S&P Global
Market Intelligence

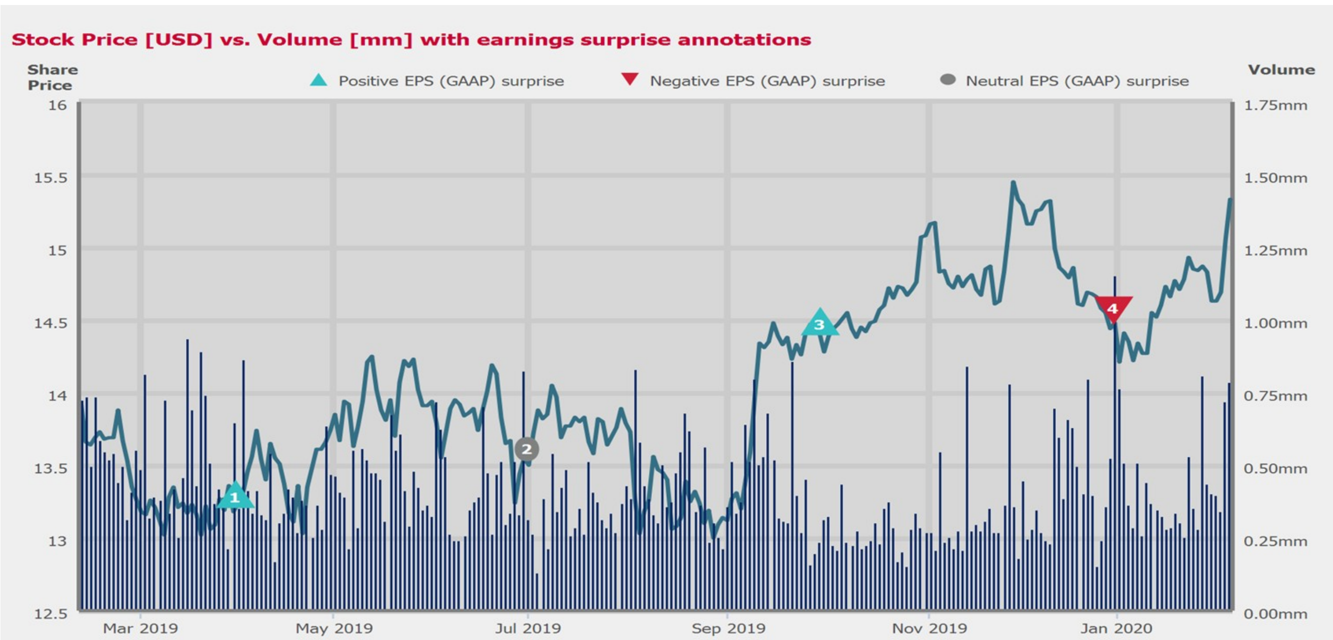
Monmouth Real Estate Investment Corporation NYSE:MNR
FQ1 2020 Earnings Call Transcripts

Friday, February 07, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.11	0.04	(63.64 %)	0.10	0.42	0.56
Revenue (mm)	41.97	41.70	(0.64 %)	42.78	171.48	235.16

Currency: USD
Consensus as of Jan-07-2020 5:30 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.12	0.26	116.67 %
FQ3 2019	0.10	(0.03)	NM
FQ4 2019	0.09	0.24	166.67 %
FQ1 2020	0.11	0.04	(63.64 %)

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Call Participants

EXECUTIVES

Becky Coleridge
Vice President of Investor Relations

Eugene W. Landy
Founder & Chairman

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

Michael P. Landy
CEO, President & Executive Director

Richard P. Molke
Vice President of Asset Management

ANALYSTS

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

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

Frank Lee
BMO Capital Markets Equity Research

Jason R. Idoine
RBC Capital Markets, Research Division

Michael William Mueller
JP Morgan Chase & Co, Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Robert Jeremy Metz
BMO Capital Markets Equity Research

Presentation

Operator

Good morning and welcome to Monmouth Real Estate Investment Corporation's First 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 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 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

Thank you, Becky. Good morning, everyone, and thank you for joining us. We are pleased to report our results for the first quarter ended December 31, 2019. During the quarter, we acquired 1 property for $81.5 million consisting of a newly constructed 616,000 square foot distribution center situated on 79 acres in the Indianapolis MSA. This property is leased to Amazon for 15 years.

Following last year's 5% growth in our gross leasable area, at the end of the first quarter, our gross leasable area has increased to approximately 22.9 million square feet, representing 6% growth over the prior year period and a 3% increase on a sequential basis. As of the quarter end, our portfolio consisted of 115 properties geographically diversified across 30 states. At quarter end, our weighted average lease maturity was 7.6 years. We continue to experience strong demand for our properties as evidenced by our 99.2% occupancy rate at quarter end.

Subsequent to the quarter, we leased up our 105,000 square foot facility in the Buffalo, New York MSA, thereby bringing our occupancy rate up to 99.6%. During the quarter, we grew our acquisition pipeline to include 5 new build-to-suit properties containing 1.2 million total square feet, representing $178.5 million in future acquisitions. All 5 properties are leased to investment-grade tenants. These future acquisitions will have a weighted average lease term of 13.4 years. Subject to our customary due diligence, we anticipate closing each of these transactions upon completion and occupancy, which is currently expected to be during fiscal 2020 and the first half of fiscal 2021.

In connection with 1 of these 5 properties, we have entered into a commitment to obtain a 10-year, fully amortizing mortgage loan of $9.4 million with a fixed interest rate of 3.47%. We expect to continue to grow our high-quality acquisition pipeline further during fiscal 2020.

During the quarter, we raised approximately $15.5 million in equity capital through our dividend reinvestment plan. Of this amount, a total of $4.2 million in dividends were reinvested, representing a 26% participation rate. We also raised $43.2 million in net proceeds through our preferred stock ATM program with the sale of 1.8 million shares of our 6.125% Series C Preferred Stock at a weighted average price of $25 per share.

Subsequent to the quarter end, we raised an additional $27.7 million in net proceeds through our preferred stock ATM program with the sale of 1.1 million shares at a weighted average price of $25.04 per share. Yesterday, we established a common stock ATM program that provides for the issuance of up to $150 million of our common stock at prevailing market prices. We are implementing the common stock ATM program for the flexibility that it provides to opportunistically access the capital markets and to best time our equity capital needs as we close on acquisitions.

ATM programs, as most of you know, are widespread throughout the REIT industry. Our preferred ATM, which has been in place since 2017, has proven to be a very useful source of long-term capital to help fund our growth strategy. While we intend to opportunistically raise equity under our ATM program, based on current prevailing prices, we do not expect to utilize the common ATM extensively at this time.

Turning to the overall U.S. industrial market. Our property sector continues to perform exceptionally well. As per Cushman & Wakefield's fourth quarter report, net absorption for the fourth quarter was 68.8 million square feet. This brings year-to-date net absorption to 233.8 million square feet, representing the 39th consecutive quarter of positive net absorption. Net absorption has been greater than 200 million square feet for 6 consecutive years.

U.S. industrial vacancy rate remained unchanged during the quarter at a record low of 4.8%. Weighted average asking rents increased 2.4% over the prior year period to $6.51 per square foot. Currently, there is approximately 321 million square feet of industrial product under construction, representing a 14% increase over the prior year period.

The overall U.S. economy remains healthy, with Q4 real GDP growing at 2.1% and at 2.3% for the full year driven primarily by strong retail spending and record employment. U.S. manufacturing expanded last month for the first time in 6 months.

Lastly, while it remains to be seen how the coronavirus situation plays out, it is a reminder that black swan events do appear suddenly, surprising and disrupting the global marketplace in profound ways that algorithms are, in my opinion, ill-prepared for. The widespread growth of passive index investing has resulted in the 2 largest components of S&P 500 now becoming bigger than the entire Russell 2000.

Further illustrating this point, the 5 largest companies now make up 20% of the entire S&P 500. In other words, the broad market has narrowed substantially due, in no small manner, to the widespread growth of passive index investing. Because Monmouth's income streams are secured by long-term leases to investment-grade tenants, we have been a safe harbor in turbulent times. Even during the depths of the Great Recession, our shareholder dividends were paid without missing a beat. With reliable dividends should come patience and less volatility.

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 at quarter end was 99.2%, representing a 30 basis point increase from a year ago. Subsequent to the quarter end, our occupancy has increased further to 99.6%. Our weighted average lease maturity was 7.6 years as of the quarter end as compared to 8.0 years in the prior year period. Our weighted average rent per square foot increased by 1% to $6.27 as of the fiscal year-end as compared to $6.22 a year ago.

From a leasing standpoint, in fiscal 2020, approximately 2% of our gross leasable area representing 5 leases, totaling approximately 410,000 square feet, is scheduled to expire. 2 of these 5 leases have been renewed, and 1 of these properties consisting of 55,000 square feet in the Hartford, Connecticut MSA is under contract to be sold. The 2 leases that have been renewed representing 157,000 square feet or 38% of the expiring square footage. These 2 lease renewals have a weighted average lease term of 5.9 years and a weighted average lease rate of $5.61 per square foot on a GAAP basis and $5.28 on a cash basis. This represents an increase of 15% on a GAAP basis and an increase of 2.3% on a cash basis. The remaining 2 leases totaling 198,000 square feet that are set to expire during fiscal 2020 are currently under discussion.

Effective last month in January 2020, we entered into a new 2-year lease agreement with Sonwil Distribution, a 3PL, for 105,000 square foot facility located in the Buffalo, New York MSA, which increased our current occupancy to 99.6%. Annual rent is $630,000, representing $6 per square foot over the life of the lease.

Illustrating the strength and visibility of our income streams, our occupancy rate has been over 98% for 5 consecutive years now. And our weighted average lease maturity has provided over 7 years of lease term for 6 consecutive years. Out of our entire 115 property portfolio, we currently have only 1 vacant building, representing approximately 40 basis points of our total GLA.

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. Adjusted funds from operations, or AFFO, was $19.9 million or $0.21 per diluted share for the first quarter as compared to $21 million or $0.23 per diluted share in the prior year period, representing an 8.7% decrease. This decrease was largely the result of an increase in preferred dividend expense of $1.7 million and a reduction in dividend income of $1.1 million, partially offset by an increase in net operating income of $2.1 million. This quarter's AFFO of $0.21 per diluted share is flat sequentially when compared to our AFFO of $0.21 per diluted share in the prior quarter.

Rental and reimbursement revenues for the quarter were $41.7 million compared to $38.2 million or an increase of 9% over the prior year period. Net operating income, or NOI, which we define as recurring rental and reimbursement revenues less property taxes and operating expenses, was $34.5 million for the quarter, reflecting a 7% increase over the comparable period a year ago.

Our net income was $9.6 million for the first quarter as compared to net loss of $27.9 million in the previous year's first quarter. This increase in our net income was due to an accounting rule change which became effective at the beginning of our prior fiscal year in which unrealized gains and losses on our securities investments are reflected in our income statement. As we mentioned on prior calls, this will at times result in large swings, both up and down, in our net income. This large increase in our net income this quarter was primarily driven by the $39 million decrease in the unrealized loss on our securities portfolio.

As Michael mentioned earlier, during the quarter, we acquired 1 newly constructed industrial property for $81.5 million. This 616,000 square foot distribution center in the Indianapolis MSA is leased to Amazon for 15 years. We financed this transaction with an 18-year, fully amortizing mortgage loan in the amount of $52.5 million at a fixed interest rate of 4.27%.

Same-property NOI decreased by 30 basis points on both a GAAP and cash basis over the prior year period. This slight decrease was primarily driven by a 90 basis point decrease in NOI from the vacancy of our Buffalo, New York property and was partially offset by a 20 basis point increase in same-property occupancy to 99.1% at quarter end. As Rich mentioned, subsequent to quarter end, we entered into a new 2-year lease agreement for the Buffalo, New York property.

During the quarter, we amended our unsecured line of credit facility, increasing the maximum availability of our revolver from $200 million to $225 million with an additional $100 million accordion feature, bringing the total potential availability up to $325 million. In addition, the amended credit facility extended the maturity date of our revolver from September 2020 to January 2024 with options to extend further. Furthermore, the amended facility was enhanced with a $75 million term loan, which matures January 2025, resulting in total potential availability on both the revolver and the term loan of up to $300 million and up to $400 million, including the $100 million accordion feature.

The amended line of credit and new term loan increases our borrowing capacity, extends our maturity and reduces our borrowing rates by a range of 5 to 35 basis points depending on our leverage ratios. The revolver currently bears interest at a rate of 3.25%. We currently have the full $225 million available under our new revolver as well as an additional $100 million potentially available from the accordion feature.

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

As of the end of the quarter, our capital structure consisted of approximately $864 million in debt, of which $784 million was property-level fixed rate mortgage debt and $80 million were loans payable. 91% of our debt is property-level fixed rate mortgage debt with a weighted average interest rate of 4.05% as compared to 4.08% in the prior year period. Our weighted average debt maturity for our property-level fixed rate debt was 11.5 years at quarter end as compared to 11.8 years in the prior year period. $75 million of our loans payable is made up of a term loan that has a corresponding interest rate swap agreement to fix LIBOR at an all-in interest rate of 2.92%.

Including the term loan, 99% of our debt is fixed rate with a weighted average interest rate of 4%, along with the weighted average debt maturity of 10.5 years. This represents one of the longest debt maturity schedules in the entire REIT sector.

Taking our maturities out even further, we also had $392 million outstanding on our Series C 6.125% perpetual preferred equity at quarter end. Combined with an equity market capitalization of $1.4 billion, our total market capitalization was approximately $2.7 billion at quarter end.

From a credit standpoint, we continue to be conservatively capitalized with our net debt to total market capitalization at 32%, our fixed charge coverage at 2.3x and our net debt to adjusted EBITDA at 6.1x for the quarter. From a liquidity standpoint, we ended the quarter with $16.4 million in cash and cash equivalents. And as I previously mentioned, we currently have no borrowings on our revolver.

In addition, we held $181.8 million in marketable REIT securities, representing 8.2% of our undepreciated assets with an unrealized loss of $53.1 million at quarter end. Our securities portfolio currently generates approximately $13 million in annual dividends. As we announced last year, it is our goal to opportunistically reduce the size of our marketable REIT securities portfolio to approximately 5% of our undepreciated assets. There have been no open market purchases or sales of REIT securities since this announcement was made.

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

Michael P. Landy
CEO, President & Executive Director

Thanks, Kevin. U.S. industrial real estate has experienced a protracted period of cap rate compression. It is estimated that industrial real estate values have more than doubled during the past 10 years and have increased by 15% in the past year alone. Consequently, the value of our properties has appreciated substantially. Looking forward, it is estimated that the total U.S. parcel market will double from 50 million packages per day currently to 100 million packages per day by 2026. Because of this surging demand, FedEx Ground recently began delivering packages 7 days a week all year round. This means that our mission-critical properties leased to FedEx have now become more mission-critical than ever before.

Lastly, before we open it up to questions, I'd like to point out that our recently published annual report is now up on our website. This report represents an excellent resource for understanding our company and our outlook. We encourage you to read it. Please contact our IR department if you'd like to receive a hard copy, and we'd be happy to FedEx it right out to you.
We would now like to open it up for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Jeremy Metz of BMO.

Robert Jeremy Metz
BMO Capital Markets Equity Research

I'm on with Frank Lee here. Mike, just first on the pipeline. Obviously, there's been some challenges FedEx has talked about, granted a lot of that seems more on the global scale and some of their global operations versus their Ground network. Obviously, you mentioned the expansion the package delivery needs. But just as a historically big component of the acquisition pipeline, are you seeing any sort of concerted pullback from them? And if so, is it increasingly making you shift at all or shift focus to look at other investment-grade but non-FedEx opportunities?

Michael P. Landy
CEO, President & Executive Director

Well, FedEx is a public company, they report quarterly. And consistently, the U.S. Ground operation is performing very, very well. Shipments were up 7% year-over-year for FedEx Ground. FedEx Ground is the backbone of their e-commerce business. So like you said, the weakness is largely in Asia and Europe. And the beginning of this year, they announced that they're shipping out of our buildings 7 days a week. So the fact that they're utilizing our buildings all week, all year long is a big factor in why we've had over 98% occupancy for over 5 years now.

So CapEx for FedEx is projected to be $5.9 billion this year, $5.9 billion for next year, and that's because the pie is expanding. The demand for increased package shipments is growing from 50 million packages a day in the U.S. currently to projected to be as high as 100 million packages a day in 2026. So I think the demand is very strong. And I think maybe some of the projected metrics for FedEx were a little too optimistic given the black swan of global trade slowdown and Brexit and weakness in Europe.

Robert Jeremy Metz
BMO Capital Markets Equity Research

Okay. And yes, and I respect all that -- I think it's just more of thinking through of how they think about expanding with new acquisitions versus maybe this creates an increasing opportunity for expansion for you and maybe less on the acquisition front. Just trying to think through the next 12, 24 months how we're supposed to be thinking about one versus the other in that context of those needs, but maybe they want to flex their existing facilities more in the current environment. Any thoughts?

Michael P. Landy
CEO, President & Executive Director

Well, by going to 7-day shipment, obviously, their term is sweating their assets. They're clearly using their assets more than ever. But there are new FedEx buildings going up in the U.S., both FedEx Ground and FedEx Express. And in our pipeline, there's a few of each, and we continue to look at additional FedEx deals. FedEx as a percentage of our total square footage went down in 2019 versus '18. And it will probably continue to come down, but that's just because we're doing a lot of buildings with large investment-grade tenants other than FedEx.

Robert Jeremy Metz
BMO Capital Markets Equity Research

All right. And then in terms of the renewals, the 2 you have left in 2020, I don't think either is FedEx, which historically get done almost right at expiration. So maybe you can just give some color on how we should be thinking about the renewal probability here. And in terms of spreads, should those 2 renew?

Should we see a similar modestly positive cash spread? Or are there any supply risks in those markets where we could potentially see a roll-down?

Michael P. Landy
CEO, President & Executive Director

Yes. Well, I'm going to turn that over to Rich. He handles that, but I'm told the prospects are very high for renewal and high for rent increases. Rich, you want to add to that?

Richard P. Molke
Vice President of Asset Management

Yes, Mike, you're correct. We're down to the end of our negotiations, and that's about as much as I'll say. But those -- both of those should get renewed shortly.

Robert Jeremy Metz
BMO Capital Markets Equity Research

And similar spreads to what we saw?

Richard P. Molke
Vice President of Asset Management

Similar positive spreads both basis, cash and GAAP.

Robert Jeremy Metz
BMO Capital Markets Equity Research

All right. And then I think Frank had one question.

Frank Lee
BMO Capital Markets Equity Research

In regards to your goal of bringing down the securities portfolio to 5%, is the plan still for this reduction to come down naturally as you deliver on the acquisition pipeline? Or could we expect some near-term securities sales? And also, is there an expected time frame on when you think you can reach a target of 5%?

Michael P. Landy
CEO, President & Executive Director

Yes. Well, there's so many variables out of our control as to it coming down. As Kevin mentioned, there have been no purchases or sales since we announced our intention to take the ceiling from 10% of gross assets down to 5% of gross assets. And because it's gone up in value, that's a variable we can't control. It's actually higher as a percentage of assets. But given our pipeline, it will organically shrink.

But as far as sales, we'd like to convert unrealized gains to realized gains. But with the whole portfolio in a total loss position, albeit a smaller loss position than a year ago, a much smaller loss position than a year ago. But as the unrealized losses come closer to neutral and realized gains, then as we've done in the past, we will harvest realized gains and you'll see the portfolio shrink faster. But when -- if and when that's going to occur is beyond our control.

Operator

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

Jason R. Idoine
RBC Capital Markets, Research Division

This is Jason on for Mike. I just had a question about the lease-up of the Buffalo asset. Looks like there was a rent roll-down there. So I was just wondering if you could talk about the lease-up process.

Michael P. Landy

CEO, President & Executive Director

Sure. I'll turn that over to Rich.

Richard P. Molke
Vice President of Asset Management

Yes, sure. So we've owned that asset for 17 years, and that building was expanded twice at a 10% cap on costs. So those rents kind of went higher above market, and it's free and clear now. And the rents are back at market, and we're happy with the performance of the asset over time.

Michael P. Landy
CEO, President & Executive Director

So I could just add to that. So we bought the building in 2002. FedEx expanded it twice. And all the capital it took to expand it, we got repaid over the lease term. So the good news is we got free additional square footage, you could say, and we got all our money back on additional parking. However, because of a 10% return, unlevered return on all the capital we put into the building, the rents went well above market. And then Rich, in leasing the building, had to roll down to market. But we're happy to fill the space and we're happy to have had 2 very profitable expansions with FedEx since 2002.

Jason R. Idoine
RBC Capital Markets, Research Division

Yes, definitely. Okay. That makes sense. And then I'm wondering if you could put any numbers to a shadow pipeline. It seems like you were able to quickly backfill the build-to-suit pipeline after closing that Amazon deal. So just curious what other deals you're looking at.

Michael P. Landy
CEO, President & Executive Director

Yes. I would say the shadow pipeline is another -- as high as another $0.25 billion, but it's -- remains to be seen of that how much we actually win, if any, because the market is so competitive. But yes, we hope to grow the pipeline. And we don't announce shadow pipelines. We really just talk about things under contract. And we have long-term relationships with the merchant builder community. The deals we win, there's no broker involved. It's just us doing business with partners we've done business with for decades. So I think that's a distinct advantage, and it is very competitive. We do have to bid very record low cap rates. But fortunately, we're financing these transactions with record low interest rates. Kevin, you want to talk about what sort of interest rates you're seeing these days?

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

Yes, sure. I mean as we mentioned in the prepared remarks, we have one deal in the pipeline locked in currently at 3.47% so less than 3.5%. And there's a few more out there that we've gotten bids to lock in at even lower rates that we just can't announce yet, so we wouldn't be able to announce. And I could say that they're going to be record low interest rates on 15-year loans.

Operator

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

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

Mike, could you give us a little more color behind the sale of the building that was empty and how you decided to sell it versus, hey, maybe I should wait and lease it up? Did you get kind of pricing that was close to that?

Michael P. Landy
CEO, President & Executive Director

Yes. So the buildings we've sold have been a result of Kellogg/Keebler changing their supply chain to bigger modern buildings. And the buildings -- and these buildings are not indicative of our portfolio at all. They're small buildings. We purchased some for a very low purchase price and we're selling them at good profits. But I wouldn't extrapolate any of the economic returns from these sales as indicative of our portfolio because we're really pruning our portfolio, and our portfolio average building age is about 9 years. Average building size is about 200,000 square feet. Average land-to-building ratio is over 6:1. And the buildings we're selling are smaller buildings that we've been selling consistently. Rich, you want to talk about that any further?

Richard P. Molke
Vice President of Asset Management

No, other than it's just not as much acreage and not as configurable as some of our other assets. So...

Michael P. Landy
CEO, President & Executive Director

And much older properties.

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

Is that true, Mike, of the current vacant building, too?

Michael P. Landy
CEO, President & Executive Director

Well, okay, the current vacant building is also unusual for our portfolio. It's in an industrial park. Everything we own is a single-tenant, net-leased industrial with a long-term lease to investment-grade tenant. But that property is on an industrial park we've owned for decades. It used to be our one multi-tenant asset other than the shopping center we own in Somerset, New Jersey, which is also an outlier in our portfolio. But in Monaca, Pennsylvania, outside of Pittsburgh, a suburb of Pittsburgh, is this industrial park. And the one tenant they’re in the titanium business, their business is strong and growing. And now they're our sole tenant, and they're talking about taking some of the 80,000 square feet of vacancy.

So we do feel optimistic that our occupancy will go up and we'll fill some of that space. It's just a question of if it's 25% or more. Hopefully, their business will keep growing and they'll take all the excess space in that building. But as Gene mentioned on our last call, and I'll turn it over to him if he wants to talk about it further, but as he mentioned on our last call, the largest construction site in North America is 5 miles from our property. It's the Shell cracking plant going up. It's a $7 billion investment. It's going to come online in the next couple of years. And so there should be strong demand for our real estate once that comes online. Gene, you want to add to this at all?

Eugene W. Landy
Founder & Chairman

The only other thing I'll add is it's on the Ohio River, and it's on the navigable portion. And I just think it's a wonderful property for the future. And that's why I take a long-term view of things. Here's the one empty building and the prospects for it long term are excellent, and we don't intend to get rid of it. We intend to grow with the area. As the cracker plant comes in, there's going to be great demand for space and riverfront properties.

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

Great. Mike, one last question, switching gears a little bit. How do you guys think about unsecured debt going forward?

Michael P. Landy
CEO, President & Executive Director

Well, like Kevin mentioned, we're locking in 15-year money in the low, low 3s, fully amortizing. As we grow and build up our unencumbered asset pool, that quadrant of the capital markets will become more accessible for us. But a company our size with long-term relationships with the Life Co's is very happy to go secured and have amortizing debt and generate levered returns on equity in the low teens. It's very favorable, the current process. But we are building up our unencumbered asset pool. And as that grows, we can start looking at the unsecured market. Kevin, anything you want to add to that?

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

Yes. Yes, I'd like to add, so out of the 115 properties that we own, 55 of them are free and clear and unencumbered. And as Mike mentioned, we -- in the new acquisitions, we get secured amortizing debt. And as that amortizing debt amortizes out and is paid off, we leave it free and clear rather than refinancing it.

And then as I mentioned on the prepared remarks, we just refinanced our line of credit with now, we have the full capacity, the full $225 million revolver available to us. So that's a great liquidity tool that we have in our tool belt. And then that's how we look at it. And it's -- right now the -- it's a floating rate debt that's right now in the low 3s if we choose to use it.

Operator

Our next question comes from Rob Stevenson of Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Mike or Rich, can you talk about the cadence of the closings of the 5 acquisition pipeline properties. You said that some of them will close this year, fiscal year or next. Is this essentially one a quarter for the next 5 quarters? Is there points in time where more of these are expected to close? Just trying to think about it for modeling purposes when we should be bringing these assets onto your balance sheet.

Michael P. Landy
CEO, President & Executive Director

Yes. So I broke that down because I anticipated this question. So our pipeline is $178.5 million. And on a dollar basis, you should expect approximately 10% of that to close in the second quarter of fiscal '20, another 7% in Q3, approximately 27% in Q4, so that totals to 44% of the pipeline closing in fiscal '20. And then the other 56%, you should expect to close in the first 2 quarters of 2021, with 40% of the $178.5 million closing in Q1 of 2021 and the remaining 16% in Q2 of 2021. Now all that's approximate and all that's subject to slippage, but that's where it stands right now.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

All right. Perfect. That's great. The Sonwil Distribution in Buffalo that you just leased, is this an asset to now hold? Or given that it's not an investment-grade tenant and it's income producing, is this a disposition candidate? How are you guys thinking about that asset now there's a lease on it and it is more desirable out there in the market?

Michael P. Landy
CEO, President & Executive Director

Well, like Gene said, we really don't like to sell anything. We're looking to grow and looking long term. Having said that -- and that doesn't have a lot of lease term on it. But having said that, it's certainly a candidate for disposition. Most of our assets are long-term leases to investment-grade tenants. That's a short-term lease to a noninvestment-grade tenant, so it would be a candidate.

We do get unsolicited offers to buy our properties all the time. And as a company with going on $3 billion in enterprise value, we're really not of the critical mass to be public that you need to be these days. So we're looking to grow albeit qualitatively, albeit slowly and methodically. We've seen new entrants to our space leapfrog out of nowhere to become multiples of our size. And as a 52-year-old company, we know you don't get to be 52 years old growing at such a rate. So we're looking to grow. We're happy with our portfolio, but we're going to continue at our own pace.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then putting together the bread crumbs I think that you were talking about earlier, Rich, the property that you're selling for $4 million with the expiring lease, that's the Newington, Connecticut asset leased to Kellogg?

Richard P. Molke
Vice President of Asset Management

Correct.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then one for Kevin. What was the nearly $800,000 of severance in the quarter?

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

Yes. So we made an announcement, we had our General Counsel who is here nearly 20 years. And it's part of the agreement of her retirement to recognize her years of service. That was just the agreed-upon amount. And Mike Prashad is now our new General Counsel. He's been working alongside our former General Counsel for the last few years now. So he's up to the task and he's been doing a great job.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So it wasn't an $800,000 payday for Susan in her retirement?

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

No, it's for the general counsel, the former general counsel.

Michael P. Landy
CEO, President & Executive Director

I don't want Susan to feel left out. We certainly -- Susan had compensation recognizing her service as well.

Operator

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

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

I think last quarter, you disclosed that your pipeline at that point in time was 3 FedExes and 1 Magna Seating. Is the new addition to the pipeline another FedEx or something else?

Michael P. Landy
CEO, President & Executive Director

Something else. It's a Japanese earthmoving manufacturer. They're like the Japanese Caterpillar called Komatsu, A-rated credit. It's outside of the Pittsburgh market, and it's a good new addition to our tenant roster.

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

Got it. And I think last quarter, the pipeline at that point in time was a little higher than a 6.2% or so. Is that still the case on where things stand today with this new addition?

Michael P. Landy
CEO, President & Executive Director

Yes. The pipeline average cap rate over 13.4 years of lease term is just shy of 6.3%.

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

Got it. I want to shift gears and talk about the balance sheet. I'm curious about the capital raising this quarter, particularly on the preferred front and then subsequent to quarter end. Did that pick up because you're pleased with pricing? Or is that more a function of kind of alluding to the shadow pipeline that you're working on where you could really see an acceleration in acquisition volume?

Michael P. Landy
CEO, President & Executive Director

Gene, I'll let you handle that and then I'll chime in.

Eugene W. Landy
Founder & Chairman

We're very proud of our balance sheet. We also believe it's very important that we think long term. We are trying to build up a balance sheet that can withstand changes in the economy, not be susceptible to increases in interest rates. And we pay 6.125% for preferred and we could borrow money at 3%, and that makes a difference of between $5 million and $10 million a year. But we're very happy to do that because
we're getting our portfolio free and clear, we have securities we can borrow against. We are really trying to build up a very strong financial statement so that whatever happens over the next couple of years, we're here for the long term.

And the long-term view is excellent. The country is growing 2%, 3% a year. Inflation is 2%, 3% a year. Our properties are relatively new. We have $2.5 billion in assets. What are they going to be worth 10 years from now? You're really talking about large figures. And I find it interesting, people look at $1 million, $2 million change in 1 year, and actually, we're looking at much larger numbers.

And the preferred -- the decision on the preferred, we realize costs us money short term. But long term, there's nothing longer, as Michael points out, than a perpetual preferred, and there's no cheaper capital than capital that you don't have to repay. It's part of our capital stack and it's going to -- 10 years from now, people are going to see that the balance sheet we've built, the properties we've built have really produced a good return over a 10-year period.

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

Okay. Great. And I guess just kind of dovetailing with that and your thoughts on utilizing that preferred, I think from a leverage perspective, historically, you guys were closer to maybe 7x EBITDA, and that's been drifting down closer to 6. Should we think of that as sort of how you're going to manage the balance sheet going forward? Or do you anticipate maybe levering up a bit in the future?

Michael P. Landy
CEO, President & Executive Director

Well, historically, our net debt to EBITDA has fluctuated between the high 5s and high 6s. If it was in the low 7s, it was just by virtue of closing a lot of assets in one lumpy period and not having the earnings come in yet. The debt hits immediately. But historically, it's -- in the low 6s is a good average. And I think right now, it's 6.1 and certainly gives us the capacity to lever up because as Rich mentioned, with occupancy being over 98% for so many years and our lease terms going out over 7 years and our debt maturity is going out over 11 years, I think 6.1x net debt to EBITDA is very low leverage.

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

Also if I could just add one thing just about that net debt to EBITDA number, it's just a simple math equation. You take your net debt divided by your EBITDA. But if you look at the components of our debt, 90% of our debt is amortizing debt, so there's no looming maturities with balloon payments. So I think that's a big factor when you look at how that number could be maybe a little higher in our case.

And the other end of the equation, our revenue, 80% of our revenue is investment-grade tenants, and we have one of the longest -- we have a long lease term of 7.6 years. Our weighted average debt maturity is 11.5 years. So I think if you look at the components of what makes up that ratio, you could -- maybe you could feel that it could be a little higher maybe than some -- another type of company.

Eugene W. Landy
Founder & Chairman

I'll just add one other thing. We're increasing our free and clear properties. Our preferreds are getting to a point they -- we have the flexibility of calling them in the near future. We're keeping a very flexible situation, and we can take advantage of changes in interest rates and changes in the capital markets that could be very, very positive for Monmouth REIT.

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

Okay. Just one more for me just as it relates to the common ATM you filed yesterday. Appreciate the commentary that you're looking to opportunistically take advantage of where the market is. But is there any thought or is that -- serve as any sort of a replacement for the DRIP, which I think you raised about $15.5 million this quarter? Or is it really just to augment that and the DRIP will more or less continue as it is today and has been in the past?

Michael P. Landy
CEO, President & Executive Director

Well, it certainly enhances the flexibility and optionality to go to different arrows in our quiver, so to speak. We've used the DRIP and SIP for a long time. It's worked for a long time. As Kevin mentioned, participation was about 26%. Your number is correct. We raised about $15.2 million over the quarter. But having done a preferred ATM since 2017, we saw how that's a more flexible mousetrap as far as accessing the capital markets. The DRIP and SIP, the DRIP is quarterly, the shareholder investment plan is in the middle of every month. You can now access capital just in time as the pipeline deals come online. And if the stock is favorable and the pipeline is growing, you could time things more precisely.

So you're correct that if things are working with the pipeline timing and the stock price is more advantageous, you'll see less money raised through the SIP. The DRIP, we'll keep the DRIP the same but through the SIP and use the ATM instead. But as I said, at this time, we don't plan to use the common ATM extensively. It's a new year. We thought the preferred ATM did so well, it behooves us to have a common ATM in our arsenal.

Operator

Our next question comes from Michael Mueller of JPMorgan.

Michael William Mueller
JP Morgan Chase & Co, Research Division

I was wondering, can you talk a little bit about what you see as the early read on the 10 leases expiring in 2021? Are there any known renewals or move-outs at this point?

Richard P. Molke

Vice President of Asset Management

Currently, there's no known move-outs. We've been talking to a few of those tenants in the first part of that fiscal year but nothing definitive at this time.

Michael P. Landy
CEO, President & Executive Director

Thank you. Just to add to Mike's comments, 10 leases roll in 2021, 1.2 million square feet, that's 5% of our GLA, 3.5% of our base rent. There's a slide in our slide deck, Slide 24 that shows our lease expirations. And I believe the rents expiring next year are well below market. The average is $4.61 per square foot rolling in 2021. So good prospects for positive renewal rates.

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

Operator
The conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately 1 hour. To access this replay, please dial U.S. toll-free 1 (877) 344-7529 or international 1 (412) 317-0088. The conference ID number is 10137259. Thank you, and please disconnect your lines.