FrontView REIT, Inc. (FVR)

Q3 2026 Earnings Call Transcript

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COMPANY PARTICIPANTS

- Pierre Revol - President, CFO, Principal Financial Officer, Treasurer & Secretary
- Stephen Preston - Chairman & CEO

CONFERENCE CALL PARTICIPANTS

- James Feldman - Wells Fargo Securities, LLC, Research Division
- Eric Borden - BMO Capital Markets Equity Research
- Anthony Paolone - JPMorgan Chase & Co., Research Division
- Jana Galan - BofA Securities, Research Division
- Matthew Erdner - JonesTrading Institutional Services, LLC, Research Division
- Kenneth Billingsley - Compass Point Research & Trading, LLC
- Ronald Kamdem - Morgan Stanley, Research Division
- John Massocca - B. Riley Securities, Inc., Research Division
- Logan Epstein - Wolfe Research, LLC

PRESENTATION

Operator

Hello, everyone. Thank you for joining us. Welcome to the FrontView Third Quarter 2026 Earnings Call. [Operator Instructions] I will now hand the conference over to Pierre Revol, CFO. Pierre, please go ahead.

Pierre Revol

President, CFO, Principal Financial Officer, Treasurer & Secretary

Thank you, Operator. Thank you, everyone, for joining us for FrontView's third quarter 2026 earnings call. I will be joined on the call by Steve Preston, Chairman and CEO.

Before we get started, I would like to remind everyone that this presentation contains forward-looking statements. Although we believe these forward-looking statements are based on reasonable assumptions, they are subject to known and unknown risks and uncertainties that can cause actual results to differ materially from those currently anticipated due to several factors.

I refer you to the safe harbor statement in our most recent filings with the SEC for a detailed discussion of the risk factors relating to these forward-looking statements. This presentation also contains certain non-GAAP financial metrics. Reconciliation of non-GAAP financial metrics to the most directly comparable GAAP metrics are included in the exhibits furnished to the SEC under Form 8-K which include our earnings release, supplemental and investor presentation.

These materials are available on the Investor Relations page of our company's website.

With that, I'm now pleased to introduce Steve Preston. Steve?

Stephen Preston

Chairman & CEO

Great. Thank you, Pierre, and good morning, everyone. We had our second anniversary as a public company this October, and our portfolio and prospects could not be stronger. We own exceptional real estate with a diverse tenant base in vibrant markets where the quality of the real estate drives rents and values higher over time. We are small enough that every good investment moves the needle, and we have a low levered balance sheet and high retained free cash flow to support our growth.

These attributes, combined with our experienced team and competitive market advantages, attractively position us to capitalize on growth opportunities, especially in the current environment.

Turning to our investor presentation. On Page 5, we added a slide that shows the progress we have made. Since the first quarter as a public company, we have grown annualized base rent by 19% to $69.8 million in the portfolio from 307 to 327 properties, while increasing occupancy from 97.7% to 99.4%.

We reduced casual dining tenancies from 15.6% of rent to 9.1%, grew Texas and Florida from 11.6% to 17.8% and lowered net debt to adjusted annualized EBITDA from 5.5x to 5x or 4.5x including our undrawn preferred. Our largest tenants have changed as well. At the end of 2024, our top tenants were Fast Pace Urgent Care, Verizon, Adams Auto Group, Oak Street Health and IHOP. A year ago, Dollar Tree was our

largest tenant at 3.6% of rent and our top 10 tenants comprised 24.3% of rent. Today we have reduced Dollar Tree from 14 leases to eight and Fast Pace from eight leases to four.

Our top five tenants are Verizon, Raising Cane's, Best Buy, Bank of America and LA Fitness, three of which are investment grade. Importantly, our exposure to both Raising Cane's and Bank of America was increased through proactive asset management, either by replacing a weaker existing tenant or unlocking additional value from our frontage. These are just a few examples that demonstrate the opportunity we find by owning great real estate in great locations with a team that knows how to create value from our existing portfolio.

Diversification continues to be a key strength of the portfolio. Our largest tenant, Verizon, is only 2.5% of rent, the lowest amongst net lease peers and our top 10 stands at only 20.1%. To put that in perspective, Realty Income, the largest net lease REIT owns nearly 16,000 properties compared to our 327, yet has a greater concentration amongst its top 10 tenants.

Our diversification is intentional. Our real estate first strategy continues to evolve with 79.2% of our rent coming from top 100 MSAs, 92% of our properties near shopping centers and a median rent of just $176,000 per property. Why does this matter? Because as we outlined on Page 7 of our investor presentation, our strategy starts with great real estate. We target fungible buildings, attractive markets, strong frontage and replaceable rents.

So if a tenant vacates, our real estate turns the tenant exit into an upgrade or when we choose to sell buyers pay up for the real estate and the low rents. Thus far this year, we generated $7 million of gains on the repositioning sales.

Our differentiated real estate first acquisition strategy drives these structural advantages. Importantly, operating in the public markets has only strengthened our model, providing greater access to capital and allowing us to pursue more opportunities while maintaining our disciplined approach. As we grow, we can continue to compound these advantages, creating long-term shareholder value.

Pages 8 and 9 of our investor presentation shows what this means in practice and captures what makes FrontView different. Page 8 illustrates what happens when a tenant leaves. In net lease, that is the moment of truth. With a specialized building or a weak location or high rents, there are a few good alternatives. Downtime is long and the landlord usually ends up accepting lower rent, funding tenant improvements or selling at a big discount to purchase price.

Our frontage assets attract competitive lease and purchase offers, giving us flexibility to re-tenant, redevelop, divide a property into multiple leases or sell depending upon what creates the most value.

Look at the results. When Twin Peaks' parent went into bankruptcy, we re-leased our Winston-Salem site to Panda Express and Jaggers at a 92% increase in rent. When Tricolor liquidated, we upgraded the site to Avis on a 10-year lease. When Walgreens closed, our Durham store, we replaced it with Amazon with no tenant improvement allowance.

We converted the Miller Ale House into a 15-year Raising Cane's ground lease with no landlord capital, and we created a new Bank of America ground lease on unused land in front of our Walmart. And this quarter,

we delivered another example of successful proactive management. Our Wendy's in Stone Mountain, Georgia operated by Meritage had below-market rent expiring in March of '27.

We have already signed a 15-year Chase ground lease that would commence upon Wendy's expiration at a 53% increase in rent. Across these six outcomes, we estimate the value of these sites are now approximately $29 million against a combined purchase price of about $19 million. That is nearly 53% in value creation, driven by the quality of the underlying real estate and our ability to capture it. More importantly, these are not isolated examples as we have averaged over 117% on new leases, as shown on Page 10.

Page 9 illustrates the other side of our real estate first strategy which is what happens when we sell. With weaker real estate, a tenant problem often leads to an auction where recoveries can be less than $0.30 on the dollar. With our real estate, 1031 investors, developers and end users compete. And across all of our sales, we have sold above our cost, whether the property was occupied, dark or vacant.

In July, we sold our dark Hops n Drops at 150% of our cost, and we sold our Sleep Number and AT&T property to a developer at 120% of our cost, while Sleep Number was in Chapter 11. In May we sold a Friendly's, a shrinking chain with two prior bankruptcies at a 5.35% cap rate and 131% of our cost. Earlier this year, we sold a vacant former Take 5 at 191% of cost.

We also got ahead of the Twin Peaks and Meritage bankruptcies, selling those properties before the filings at 120% and 113% of our cost, respectively. The common thread is that buyers are underwriting the real estate, not simply the lease for the tenant. This quarter, we sold five properties including the Hops n Drops and the Sleep Number for $17.1 million at a 6.56% cap rate.

Since our IPO, we have sold 56 properties for $128 million including vacant properties with our 42 occupied properties selling at a 6.8% cap rate. Over the same period, we acquired 104 properties for $370 million at a 7.7% cap rate. That is approximately 90 basis points of positive spread while simultaneously upgrading the portfolio. This is what we mean by real estate first investing, protecting the downside through the quality of the real estate, creating upside through active asset management and recycling capital at attractive spreads to compound growth.

Turning to acquisitions. We acquired 16 properties in Q3 for $50.6 million at a 7.56% average cap rate with a median purchase price of about $2.65 million and median rent of about $208,000. Our lease term on acquisitions is lower by design. We selectively buy well-located properties with shorter terms and below market rents when we perceive the opportunity for development-like upside without the risks associated with ground-up development.

For example, the Indiana veterinary clinic we discussed last quarter is at final stages of being extended for 10 years, creating substantial value in the lease. Another example is the 20,000 square foot Spec's situated on 1.88 acres on the cover of our investor presentation. Spec's is the largest wine and spirits retailer in Texas, family owned since 1962 with more than 200 stores.

Our property is in the legacy shopping center in San Antonio, alongside Best Buy and Main Event near U.S. 281 and Loop 1604 which carry more than 238,000 vehicles a day and across from an HEB-anchored

center. More than 225,000 people live within a five-mile radius with an average household income above $130,000.

Spec's has been in the center since 2012 and in 2019, more than doubled its footprint by moving into its current 20,000 square foot store. What makes this deal stand out is the rent and the price. Spec's pays about $10 per square foot with two five-year fixed options at $11 per square foot and then $12 per square foot in a submarket where rents are estimated at about $20 today. The seller asked a 6.25% cap rate.

We sourced the property off-market through a long-standing relationship and worked through complications with the center's declaration that frankly kept other buyers away. Ultimately, we acquired it for $2.6 million, approximately 18% below the asking price at a 7.6% cap rate and just $132 per square foot, roughly half of replacement cost.

We fully anticipate Spec's to renew, pushing the yield on cost to 9.1% at the time of the second option. In the unlikely event that Spec's leaves, we get a box back at half of market rent. This transaction demonstrates our ability to create value at acquisition through sourcing, asset selection, certainty of execution and the relationships we have built over the years across a fragmented marketplace.

In August, we also invested $2.7 million in a joint venture with an existing FrontView partner to re-tenant a well-located property with frontage near downtown Dallas, where in-place rents are significantly below market. The project is income producing today and we are targeting a mid-to-high teens IRR on the investment and potentially north of 20% if rents surpass initial estimates.

While a relatively small investment, we see meaningful value creation potential, a growing pipeline of opportunities for exactly the type of real estate we want to own long term.

Turning to the portfolio. We ended the quarter at 99.4% occupied with only two vacancies including the former Smokey Bones, which is out for lease execution, and a small gas station which has now been sold. We had no new additions to our watch list and our 50-basis point bad debt placeholder for 2026 remains largely unidentified.

With the new Chase lease, we have no remaining exposure to Meritage. Looking ahead, our pipeline remains very active. Recent movements in interest rates have allowed us to source more opportunities at higher yields while maintaining our focus on high-quality real estate in attractive locations with replaceable rents.

We currently have over $40 million under LOI or purchase and sale agreement at yields above those achieved in the third quarter. Depending on closing timing, we are well positioned to meet or exceed our full year net investment guidance of approximately $120 million.

In closing, one of FrontView's most important competitive advantages is the depth of our involvement in every aspect of the business. I take as much pride in the details of an individual $2 million acquisition as I do in the broader strategy and direction of our company.

We combine the strategic vision and discipline of an institutional platform with the entrepreneurial intensity and asset level knowledge of a founder-led business. That combination is fundamental to how we operate and what makes FrontView different. Our shareholders aren't simply investing in a portfolio of properties.

They're investing in an operating philosophy, disciplined capital allocation and a team that understands how and where value is created. This combination positions FrontView to deliver sustainable, sector-leading long-term shareholder value.

Before I turn the call over, I am pleased to announce that our Board has appointed Pierre Revol as President of FrontView, in addition to his role as Chief Financial Officer. Pierre has been a true partner to me in building this company, and we share a common vision for FrontView from our long-term strategy and capital allocation to the details of individual investments.

This appointment reflects the strength of the leadership team we've built and our commitment to scaling FrontView while preserving the entrepreneurial culture and attention to detail that define our company.

With that, I'll turn the call over to Pierre.

Pierre Revol

President, CFO, Principal Financial Officer, Treasurer & Secretary

Thank you, Steve. Thank you to the Board of Directors for your confidence and support. I look forward to continuing to work alongside a talented team to build FrontView into a differentiated net lease platform. As Steve mentioned, a highlight this quarter was our capital deployment, where we generated a 100-basis point spread between our acquisitions and dispositions.

We funded close to 100% of our acquisitions this year with dispositions and equity, reducing net debt to adjusted annualized EBITDAre from 5.6x at the beginning of the year to 5x at quarter end. Pro forma for the final preferred draw on November 10, leverage declines further to 4.5x, well below our leverage range of 5x to 6x.

In terms of capacity, this allows us to complete our 2026 investment plan and fund an additional $80 million of net investment in 2027 while maintaining leverage at or below 5.5x. If we repeated our 2026 net investment guidance of approximately $120 million in 2027, leverage would be close to 5.8x, still comfortably within our targeted range.

Turning to the quarter. Contractual cash rents increased $777,000 sequentially to $16.7 million, driven by net acquisitions and contractual rent increases, partially offset by dispositions. Percentage rent increased to $131,000, but we expect the run rate to be close to $50,000 quarterly. Mortgage interest income was $228,000 including a $3.7 million short-term take-back loan on the sale of Sleep Number and AT&T property which was repaid during the quarter. As a result, mortgage interest income in the fourth quarter will decrease to $196,000.

Unlike the first half of the year, where we generated $495,000 of other income, we only had $11,000 this quarter. As we said previously, other income is episodic. In total, adjusted cash revenue increased 4.4% to $17.1 million or 5.6%, excluding other income. Notably, with our portfolio almost fully leased and continued success in re-tenanting properties, non-reimbursable property expenses declined to just $216,000 or 1.3% of adjusted cash revenue compared to $405,000 or 2.6% of cash revenue a year ago. Adjusted cash NOI including the full impact of acquisitions and dispositions was $17.4 million.

Adjusting for percentage rent, repayment of the short-term loan and slightly higher expected slippage, our exiting run rate adjusted cash NOI is approximately $17.2 million. Importantly, this excludes the impact of six new leases highlighted on Page 10, with four commencing in the fourth quarter contributing $485,000 of annualized rent and another two commencing in 2027, adding $699,000.

In total, these leases represent $1.2 million in annualized rent, a 19.3% increase over the prior leases, highlighting the embedded organic growth within the portfolio. As Steve mentioned, in August, we made an investment in a Dallas redevelopment project which we account for as an unconsolidated joint venture. It contributed $19,000 to AFFO in the first partial quarter and the contributions will grow as rent steps up at the project.

Recurring cash G&A was $2.7 million. And for the full year, we expect cash G&A of approximately $10.5 million, excluding nonrecurring expenses. As shown on Page 23, our G&A is about 1.5% of gross assets versus peers at closer to 0.5%. While this is higher than our peers, we have already built much of the infrastructure needed to support a significantly larger company, positioning us to generate meaningful operating leverage as we grow. We could more than double our asset base with the similar levels of G&A.

Year-to-date, we have acquired 43 properties for $144.5 million including closing costs and invested $2.7 million in the joint venture. We also sold 20 properties for $47.4 million including proceeds from a short-term seller financing, bringing our net capital deployment to approximately $100 million. We funded these investments with $50 million of common equity, $43 million of Series A preferred and retained free cash flow. As a result, we grew the portfolio while reducing leverage over the year.

We ended the quarter with $174 million of liquidity. Since year-end, our leverage ratio declined to 30.6% from 34.5%, and our AFFO payout ratio improved to 64.7% from about 69%. Fixed charge coverage ratio remains strong at 3.5x. On October 15, we extended our revolver and term loan to October 2028 with an option to extend to October 2029 and added a ratings-based pricing grid that would lower our borrowing costs with an investment-grade rating.

As a reminder, our term loan and revolver are part of a single credit facility established at our IPO. We swapped $200 million of term loan with a fixed one-month SOFR rate of 3.66% and subsequently swapped another $100 million on our revolver at approximately 3%. Both swaps run through March of 2028, giving us a blended fixed SOFR rate of approximately 3.4%.

We have close to 1.5 years to evaluate our options before these swaps mature. As we build a more laddered balance sheet, we expect to term out and fix more of our floating rate debt. In the meantime, our prefunded equity covers our 2027 acquisitions with the balance financed through our revolver until we term it out.

In terms of our share count, we settled 1.7 million shares. We sold forward last quarter for $32.7 million and $6.7 million of the Series A preferred converted to common, adding an additional 392,000 shares. Also OP unitholders converted 869,000 units to common. Together, our common shares outstanding increased by about 3 million to 26.6 million and total shares including OP units increased by about 2.1 million to 31 million.

On November 10, we will issue the remaining $30 million of preferred, completing the $75 million investment. That brings our Series A preferred outstanding to $68.3 million or about $1.15 million of quarterly dividends at a 6.75% dividend rate. We are maintaining 2026 AFFO of $1.32 to $1.34 per share which represents approximately 7% growth at the midpoint and includes $0.02 of other income earned in the first half of the year.

Our guidance implies $0.33 per share in the fourth quarter with no other income assumed as the contributions from our acquisitions and strong operations is partially offset by dilution from the equity settled and the final draw of our preferred in November.

Before we open the line, I want to leave you with the four new pages from our investor presentation that we believe helps frame the investment opportunity with you.

First, Page 7. Our growth is structural. Contractual escalators and below-market rents drive 1.5% to 2% of annual organic growth. On top of that, our low payout ratio allows us to retain and reinvest free cash flow, adding approximately 3% to annual growth. Combined, that gives us 4.5% to 5% growth before raising and accretively deploying any new capital.

Second, Page 23. Analysts expect FrontView to grow AFFO per share meaningfully faster than our peers at 6.8% this year and 5.5% next year compared to 5.1% and 4%, respectively. Put simply, investors are paying roughly the same multiple for FrontView, but getting meaningfully more growth. Third, Page 24.

The chart on the left shows how we can generate outsized growth in relatively modest acquisition volumes with 100 to 150 basis point spread to our cost of capital. The table on the right highlights a significant runway ahead for us. Unlike larger peers, we don't need to chase portfolios or find new ways to deploy capital.

Assuming 15% annual asset growth, we have approximately 10 years before we need to acquire more than $500 million annually. This allows us to continue compounding growth by acquiring granular, high-quality properties that fit FrontView's model for years to come.

Finally, Page 25. Based on November third’s closing price, FrontView trades an implied cap rate of approximately 7.5%, which does not reflect the underlying value and quality of our real estate portfolio. While net lease generally do not trade on NAV alone, our portfolio gives us strategic flexibility. If the public markets are not reflecting the value of our assets, we can create value by monetizing select properties in the private market and recycle that capital to new acquisitions at attractive spreads.

A year ago, when we announced the prior investment from Maewyn, we said our overriding objective was creating shareholder value and that our size is a structural advantage. Since then, we've done what we said we would do. We delivered top quartile AFFO per share growth, reduced leverage, improved NOI margins and demonstrated through numerous case studies how our real estate creates value.

Importantly, we've earned the confidence of institutional investors who have committed new equity capital to support our growth, giving us the capacity to fund our acquisition plans into 2027. We have a clear strategy, significant capacity to grow and a track record of execution. We will continue building FrontView the same way one disciplined investment at a time.

With that, I'll turn the call over to the operator to open it up for Q&A. Operator?

QUESTION-AND-ANSWER SESSION

Operator

[Operator Instructions] Your first question comes from the line of Jamie Feldman with Wells Fargo.

James Feldman
Wells Fargo Securities, LLC, Research Division

Congratulations here. Nice to see things going well. I guess just looking at your last few quarters of investments, you've got WALT declining. You've got cap rates going up. Can you just talk through how to think about the WALT piece of what you're buying?

And is there something different in what you're underwriting? Or do you just happen to find better deals and we're looking too much at that as a trend?

Stephen Preston
Chairman & CEO

Yes. No, good.

First, we're focusing on great locations, replaceable rents and then, of course diversification. This quarter and last quarter, we acquired a few shorter-term properties, as we know. We have strong operating performance on them, and we have the opportunities to extend those leases and we really get to create value.

So we see spreads in the 100 to 200 basis point arena. We – again, having performance metrics and relationships with the tenants helps us feel very good about those types of assets. What's really interesting in the space is that how many sellers just don't try to extend terms and leave a lot of value on the table. They don't have the relationships, they're unsophisticated, and that's where we get to step in.

We really view these opportunities like development-like, but without taking on any construction risk which is really important. I think that echoed in our San Antonio Spec's Liquor, we're buying that at about a 7.6% cap rate with three years left with $10 a foot rent in a $20 market.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

I would just add to that, Jamie, that if you just look at our track record on renewals and how we do, we have a really strong experience in terms of what happens when we get access to a lease and that's core to how we invest in and look at properties.

James Feldman
Wells Fargo Securities, LLC, Research Division

Okay. Then I guess going back to some of your earlier comments just about the market is changing, it feels like you'll get more opportunities. Can you talk more about what you do expect to see? Do you think it will shift at all the types of assets you're buying?

Then anything coming out of the election that you think is interesting that might change what might come to market, especially on the bonus depreciation side?

Stephen Preston
Chairman & CEO

I'll say that cap rates are up a little bit. What we're seeing in the market is we're seeing assets that are coming back to us that we otherwise would have bid on and lost out on to higher pricing. So as circumstantial buyers, it's tougher to achieve capital. We're starting to see more opportunities.

So this is actually a really great time for us, and we expect to take full advantage of the market. I do not see anything different. It's more of that same quality, that same great real estate, that same replaceable rents. I mean that's the MO since we founded the business in 2016, and that's what we expect to continue going forward.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

Do you want to comment on the election, but -- it's new election. I don't think that anything really changed immediately. We still target Texas and Florida; we increase those exposures. So a lot of our pipeline continues to be in those markets. We continue to strategically look at these markets because the population growth, the demand, our experiences when we get a property, everything we bought in Texas has had a really good outcome and a lot of stuff in this quarter, like the San Antonio deal we talked about have been really positive.

And so I think that this market continues to see a lot of demand, and we're seeing that across our portfolio when we target these funded properties that we want to continue to build within these markets.

Operator

Your next question comes from the line of Eric Borden with BMO Capital Markets.

Eric Borden
BMO Capital Markets Equity Research

Congrats to Pierre. I know you're not providing '27 guidance on the call but you've previously outlined 4.5% to 5% structural growth for new capital. How should we think about the carryover from this year's acquisitions and signed leases relative to the full year impact of the common equity and the preferred funding for next year?

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

Eric, I appreciate it. So I think our plan, as we laid out in our investor presentation is there is structural growth from the escalators and the free cash flow and we can fund it this year. So what really will dictate 2027 guidance is the structural growth piece of it. But we will be borrowing on the line as we grow into next year. And so rates do impact. I also mentioned that we had the swaps.

So if we do anything on the swaps, that would also have an impact. That's basically where I am thinking about 2027. We're in early stages, and we'll provide an update when we get closer to February when we provide guidance for the year.

Eric Borden
BMO Capital Markets Equity Research

Okay. Then you talked about $40 million under LOI or contract versus the approximately $27 million of net investment implied in fourth quarter. How much of that pipeline could close this year? Then what disposition amount should we weigh that against the $40 million?

Stephen Preston
Chairman & CEO

Yes. We've got an opportunity to close a bulk of that this year. Obviously it depends on due diligence. Planning for dispose, we're expecting something in the $50 million or so range. So it looks like the guidance looks pretty good and in check for the rest of the year.

Operator

Your next question comes from the line of Anthony Paolone with JP Morgan.

Anthony Paolone
JPMorgan Chase & Co., Research Division

Echo the congrats, Pierre, on the title. On the 2027 expirations, I think 6.5%, you sound pretty confident in terms of recapture and your rents and so forth. But just trying to think through, should we expect any downtime? Or how does that net into things just from an earnings point of view, like yes.

Stephen Preston
Chairman & CEO

Maybe I can just comment globally on where we sit right now for '27. We are effectively done for '26. So far in '26, 116.4% recovery. We have three left. One is a very small, it is called a plop hole. We're re-leasing that to a new tenant. We have a T-Mobile that's renewing. We have Sherwin-Williams right now we're negotiating to sell to a bank.

So 2026 for history was very accretive, and we expect '27 to be the same. We're about 6.5%, 6.7% ABR, 34 total. Of that 10 are already complete, and we feel like we've got visibility all the way through into Q3 right now and are expecting very similar results to '26 with recovery rates.

So again we view these as assets and opportunities. And historically, the data suggests and points to that.

Anthony Paolone
JPMorgan Chase & Co., Research Division

Okay. Got it. Then second question, in the prior call you talked about looking at net lease development and it looks like you have a small venture there. Just any additional color or progress towards those goals or what you're seeing on that front?

Stephen Preston
Chairman & CEO

Yes. We actually are looking at a couple of development opportunities on the heels of the joint venture that we just completed in Dallas. We like to see that as a great way to access other value-add opportunities and channel additional deal flow. So look to see a couple of those opportunities coming for us in the next quarter. I think you'll be very happy with what you see and the risks and the relative level of returns and value enhancement creation that those will bring to the shareholders.

Operator

Your next question comes from the line of Jana Galan with Bank of America.

Jana Galan
BofA Securities, Research Division

Congrats, Pierre. Maybe a big picture question. Your opening remarks really focused on the ability to be granular and maximize value at each location. Do you think that there'd be a size where that stops being -- you're unable to continue that focus. But so curious how you're thinking about that and any technology you're implementing to be able to scale that ability?

Stephen Preston
Chairman & CEO

Yes. I think that's the beauty of the size, and Pierre pointed that out in his remarks, that we have literally years and years to go where we have to exceed significant acquisition cadence. The $100 million to $300 million a year is going to drive growth for very many years to come, and that allows us to keep with this strategy and continue to acquire this great real estate and have these great opportunities and be that circumstantial buyer to drive value and drive better cap rates across the marketplace.

So we're very excited. It's a very broad market. It's very deep. Add a little development, add some joint ventures into the mix. There's a long way we can go with this, and we're really excited.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

And I would just add on your AI question and how that allows us to scale. The improvements in AI are phenomenal. We can get more access to tenants on financials on how we process everything today. In fact, we recently had a Board meeting, and I'm sitting next to one of our Board members at Welltower and like he told me the amount of AI investment that they've had versus what we've had, we can catch up to that a lot quicker even at our small size just given what's available.

So I think we can truly scale. If you go to Page 24 again that table on the right does highlight how little we have to do relative to peers. So I mean just bring it out to 2029, 2030, you're doing $150 million to $200 million, $250 million of acquisitions in a market that's in the billions.

We are using AI in a lot of ways, not only to run processes, but also to source new transactions. We're seeing a lot of benefits from that. I think that is part of what we can do today to scale the business.

Jana Galan
BofA Securities, Research Division

Then maybe just on the tenant credit quality. Bad debt has trended really well this year. Just curious, any updates there?

Stephen Preston
Chairman & CEO

No changes, buying great tenants, continuing to do that as we go. And again obviously focusing on our low rents. But the credit watch list, as we mentioned, is very minimal, and we know we expect that in the foreseeable future.

Operator

Your next question comes from the line of Matthew Erdner with Jones Trading.

Matthew Erdner
JonesTrading Institutional Services, LLC, Research Division

You guys touched on it a little bit already in terms of leverage in that 80, 120 range for next year. I guess what would make you guys be willing to increase to that higher end of leverage versus the lower end?

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

I think on the leverage side, we're comfortable within the five to 6x. It's just about the opportunities that we see. We're not shying away from acquisitions. The entire point of that comment is to show how much capacity we do that we are effectively funded through 2027.

We're comfortable -- like our target is really to stay around 5.5x. But if we want to go a little bit higher if we find the right opportunities, we will go there. If we're able to raise equity accretively, that would be another component to issue. Right now just on the cost of capital, taking recent stock prices, we're around 6.6%, 6.7% cost of capital.

So it's not -- based on our acquisitions, it's close to 90 to 100 basis point spread. So it's not too far off. But I highlighted in our presentation, we think that our NAV is a lot higher. So those are considerations. But we are in -- I think it comes down to our cost of capital and the types of acquisitions that we see in the market that would dictate whether or not we push higher on the acquisition numbers.

Matthew Erdner
JonesTrading Institutional Services, LLC, Research Division

Got it. Appreciate the comments there. Then as it relates to investment spreads, you guys had 100 basis points this quarter. I guess as most of the pruning has been done in terms of dispositions, should we expect that number to marginally expand throughout 2027?

Or is that 100-point mark a good idea to have in mind?

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

Yes. I think look, this quarter, 100 is pretty strong. I don't think you can factor that in as going forward as a number. I think it was a little bit less than that in the fourth quarter. At the same time, I would just highlight -- I know a lot of people don't care about impairments and gains, but we had zero impairments this quarter and close to $4 million in gains. And so there's a lot of -- our gains over impairments are like 7x.

So we're seeing a lot of benefit in our dispositions. People are buying our properties. There's a lot of demand for our types of properties, and that gives us an additional source of capital if we ever try to use that.

Stephen Preston
Chairman & CEO

Yes. I'd just add, we have sold about $128 million at a 6.8 cap rate since the IPO, and we think it's healthy to continue to prune and to sell assets, but most of that optimization is definitely complete and behind us.

Operator

Your next question comes from the line of Rob Simon with Compass Point.

Kenneth Billingsley
Compass Point Research & Trading, LLC

This is Ken Billingsley for Rob. I have a question for you. On Slide 11, you listed ABR over the next five years is approximately $25 per square foot. If you were to look at market rates and they were all released today what would that $25 look like?

Stephen Preston
Chairman & CEO

Yes. I -- what I'll say is our median box rent is $176,000 approximately. You look at that across the portfolio and with the real estate and the location that we have, and I think that feels really, really good. What I'd also add is that our average rent in the portfolio was set in 2014, well before 2020 and Covid and where the massive rental increases have hit us with construction costs rising, et cetera.

So I think overall, you look at that and you see that this is a very well rented and below market rent in that portfolio.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

And I would just add, I know you're $22 to $25 on the per square foot, down to the $157,000 in rent per box over the next five years. That's low. If you think about where the market is for rents per box, a lot of it, the reason the number looks a little bit higher is because it might be a small building, but it's all about the acreage in terms of how many -- how much land is on that parcel.

But I think at 160 over the next five years, those are probably very similar to what we produced in 2026. I mean if you think about this number, 119% we capture on new tenants in 2026. That's a pretty strong

number in terms of where rents are relative to market. In the next five years, we do have some low rents with that medium box size of 160,000.

Kenneth Billingsley
Compass Point Research & Trading, LLC

So it could be exponentially higher considering that that's 30% of ABR renewing in five years.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

It could be higher. It could be high. It could be -- it's a source of tailwind. I would remark that a lot of these tenants have options, so they will renew on their options. But it only comes down to play when we get a tenant back.

If we get a tenant back, then we get -- then we are able to access it. But ultimately, it leads to just a very high likelihood of renewal. That's why we're not as nervous around expirations or business.

Stephen Preston
Chairman & CEO

A good example is our Twin Peaks that we talked about last quarter, where we released that to a Panda and the Jaggers. We had $138,000 of rent at that time. Then now, we have $265,000 of rent. So almost a double of the rent and both of those tenants are now open and operating.

So it's a good litmus test.

Kenneth Billingsley
Compass Point Research & Trading, LLC

That's great. If you don't mind, just a follow-up. With less supply out there, is there anything that you or potential tenants are doing that's creative as you're looking over the next few years, just as they're looking for space?

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

In terms of expanding space for tenants, is that what you mean?

Kenneth Billingsley
Compass Point Research & Trading, LLC

Right, either. As they're looking to expand, maybe they've underdeveloped. So with no real new supply, is there just anything that they have done maybe are looking to do in the next five years that's creative or different from what they've done over the last 10 years?

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

It makes --

Stephen Preston
Chairman & CEO

You're trying to take -- yes. It makes the versatility of our land and our building work more, obviously as you have less supply, and it allows us to continue to push rents, and you see that with our re-tenanting exercises that we've had across the portfolio.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

And I think what we're -- what we did with our Dallas Street development is one example. It acts as a new pipeline of opportunities where we can partner with people to access these opportunities as tenants are trying to figure out new ways to add to their footprint or to get to market rents.

So I think that you'll continue to see that. And fortunately, we have these relationships that will allow us to participate in that.

Operator

Your next question comes from the line of Ronald Kamdem with Morgan Stanley.

Ronald Kamdem
Morgan Stanley, Research Division

I'd just love to go back to the acquisition pipeline, both in terms of volume and economics because you guys do compete in small or maybe 1031 buyers. I guess I'd just love to hear just what you're seeing post the rate environment in terms of cap rate movements in terms of opportunities and your ability to capitalize on it.

Stephen Preston
Chairman & CEO

Sure. You bet. Cap rates for Q3 were 7.6. They were up a little bit from Q2. We've had a couple of special circumstances as buyers. We actually have sourced a couple of those for next quarter. So we think we can drive up cap rates a little higher into Q4, and then we'll get to report on that next quarter. Pipeline is very strong. We continue to see a lot of opportunity.

It's really obviously what we're looking at and doing great real estate, replaceable rents, it's exactly what we want to acquire. And I think I mentioned it earlier, but it's important. We've seen a number of deals that we passed on prior with pricing that we were viewed down on or bid on that have come back to us. That's really good to see.

So some of the mid-six pricing is coming back and landing in our buy box. I wouldn't say that we're seeing cap rates adjust in the marketplace, so to speak, it's rather that there's opportunities coming back to us just with some of the lesser buyers in the space, a little bit tougher to achieve financing from community banks.

Then, of course, returns are down a little bit with the higher rates. When you look at the health of the market, I mean it's very healthy. McDonald's, Chick-fil-A, JPMorgan they're still trading in the four cap rates. So there really hasn't been movement. So it's really us specialized circumstances that in this market allows us to drive outsized returns really in any market rather, but especially in this market.

So look to hopefully see a great Q4 print on the acquisition pipeline.

Ronald Kamdem
Morgan Stanley, Research Division

Great. That's helpful. Then I think you guys clearly have leaned in on dispositions here as well and there's some -- I'm sure there's some portfolio pruning happening. Just can you just go back, remind us just the bad debt guidance at the beginning of the year versus what's baked in now after three quarters?

And is that a good run rate to think about coming in into next year given the health of the portfolio?

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

Sure. So at the end of the year, we talked about 50 basis points. It's still mostly unidentified, hasn't changed. There hasn't really been any additions. The portfolio is performing really strongly. And that's one of the drivers that resulted in us increasing the midpoint of our AFFO per share guidance from $1.28 when we first set it to the midpoint of $1.33.

So the portfolio continues to perform really well. The 50 basis points is unidentified, and we feel pretty strong about the portfolio. Most notably, like the non-reimbursement property cost has dropped to 1.3%. People are re-tenanting our space a lot faster. I don't think you've seen any of the other net lease peers put up six new tenant leases at 119.

So I would say that, that is a pretty good situation to be in when you think about portfolio health.

Operator

Your next question comes from the line of John Massocca with B. Riley.

John Massocca
B. Riley Securities, Inc., Research Division

Maybe speaking about the market and after the interest rate moves we saw in the August, September, October timeframe, how does that impact the way you think about investments going into 2027? I know you have this runway with capital recycling with some of the capital you have on hand to invest without being beholden to the capital markets.

But how are you weighing maybe your spot cost of capital as you look at your return threshold for new investments versus your in-place cost of capital, if you will?

Stephen Preston
Chairman & CEO

Yes. Pierre can take that. But what I'll just comment on is the market, and I'll just echo that again that we're seeing spreads widen for us, again being that buyer of choice in this marketplace going up against that unsophisticated investor. So as rates continue to see -- remain stubborn, I think you'll see those spreads continue to remain very healthy and wide.

So specifically on the market, there's my contribution there.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

Yes. In terms of the cost of capital, stock versus long term, I think that -- at least the way I think about cost of capital. I look at -- we're going to be in the bank term loan market for a period of time just given our size.

So I do look at the five-year forward curve spread to that. Obviously we made some amendments to our term loan. So that's looking around 5.6%, 5.7% today on the debt cost. Then you can take our AFFO yield using next 12 months, and you'll see roughly where it lies in and we will be mid-to-high sixes on a WACC.

In terms of how we think about buying things, that's the most important decision is that where we allocate capital appropriately, if we find deals that make sense for us, we're actually -- if you look at the trajectory, we did go up a little bit in cap rate in the fourth quarter is going higher. Not guaranteed that we'll do that every quarter, but it's -- we do pay attention to our cost of capital quite closely and make sure that as we deploy capital that is accretive on a per share basis while not diluting the types of real estate that we would go comfortable putting on our website.

I think that we'll continue to do that. And I think that, that model will deliver a lot of growth for us and our shareholders.

John Massocca
B. Riley Securities, Inc., Research Division

Okay. Then on the development side, and that potentially grows as a portion of your investment box, what increase in spreads relative to traditional net lease investments or traditional third-party investments, are you looking for, if at all? Are you looking at the same return hurdles?

Stephen Preston
Chairman & CEO

Sure. So first, when we're looking at development, it's going to be risk mitigated where leases signed, entitlements in place, site plan approval, zoning, GC contract, et cetera. Our partner is going to take on the pursuit costs. So there's not a lot of upfront exposure to us. What we like to see typically historically built in is at minimum 100, but I'd like to see that 100 to 200 basis points in spread.

So there's some real value. Then you're putting a shovel on the ground and then building this asset and theoretically in under a year, you're getting that back with 100 to 200 basis point embedded spread. So there's a lot of value in it for us and the shareholders. And as I mentioned, there's a couple of opportunities we're looking at right now that are specific, and we look forward to sharing those with you in due course.

Pierre Revol
President, CFO, Principal Financial Officer, Treasurer & Secretary

And I would just highlight on the one deal that we did this quarter, as the (price) increase, you'll be upper eights into be closer to 10 cap as it stabilizes for fronted real estate in Dallas. That is -- that's pretty remarkable and just to be able to get access to that with the trends that we're seeing, I think that, that makes a ton of sense for shareholders.

Operator

Your next question comes from the line of Logan Epstein with Wolfe Research.

Logan Epstein

Wolfe Research, LLC

Maybe if I could follow up to the comments you made in the prepared remarks and the prior question. If we just focus on that Slide 7 that you guys added to the deck. If we use that math, it implies a minimum seven-ish percent growth rate at $100 million investment volumes at 100 bps spread. Just curious if you can talk about the potential moving pieces there as you look at the long-term growth rate for the company.

I know you mentioned the swaps and returning upside, but curious if you could just hit on any other potential moving pieces there.

Pierre Revol

President, CFO, Principal Financial Officer, Treasurer & Secretary

Logan, so that Slide 7 is really the thesis to FrontView. If you think about how most net lease REITs operate, and I'd encourage people to read around most of how we operate in terms of our annual organic growth rate, why our payout ratio is important to keep that low. Then the external investment coming from a smaller base.

So it's structural in terms of the growth. What it doesn't factor in is changes in interest rates, other things that could affect it. But this is more of a structural growth rate that you could think about from this existing portfolio with the offsets being really just cost of capital and interest rates that could change things.

But this formula in terms of two -- 1.5% to 2% plus 3% should be the minimum that you should expect for the structural growth within the company.

Logan Epstein

Wolfe Research, LLC

And maybe a follow-up. You talked about in an earlier question that bad debt has trended positively. Just curious if you can touch on whether the move in rates in the broader macro environment has just had any impact across any of the tenants have you discussed with them?

And maybe if there is a common theme across any industry types there?

Stephen Preston

Chairman & CEO

I would say not yet. Our tenants are performing very well. We're in service industry, is essential, mission-critical. We have not seen anything. Rent is coming in on time as expected. And so I think everyone thinks about the consumer for sure. We feel very insulated and especially with, again, that real estate, that quality and then the low rent.

So if there is something that comes back to us, we have very good tools to make that accretive and opportunity for us.

Operator

There are no further questions at this time. I will now turn the call back to Steve Preston for closing remarks.

Stephen Preston

Chairman & CEO

Yes. Thank you, everyone, for your continued interest in FrontView. We look forward to seeing you all at NAREIT in Atlanta and, of course, be safe and be healthy. Thank you. Take care.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.