, and I think our portfolio is really positioned to where people are currently choosing to live.

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

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Perfect. Second, to the extent that you know, are any of your tenants reliant on the PPP money in order to make rent? And again, I say to the extent that you're aware?

Michael P. Landy
CEO, President & Executive Director

No, no. We have a shopping center in New Jersey with some mom-and-pops and it's such a small percentage of gross revenue. I don't know how many basis points is that, but that would be the exception. And so the material answer is no. Our tenants were essential. They were working throughout. And some companies are reporting rent collections plus deferments, which is essentially rent collections plus non-rent collections. We're just reporting our collections, and they're virtually 100% collections.

Operator

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

Becky Coleridge
Vice President of Investor Relations

Thank you, operator. I would like to thank everyone for joining us on this call and for their continued support and interest in Monmouth. As always, we are available for any follow-up questions. We look forward to reporting back to you after our fourth quarter. Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately 3 hours. 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 10144143. Thank you, and you may please disconnect your lines at this time.

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