FrontView REIT, Inc. (FVR)

Q2 2026 Earnings Call Transcript

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COMPANY PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

- John Kilichowski - Wells Fargo Securities, LLC, Research Division
- Anthony Paolone - JPMorgan Chase & Co., Research Division
- Rob Simon - Compass Point Research & Trading, LLC
- Jana Galan - BofA Securities, Research Division
- Ronald Kamdem - Morgan Stanley, Research Division
- John Massocca - B. Riley Securities, Inc., Research Division
- Rob Stevenson - Huntington
- Matthew Erdner - JonesTrading Institutional Services, LLC, Research Division

PRESENTATION

Operator

Hello, everyone. Thank you for joining us and welcome to the FrontView second quarter 2026 earnings call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions] I will now hand the conference over to Pierre Revol, CFO. Pierre, please go ahead.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Thank you, operator, and thank you, everyone, for joining us for FrontView's second quarter 2026 earnings call. I will be joined on the call by Stephen 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 is 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 am now pleased to introduce Stephen Preston. Steve?

Stephen Preston

Chairman, CEO & President

Great. Thank you, Pierre, and good morning, everyone. This quarter demonstrates why the best risk-adjusted returns in net lease come from owning exceptional real estate with a diverse tenant base in vibrant markets, where the strength of the real estate leads to increases in rents and value over time. Nearly 80% of our properties are located in top 100 MSAs, 92% are positioned near shopping centers, the average 5-mile population exceeds 172,000 and the median Placer.ai ranking is in the top third of their respective concepts.

Our portfolio is exceptionally well diversified, with the largest tenant now representing only 2.6% of ABR and the top 10 tenants accounting for just 20.2%. In addition, 33.6% of our rents are derived from investment-grade tenants. Our median box is 5,000 square feet and our median annual rent is only $174,000 per property. We often describe our portfolio as containing fungible buildings with replaceable rents. While those phrases can sound abstract, the following examples illustrate exactly what we mean.

Recently we created a Bank of America ground lease in front of our Walmart in Rochester, New York. We converted a former Burger King franchisee to a Chipotle at our property in Mechanicsville, Virginia. We replaced a Miller's Ale House with a Raising Cane's ground lease at our property in Chicago, Illinois. We released a former Tricolor location to Avis in Marietta, Georgia. We created a Panda Express and Jaggers ground lease from a former single Twin Peaks in Winston-Salem, North Carolina. And we replaced a former Walgreens with an Amazon fulfillment center in Durham, North Carolina. In aggregate, these transactions generated $1.6 million in ABR with an estimated value of $29 million compared to our basis of $19.8 million, or a 47% increase in value.

Importantly, this value was created from assets that were underperforming but where the exceptional quality of the underlying real estate allowed us to unlock significant value. Although none of this value creation has been crystallized through actual property sales, the improved tenant credit, lease structures and real estate configurations have meaningfully increased their market value.

We have also optimized the portfolio through a disciplined and proactive disposition strategy. Every disposition serves one of three objectives: first, to enhance real estate quality; second, to increase diversification; and finally, to recycle capital into better opportunities. Since our IPO, we have strategically sold approximately $110.5 million of properties, representing 14.6% of our original IPO assets, to increase tenant and industry diversification, reduce exposure to tertiary locations, and remove weaker or tired concepts.

The median disposition cap rate across all these sales, which were not our best assets by any means, was 6.88%, which is below our currently implied valuation. This quarter we sold five tertiary Dollar Trees, a Friendly's in New York, a Staples in Illinois, a Fast Pace in Indiana, and a Hooters in Kentucky at a weighted average 7.12% cash cap rate. Each transaction improved the overall real estate quality, tenant credit or diversification of the portfolio. Continual portfolio optimization is part of our business model, and we will continue to proactively prune the portfolio as part of our ongoing value creation strategy.

While the bulk of our portfolio optimization is complete, we will remain active in recycling capital where we see opportunities to enhance portfolio quality. The result is a portfolio with strong operators, exceptional real estate, and one of the most diversified tenant bases in the net lease sector. Importantly, investors can evaluate the portfolio directly, as we are the only net lease REIT that discloses 100% of its ABR by tenant and the address of each and every property.

Turning to acquisitions, we acquired 17 properties for $58.2 million at an average cash cap rate of 7.34% and a weighted average lease term of 7.3 years. These acquisitions were consistent with the real estate characteristics we target across the portfolio, with median metrics including a purchase price of $2.6 million, building size of 5,700 square feet, Placer.ai score of 20.4, annual rent of $217,000 per property and 5-mile population of 141,000.

We continue to target larger MSAs with an emphasis on established, well-populated growth markets. While cap rates in these markets have historically been somewhat lower than the U.S. average, we believe the premium is justified by strong demographics, favorable supply and demand dynamics and greater long-term rental growth prospects.

The weighted average lease term this quarter was slightly below our historical average because we purposefully acquired several properties with shorter remaining lease terms. These assets have below-market rents, strong tenant performance and clear opportunities to create value through lease renewals or extensions. Our market knowledge and relationships allowed us to acquire them at prices well below their longer-term intrinsic value. We view these select transactions as a form of risk-mitigated development. They can provide development-like spreads without requiring us to assume construction, lease-up or entitlement risk because the tenants are already open, operating and paying rent.

As an example, we acquired a veterinarian clinic backed by a national guarantor in Indiana with a little more than two years left on the lease at an 8.75% cap rate. The cap rate was reflective of the short-term remaining, but through our relationship with the tenant we are extending the term to 12 years without providing any significant concessions, creating a wide development-like spread with zero development or construction risk after the extension. This alone would have raised our WALT acquisitions from 7.3 years to 7.7 years, consistent with prior quarters.

We are highlighting one acquisition this quarter, a corporately guaranteed Aspen Dental property in Roseville, Michigan, which is on the cover of our investor presentation. The property is located on a hard corner outparceled to a Kroger supermarket with frontage along a major arterial carrying over 25,000 vehicles per day. It also ranks in the top 15 of its concept statewide. Based on Placer.ai, Roseville is a suburb of the Detroit metropolitan area, the 14th largest MSA in the United States. Founded in 1998, Aspen Dental supports a nationwide network of more than 1,100 branded dental offices and is one of the largest and fastest-growing dental service organizations in the country. We acquired the property at a 7.2% cap rate with annual rent of only $147,000. Given the quality of the real estate and low rent, re-tenanting would be a source of upside if it were ever given the opportunity. This combination of credit and use, exceptional real estate location, readily releasable box size, replaceable rent and potential upside is a prime example of a FrontView target acquisition.

The asset was previously under contract with another buyer at a cap rate in the mid-6% range, providing market validation. When that transaction failed to close, the seller prioritized certainty and speed of execution. FrontView stepped in, closed quickly and acquired the property at a higher cap rate.

This transaction demonstrates our ability to create value through sourcing, asset selection, certainty of execution and the relationships we have developed across a fragmented marketplace, where our typical transaction size competes less with institutional capital. This allows us to avoid portfolio transactions where pricing is at a premium and invariably contain real estate we would not want to own.

Last quarter we introduced the concept of evaluating select development partnership opportunities that would leverage our team's decades of retail development experience. These partnerships could expand our sourcing channels and allow us to earn higher yields while maintaining our focus on real estate quality and mitigated risk management. We continue to evaluate a number of potential developments that meet our underwriting standards. We remain highly selective and will only pursue opportunities where the incremental yield is accompanied by appropriately mitigated execution risk. We will update you in coming quarters on this initiative.

Turning to the portfolio, we ended the quarter with only two vacant properties, resulting in occupancy of more than 99%, in line with our historical average of 98% to 99%-plus. While we expect occupancy to remain high, we do not manage the portfolio to maximize a headline point-in-time occupancy percentage. Because we own exceptional real estate, a lease expiration or vacancy can create an opportunity to improve tenant credit, increase rent, create a valuable ground lease or otherwise enhance the underlying property value. Historically, when we have re-tenanted properties, we've achieved rent recaptures north of 110% of prior rent, which reinforces our strategy to create value by being patient and pursuing the right long-term outcome rather than defaulting to a quick sale.

That being said, in some situations a sale of a nonperforming asset ends up yielding the best outcome. On page 15 of our investor presentation, we highlight a dark Hops & Drops that we sold just after quarter end for a 5% cap rate, or $3.75 million, which was a 50% increase over our original cost basis of approximately $2.5 million. Another example of how our high-quality real estate can yield outsized returns.

From a credit standpoint, we are performing very well. We do not have any additions to our watch list quarter-over-quarter and have a placeholder for 50 basis points of bad debt for 2026 that remains relatively unidentified, other than about 20 basis points attributable to the Sleep Number bankruptcy.

For context, we previously owned four Sleep Number properties. We converted one to a 7 Brew, we retained one high-performing location through the bankruptcy, sold another shortly after quarter end at a 6.5% cap rate and are re-tenanting the fourth, which is part of a cash-flowing two-tenant property. Sleep Number now represents less than 33 basis points of ABR.

Regarding renewals, we have only 8 left this year and we are already north of a 115% recapture rate for properties we renewed this year, so we fully expect renewals for the year to be nicely accretive. During the quarter we successfully re-tenanted one vacant former Walgreens to an Amazon, representing a significant increase in value over our basis at close to the same rent but with a much stronger credit profile and zero tenant improvement allowance. As previously mentioned, we only have two vacant properties, including the former Smoky Bones, which we expect to lease to two tenants, and a small convenience store.

FrontView's platform and strategy position us for sector-leading growth, with size being a structural advantage. First, we can generate meaningful external growth, as just $120 million of net investment increases our asset base by over 13%. Second, we can continue to focus on only adding excellent real estate at attractive values for years to come. Third, we can scale the platform through effective use of AI and new technology tools. And finally, our exposure to markets with rising rents, as demonstrated by our re-tenanting results, creates meaningful mark-to-market opportunities embedded within the existing portfolio.

In closing, we are passionate about our company, our people, our alignment with our shareholders and our ability to outperform. Our focus remains on driving top-quartile per-share cash flow growth through our differentiated net lease strategy. Every decision we make is made through the lens of owning 100% of the company. With that, I'll turn the call over to Pierre to review the quarterly numbers and guidance.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Thanks, Steve. We delivered another strong quarter, driven by growth in recurring cash rents from both accretive capital deployment and organic portfolio activity, together with improved NOI margins. These results, combined with our improved cost of capital and lower levered balance sheet, give us increased confidence in raising our outlook for the remainder of the year.

Turning to the income statement, second quarter base rent increased $200,000 sequentially to $16 million, driven by $59.5 million of net investment completed during the first half of the year, contractual rent increases across the portfolio and the commencement of rent from the former Walgreens property leased to Amazon. This growth was partially offset by the three properties discussed last quarter, which previously generated $181,000 of quarterly rent. Those leases have expired and the properties have been re-tenanted; however, most of that replacement rent will not commence until 2027.

In addition to base rent, we generated $200,000 of other operating income related to a lease restructuring. As we discussed last quarter, other operating income is episodic and generally not included in our forecast. However, it is a natural result of actively managing a diversified real estate portfolio and may arise from time to time.

In total, adjusted cash revenue increased to $16.4 million. Our non-reimbursable property costs, or slippage, declined by $32,000 sequentially to $231,000, or only 1.4% of adjusted cash revenue. The improvement was driven by the Amazon rent commencement, a decrease in tenant credit issues and continued benefit from the portfolio optimization work completed to date. For the remainder of the year, we now expect property-level slippage to approximate 2% of adjusted cash revenue, an improvement of 75 basis points from our prior forecast.

Adjusted cash NOI, including the full impact of acquisitions and dispositions completed through quarter end, was $16.9 million. After excluding other income and normalizing property-level slippage, the portfolio enters the third quarter at an approximate $16.6 million quarterly cash NOI run rate. Importantly, that run rate does not include the future lease benefits once the re-tenanted properties come online. Once fully operating, the new leases will generate close to $225,000 of quarterly rent, representing a 23% increase over the prior leases at those properties.

Recurring cash G&A was $2.5 million, consistent with the prior quarter, and we continue to expect a similar level of cash G&A for the remainder of the year. Our investment in automation, AI workflows and data analytics is allowing us to scale more efficiently, improve tenant monitoring and enhance capital allocation decisions while maintaining discipline on overhead.

Turning to the balance sheet, cash interest remains stable at $3.8 million, with our revolver benefiting from the $100 million of hedges we put in place last September.

During the quarter we assessed the equity market through our ATM program for the first time, issuing approximately 2.6 million shares at a gross price of $19.50 per share and raising $50.5 million of gross proceeds. We settled close to 900,000 shares during the quarter, generating $17.3 million in net proceeds. At quarter end, approximately 1.7 million forward shares remain unsettled, representing an additional $32.2 million of future net equity purchases.

This transaction marks an important step in the continued evolution of our company. It allows us to fund accretive investments with new common equity while preserving the remaining $50 million of capacity under our Series A convertible preferred. Together, our available liquidity, unsettled forward equity and remaining preferred capacity fully fund our current investment plan through 2027.

At our existing net investment pace, we ended the quarter with more than $200 million of liquidity. Our loan-to-value was 33% and net debt to annualized adjusted EBITDAre was 5.4x. Including the impact of the unsettled equity, our adjusted net debt to adjusted annualized EBITDAre is only 4.0x. In addition to our lower levered balance sheet and ample liquidity, our AFFO payout ratio was less than 65%, providing incremental retained cash flow to support future growth.

Before turning to guidance, I want to briefly discuss our cost of capital and how we think about growth. Our cost of capital has improved meaningfully over the past year. Based on our current acquisition yield and long-term weighted average cost of capital, we are currently generating investment spreads north of 100 basis points, as highlighted on page 22 of our investor presentation. That spread drives an attractive growth profile. Our smaller asset base means that disciplined investments can have a meaningful impact on AFFO per share growth.

However, improved access to capital does not change our underwriting approach, and acquisition volume itself is not our objective. Our goal is to generate sector-leading AFFO per share growth by investing in properties that meet the criteria we have consistently outlined: strong retail locations, larger markets, diversified tenant exposure, fungible real estate, and rents that are replaceable or below market.

This portfolio construction gives us two complementary avenues for growth. The first is accretive external investment, or what is sometimes referred to as the net lease virtuous cycle; the second is internal cash flow growth generated through contractual rent increases, releasing activity, lower property-level slippage, mark-to-market opportunity embedded in the portfolio and acquisitions made from retained cash flow.

This combination matters because external investment alone does not guarantee durable per-share growth if the underlying real estate is weak or rents are not replaceable. Tenant credit events and lease expirations can create cash flow erosion and force assets to be sold below the original basis or re-leased at meaningfully lower rates.

Our focus is to address these risks at the time of acquisition and through portfolio optimization. The objective is not simply to add cash flow, but to protect and compound cash flow per share over the long term.

Turning to guidance, with half the year behind us and the continued outperformance in the portfolio operations and capital deployment, we are increasing our 2026 AFFO per share guidance range to $1.32 to $1.34 from $1.29 to $1.33. We are also raising our net investment guidance to $120 million, implying $60 million in the back half of 2026 at the midpoint. This represents approximately 7% year-over-year growth and marks a third increase in our guidance since it was first introduced last November.

The increase is driven by three primary factors: first, strong portfolio performance; second, accretive capital deployment; and finally, continued discipline on overhead expenses.

We entered the back half of the year with a low levered balance sheet, visible embedded rent growth, a high-quality frontage-focused real estate portfolio and sufficient capital to execute our current investment plan. Our focus remains on translating those advantages into continued AFFO per share growth while maintaining the underwriting discipline and real estate quality that define FrontView.

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

QUESTION-AND-ANSWER SESSION

Operator

We will now begin the question-and-answer session. Please limit yourself to one question and one follow-up. [Operator Instructions] Your first question comes from the line of John Kilichowski with Wells Fargo. Your line is open. Please go ahead.

John Kilichowski

Wells Fargo Securities, LLC, Research Division

Hi, good morning. My first one is just on -- now, with this new access to equity here, I'm curious how you all are thinking about managing the investment guidance number. We put up $120 million, so a nice raise, but clearly you have the capacity to go well beyond that. So I'm interested in thinking about how you're going to manage 2026 and 2027 acquisition numbers, assuming that you continue to have this access to equity.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Sure. Thanks, John. So I think I said in our remarks that the acquisition volume isn't the goal. If we find good deals, we will pursue them. Having access to capital means there's more that we can look at.

If you just remove the dispositions and just look at acquisitions, we're tracking close to $180 million if you annualize the first half. So we can continue to do that if we reduce a little bit of the dispositions -- I think there's room to expand it.

And obviously the capital that we raised there was $19.50 for the first $50 million. We also have the preferred equity that's at $17. So we still have to go through that. I think we want to target cap rates that are very reasonable and we want to get through that capital. But certainly, with the new access to capital, we can pursue more deals, and I think that's part of the plan going forward in the back half of the year.

John Kilichowski

Wells Fargo Securities, LLC, Research Division

Thank you. And then, Pierre, one more for you. Just on your opening remarks, you gave some helpful color on some re-tenanting. Would you mind walking through as much as you can? Just to clarify, the rent expected from some of those re-tenancies and timing, and are there any other upcoming known move-outs that you've seen and expect may impact 2027 numbers and/or 2026 numbers, and be a step-up in 2027 that we should be modeling?

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

So thanks. So the three were the $181,000 that happened in the first quarter for three tenants. We do expect some of that to come online in the fourth quarter, but most of it will be in the first and second quarters of next year, going up to $225,000.

The other one, obviously the Walgreens turning into Amazon was a nice pickup, a lot sooner than we thought. And then we have the former Smoky Bones, that's vacant -- we're working through a new lease there, and that could be a nice pickup as well if we're able to execute that for 2027. But that's all outside of the current in-place NOI, but more NOI that we would expect to pick up going forward.

Operator

Your next question comes from the line of Anthony Paolone with J.P. Morgan. Your line is open. Please go ahead.

Anthony Paolone

JPMorgan Chase & Co., Research Division

Great, thank you. My first one is maybe a bit of a follow-on to one of John's questions. Now that your access to capital's improved quite a bit, what do you think the platform's acquisition capabilities are like? $150 million a year, which is kind of where you've been running over the last year -- sort of the right level? Or do you feel like you have the capacity, and you're seeing enough, that with greater capital access you can do more?

Stephen Preston

Chairman, CEO & President

Yeah, no, thank you -- good question. As mentioned too, as we see opportunities, we certainly can do more. The marketplace is open for us. And I'll remind you that back in Q4 of 2024, our first year as a public company, we actually acquired about $100 million of assets during that one quarter, and we have the same team in place today.

We do have, for the upcoming quarter, very good visibility on what that's looking like. So far we've closed on three assets for about $8.4 million at about a 7.49% cap rate. And then we have 17 assets that are currently under contract right now at about a 7.4% cap rate, or $55 million. And we're beginning to build Q4 with good deal flow. So yeah, we're excited about the quarters and the acquisitions coming forward.

Anthony Paolone

JPMorgan Chase & Co., Research Division

Okay, thanks. And then just one follow-up. You mentioned 50 basis points of bad debt that you continue to use in the guide, with 20 of it around Sleep Number. But is that 20 you're using, or is that just there? Because it sounds like you're doing pretty well in terms of addressing that situation.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Yeah, we're not really using it. It was not in the numbers until -- there's another 50 basis points of just completely unidentified bad debt additionally that we'd just keep. But we're not using it.

Operator

Your next question comes from the line of Rob Simon with Compass Point. Your line is open. Please go ahead.

Rob Simon

Compass Point Research & Trading, LLC

Hey, guys, how's it going? Thanks a lot for taking the question. This one, by the way -- really, really comprehensive prepared remarks. I have just a clarification question; it actually might have been implied by what you guys said.

But on the preferred, is it safe to assume that you guys will likely draw down the balance of that first, prior to settling the remaining forward equity commitment? And I say that because if you just think about your net investment guidance, and you kind of assume no common equity capital issued from here, the uses and sources imply about $50 million of need by the end of the year on our numbers. So is it just safe to say that you'll use the preferred first, since you lose access to it if you don't draw it?

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Yeah, thanks, Rob. Yeah, that's probably right. But you have to draw the rest of the preferred by the one-year anniversary, so I think November 10th or 11th. So I would anticipate we use that first. We save the forward equity and then use the forward equity effectively in 2027. The $50 million gives us more capacity through this year and some into next year. And mind you, we're at 4x levered if you take into account all that equity. So we have plenty of runway. But yeah, I will use the preferred first.

Rob Simon

Compass Point Research & Trading, LLC

Yep. Okay, great. Thanks a lot. Appreciate it, guys.

Operator

Your next question comes from the line of Jana Galan with Bank of America. Your line is open. Please go ahead.

Jana Galan

BofA Securities, Research Division

Thank you. Good morning, and congrats on the quarter. I just wanted to ask an accounting question on the preferred. Is there anything in the AFFO guide, similar to how on the forward you'd have to deal with the treasury stock method dilution right now? Is there anything in the guide for that preferred?

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Hey, Jana, thank you. Appreciate the question. So, as we've seen, the forward equity has been an issue for some of our peers. So this is governed under ASC 260 in terms of what the rules are for how that's handled.

And it's handled on an if-converted basis, so it doesn't have the treasury stock method the way that normal common equity would be accounted for. It's going to be treated by what it is -- if it's a preferred, we're going to run it through our income statement as a preferred dividend and not have the conversion into equity.

But there's no -- in the if-converted method, there's no treasury stock method impact regarding that. So that's not in the guide.

Right now, the guide is assuming that the preferred stays as preferred, and if any of it does convert into common, then that impact's actually not that meaningful, because we would have the 6.75% preferred dividend go away. So it's close to the same amount. Anyway.

Jana Galan

BofA Securities, Research Division

Thank you, Pierre. And then again, thank you for the excellent disclosures. I just wanted to make sure I understood that in the tenant list in the supplemental on pages 14 to 17, the asterisk for the new leases -- those are the ones. Those are the re-tenanted assets that you expect to be coming online a little bit in Q4, and then primarily through first quarter 2027.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

That's right, so those are not in our ABR, but those will be in our ABR once they are operating and open. As I mentioned, leases are signed, but they're not paying rent until they're operating. So there's a little time. But those are the ones that we highlighted with an asterisk.

Jana Galan

BofA Securities, Research Division

Great, thank you.

Operator

Your next question comes from the line of Ronald Kamdem with Morgan Stanley. Your line is open. Please go ahead.

Ronald Kamdem

Morgan Stanley, Research Division

Hey, great. And again, thanks so much for the disclosure. Just coming back to the acquisition pipeline a little bit, thinking about the cap rate in the quarter -- I think 7.3%. Obviously you guys are also thinking about IRRs and so forth. I guess part of the strategy was to be able to get these higher cap rate deals. And I'm just wondering, as you're thinking about the current pipeline over the next couple of years, how do you see these cap rates trending? Do you see compression? Do you see more competition? Any color there would be helpful. Thanks.

Stephen Preston

Chairman, CEO & President

Sure. Yeah, I know it's certainly tough to predict too far out, but what I can say for us right now is that the market is stable. We're expecting cap rates in that 7.3% to 7.4% range. For Q3, we could see maybe slightly lower, tick lower in Q4.

And really that's a result of increased institutional -- just general interest in overall retail and net lease. There really is, I think, as we all know, an abundance of capital that's really setting the tone for the marketplace. And so as we've seen retail and open-air and shopping center cap rates come in, we've had a little pressure on cap rates, but certainly not to the same extent. So again, I think for the foreseeable future, hopefully we'll be in this range.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

I would just add, Ronald, if you think about the pipeline that Steve talked about -- in the second quarter, our deal was a $2.6 million median purchase price. We don't really compete with a lot of people at that purchase price. It takes a lot -- if you're doing $10 billion of acquisitions, it takes a lot of $2.6 million deals for us. We can do that.

We have 17 deals under contract, three that we've already closed. So it's a very robust pipeline. But we're not running up against competitors, and we're still finding deals similar to what we've done.

Stephen Preston

Chairman, CEO & President

That's right. And we're not competing with the institutions on the big portfolios or the larger assets, which again is an advantage for us buying those smaller assets, sub-$10 million. We're just not running into the big guys, and that provides us a competitive advantage in the market.

Ronald Kamdem

Morgan Stanley, Research Division

Great, that's really helpful. And then my second one --

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

We lost Ron -- Ronnie, if you don't mind just jumping back in the queue, I think that yonder --

Operator

My apologies. Your next question comes from the line of Matthew Erdner with JonesTrading. Your line is open. Please go ahead.

Matthew Erdner

JonesTrading Institutional Services, LLC, Research Division

Hey, good morning, guys. Thanks for taking the question. I'd like to touch on dispositions going forward. Are there any credits that you guys are wanting to work out of? I noticed that the cap rate investment spread came in from call it 60 basis points in the first quarter to 22 this quarter. Are you going to look to sell some of your higher cap rate properties, or should we expect it to be a little bit on the lower range, sub-sevens, going forward?

Stephen Preston

Chairman, CEO & President

Yeah, good question. Just to recap, so far since our IPO, we've sold about 15% of the portfolio, about $116 million of assets, at a 6.9% cap rate. And we're going to continue with the strategy of portfolio optimization. We're certainly not selling off our best assets, and we're not planning to do that. We're going to continue strategically selling concepts that we think could come under pressure -- maybe less optimal concepts, or sort of tertiary real estate that we just want to reduce exposure to.

Year-to-date we're at about $32 million. We feel like most of the optimization is complete, and we expect dispositions to -- last year they were roughly in the $80 million range, and this year we're coming in closer to the $50 million range. And the sale of the Dollar Trees was really the reason for the elevated print in cap rates for the quarter.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

And I would just add, quarter-to-date, in Q3 we highlighted Hops & Drops -- that was done at $3.8 million, a 5% cap rate.

We also sold a Sleep Number in the quarter -- I think Steve mentioned that was $4.6 million at a 6.5% cap. And we did sell another Applebee's in Surprise, Arizona, for $3.5 million at a 6% cap. So these are some of the things we're still doing.

We find that there's a lot of interest for our properties, but none of these are distressed sales. People just want locations, and that's it. And we continue to find opportunities to add diversification and do a few dispositions.

Matthew Erdner

JonesTrading Institutional Services, LLC, Research Division

Got it, that's really helpful color there. And then just as a follow-up to that -- how do you guys go out and market your properties? Are you out there marketing them, or is it some of these reverse inquiries? Just how are they sourced?

Stephen Preston

Chairman, CEO & President

Yeah, that's sort of the beauty of the market. We do list them, we blast them, we get them out to as many people as possible. We create a lot of interest, a lot of values, brokers and relationships we have in this space. And we're selling to those buyers that can pay top dollar and premium pricing for it. A lot of times it may take a time or two to get under contract and close, but we end up with that 1031 buyer, or that small and sophisticated buyer who really likes and wants that asset -- that good quality location with good rent. So it's important to make sure that we get that out into the market, in the eyes of as many people as possible.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

And I would also add, even with our website having every address listed, we do actually get random inbounds -- even from other REITs. We didn't even know they had that property in front of our site, and they come in. So there are just a lot of cold reverses that want that one.

Matthew Erdner

JonesTrading Institutional Services, LLC, Research Division

Awesome, I appreciate it, guys.

Stephen Preston

Chairman, CEO & President

Thank you.

Operator

Your next question comes from the line of Ronald Kamdem with Morgan Stanley. Your line is open. Please go ahead.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

You're back.

Ronald Kamdem

Morgan Stanley, Research Division

Sorry, I got dropped. I had just a second, simple question. Just on the investment volumes in the quarter, the acquisitions -- I think it's been asked already, but is this sort of the right run rate for the team, for the business, for the opportunity set? Obviously assuming you have the cost of capital, does this feel like a good run rate to execute on going forward? Thanks.

Stephen Preston

Chairman, CEO & President

I think, as I said, that we're continuing to look at opportunity. We have the ability to increase the run rate when we see good acquisitions that we like. And we can continue to have sector-leading growth with our current guide. So going forward, or at least through the rest of this year, that seems like a good number for the moment.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Yeah, if you go back, Ron, to page 22, we don't need to do a lot to hit our numbers. And if we're growing on acquisitions, call it 3% to 5% on only $100 million around that area. But then we have escalators, we have reinvestment of free cash flow, we have this recapture of leases.

You add those components up -- the recapture, the free cash flow, the acquisitions, the escalators -- you're talking about a lot of growth that can happen off of this base. And we're able to do that and continue to find the best deals. So we continue to look for that. I think we can obviously expand it by just reducing dispositions or finding more interesting deals, but it does deliver a little bit of outsized growth relative to at least the comps that most investors look at us against.

Stephen Preston

Chairman, CEO & President

Because our size really is a structural advantage. And with that $120 million of net acquisitions growing off that low base -- even popping that up a little bit -- you continue to add top-quality real estate, great markets, top MSAs, replaceable rents, and we don't have to sacrifice the quality in any shape, way or form going forward for years and years to come to have outsized growth.

Ronald Kamdem

Morgan Stanley, Research Division

Great, thanks so much. Thanks for taking the follow-up.

Operator

Your next question comes from the line of John Massocca with B. Riley Securities. Your line is open. Please go ahead.

John Massocca

B. Riley Securities, Inc., Research Division

Good morning.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Good morning.

John Massocca

B. Riley Securities, Inc., Research Division

Apologies if I missed this earlier. What was the genesis of the tight cash and GAAP cap rate spread on the 2Q '26 investment activity?

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

It's just escalators. It's just escalators, in terms of -- so if you think about what drives a cash cap rate versus a GAAP cap rate, it's the escalators and the volume. So if the WALT was a little bit shorter and the escalators -- there's less of a difference in the current quarter. But I'd point out that a lot of these deals that we signed up are getting extended. So even though there was a shorter GAAP impact at this point, as those leases get extended, they don't run through normalized rental.

John Massocca

B. Riley Securities, Inc., Research Division

Okay, so is this the stage in the lease at which you bought a significant number of these assets? It wasn't like a flat lease or some kind of CPI-based escalators.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Correct -- where they are, and if they have, if they're on, if they're second or third option.

John Massocca

B. Riley Securities, Inc., Research Division

Right.

Stephen Preston

Chairman, CEO & President

Or there could be five-year leases that you buy them early on, or five years remaining. You already have the bumps -- you're going to wait five years for your next. There are some leases that bump annually, and a lot of them bump every five years. So a lot of that is just where you sit in the curve on the lease.

John Massocca

B. Riley Securities, Inc., Research Division

Also appreciate the -- I believe it was new -- additional disclosure on the ground lease portfolio. Maybe with that in mind, is that still an opportunity for investment volumes? Are you seeing cap rates in that space kind of akin to what it is for your other acquisitions or investments? Or is that kind of maybe at this point more of a legacy portfolio, around how FrontView was kind of originally created?

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

No, I think it's more that we create ground leases a lot. So we do -- it's not that we're going out and sourcing ground leases. A lot of times we have a tenant and we create a ground lease. Provide some--

Stephen Preston

Chairman, CEO & President

Yeah, it's really ultimately through the re-tenanting, and as I mentioned on the call, we've had assets that we've converted. But one in particular, our single Twin Peaks -- we converted that to two ground leases, Panda and Jaggers.

We've mentioned this before -- we had a Miller's that we proactively went across in Illinois. That was a ground lease to a Raising Cane's.

And that just allows the re-tenanting and the tenant relationships to allow us to create the value with having that ground lease. And obviously, we all know that the ground lease is terrific because you get the building at the end of the term, if that comes back to you.

John Massocca

B. Riley Securities, Inc., Research Division

And then more kind of with an eye towards future kind of repositioning of dark boxes or kind of troubled tenants -- who is the buyer for that kind of Hops & Drops? And I guess, why are they buying that at what would be kind of an attractive cap rate?

Stephen Preston

Chairman, CEO & President

That's the beauty of this -- real estate is very versatile. It applies to so many groups, from investors to developers to end users. And in this case, it was an end user, and we've got a great large tract with a versatile building. And that just allows us to achieve these exceptional returns and recapture rates when we're re-tenanting or we take an asset back. It's such a different type of real estate relative to real estate that exists out there. And that's how we generate these great returns.

John Massocca

B. Riley Securities, Inc., Research Division

That's it for me. Thanks very much.

Pierre Revol

CFO, Principal Financial Officer, Treasurer & Secretary

Thanks.

Operator

Your next question comes from the line of Rob Stevenson with Huntington. Your line is open. Please go ahead.

Rob Stevenson

Huntington

Good morning, guys. Pretty much all my questions have been answered. The one I did have was -- you talked earlier about the pipeline of acquisitions that you're working on at the moment. Can you talk a little bit about where that pipeline looks in terms of investment-grade tenants? Is it roughly the third that the current portfolio is? Should we be expecting to see investment grade fall from that level as you do incremental acquisitions over the next few quarters? How should we be thinking about the current pipeline in IG?

Stephen Preston

Chairman, CEO & President

Yeah, we have hovered really since inception in that sort of 30% IG range. I think we're a little bit higher than that today, almost pushing 34%. And as you look forward, and you look through to the pipeline, we do have some IG in there. The upcoming pipeline looks a little lighter, but still in line. And we expect going forward that that ~30% IG is going to be sticking with us for the foreseeable future.

Rob Stevenson

Huntington

Okay, thanks, guys. Appreciate the time.

Stephen Preston

Chairman, CEO & President

You bet.

Operator

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

Stephen Preston

Chairman, CEO & President

Great. Thank you, everyone, for your time today. We look forward to seeing you at our next conference, and we look forward to delivering strong growth going forward. In good health to all. Thank you.

Operator

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