Realty Income Corporation (O) CEO Sumit Roy on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-04-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.32 misses by $-0.02 | Revenue of $356.79M (9.86% Y/Y) misses by $-10.16M

Earning Call Audio

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Realty Income Corporation (NYSE:O) Q3 2019 Earnings Conference Call November 5, 2019 2:30 PM ET

Company Participants

Andrew Crum - Senior Associate Realty Income

Sumit Roy - President & Chief Executive Officer

Paul Meurer - Chief Financial Officer & Treasurer

Conference Call Participants

Christy McElroy - Citi

Shivani Sood - Deutsche Bank

Rob Stevenson - Janney Montgomery Scott

Linda Tsai - Jefferies

Todd Stender - Wells Fargo

John Massocca - Ladenburg Thalmann

Collin Mings - Raymond James

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Realty Income Third Quarter 2019 Operating Results Conference Call. At this time all participants are in a listen-only mode. After speaker's presentation, there will be question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Andrew Crum, Senior Associate Realty Income. You may begin.

Andrew Crum

Thank you all for joining us today for Realty Income's third quarter 2019 operating results conference call. Discussing our results will be Sumit Roy, President and Chief Executive Officer; and Paul Meurer, Chief Financial Officer and Treasurer.

During this conference call, we will make certain statements that may be considered forward-looking statements under federal securities law. The company's actual future results may differ significantly from any of the matters discussed in any forward-looking statements. We will disclose in greater detail the factors that may cause such differences in the company's Form 10-Q. We will be observing a two question limit during the Q&A portion of the call in order to give everyone the opportunity to participate. If you would like to ask additional questions, you may reenter the queue.

I will now turn the call over to our CEO Sumit Roy.

Sumit Roy

Thanks, Andrew. Welcome everyone. We are pleased to complete another solid quarter. We remain on track for a very strong 2019 and are well positioned as we look towards 2020 with a robust investment pipeline and strong liquidity. During the quarter, we invested approximately $412 million in high-quality real estate at investment spreads well above our historical average which brings us to approximately $2 billion invested as we enter the fourth quarter.

Our investment activity during the quarter included our second international acquisition in the U.K. Additionally, our investments during the quarter were 51% industrial by rent with approximately $234 million invested through three separate transactions with three new investment grade-rated tenants including our first-ever distribution facility leased to a large e-commerce retailer.

Including the previously announced portfolio acquisition from CIM Real Estate Finance Trust we have announced over $3 billion in acquisitions year-to-date. As a reminder, the CIM transaction is expected to close in various tranches with the acquisition of most of the properties in the portfolio expected to close in 2019. To fund our activity we raised $572 million in equity capital during the quarter ending the quarter with $236 million of cash on hand and positioning our balance sheet favorably for the remainder of the year and as we look towards 2020.

Our portfolio continues to be diversified by tenant, industry, geography and to a certain extent property type which contributes to the stability of our cash flow. At quarter end our properties were leased to 274 commercial tenants in 49 different industries located in 49 states Puerto Rico and the U.K. 82.7% of our rental revenue is from our traditional retail properties. The largest component outside of retail is industrial properties at nearly 12% of rental revenue.

Walgreens remains our largest tenant at 5.7% of rental revenue. Convenience store remains our largest industry at 11.6% of rental revenue. Within our overall retail portfolio approximately 95% of our rent comes from tenants with a service non-discretionary and/or low price point component to their business. We believe these characteristics allow our tenants to compete more effectively with e-commerce and operate in a variety of economic environments.

These factors have been particularly relevant in today's retail climate where the vast majority of recent U.S. retailer bankruptcies have been in industries that do not possess these characteristics. We continue to feel good about the credit quality in the portfolio with approximately half of our annualized rental revenue generated from investment grade-rated tenants.

The weighted average rent coverage ratio for our retail portfolio is 2.8 times on a four-wall basis while the median is 2.6 times. Our watch list at 1.7% of rent is relatively consistent with our levels of the last few years. Occupancy based on the number of properties was 98.3% flat versus the prior quarter. We continue to expect occupancy to be approximately 98% in 2019.

During the quarter, we re-leased 29 properties recapturing 101.5% of the expiring rent. Year-to-date we have re-leased 186 properties recapturing 102.1% of the expiring rent. Since our listing in 1994, we have re-leased or sold over 3,100 properties with leases expiring recapturing over 100% of rent on those properties that were re-leased. Our same-store rental revenue increased 1.2% during the quarter and 1.4% year-to-date. Our projected run rate for 2019 continues to be approximately 1%. Approximately 86% of our leases have contractual rent increases.

Let me hand it over to Paul to provide additional detail on our financial results.

Paul Meurer

Thanks, Sumit. I will provide highlights for a few items in our financial results for the quarter, starting with the income statement. Our G&A expense as a percentage of revenue excluding reimbursements was 4.6% for the quarter and 4.8% year-to-date both of which were below the comparable year ago periods. We continue to have the lowest G&A ratio in the net lease REIT sector, and we expect our G&A margin to remain below 5% in 2019.

Our non-reimbursable property expenses as a percentage of revenue, excluding reimbursements was 1.3% for the quarter and year-to-date periods, which is better than our full year expectation in the 1.5% to 1.75% range. Adjusted funds from operations or AFFO or the actual cash we have available for distribution as dividends was $0.83 per share for the quarter, which represents a 2.5% increase.

Briefly turning to the balance sheet. We've continued to maintain our conservative capital structure and we remain one of only a few REITs with at least two A ratings. As Sumit mentioned, during the third quarter, we raised approximately $572 million of common equity almost entirely through our ATM program. Use of proceeds were repaid borrowings on our line of credit and to pre-fund an active acquisition pipeline, including of course the large CIM portfolio acquisition.

We finished the quarter with nothing outstanding on our $3 billion line of credit and approximately $236 million of cash on hand. We ended the quarter with a debt-to-EBITDA ratio of 5.0 times and a fixed charge coverage ratio of 4.7 times. Our overall debt maturity schedule remains in excellent shape, as the weighted average maturity of our bonds is 8.5 years and we have only $1.2 million of debt coming due in the remainder of 2019. And our maturity schedule is well laddered thereafter with just over $300 million of debt maturing in both 2020 and 2021. In summary, our balance sheet is in great shape and we continue to have low leverage, strong coverage metrics and excellent liquidity.

Now let me turn the call back over to Sumit.

Sumit Roy

Thank you, Paul. During the third quarter of 2019, we invested approximately $412 million in 51 properties located in 23 states in the United Kingdom at a weighted average initial cash cap rate of 5.7% and with a weighted average lease term of 15.4 years.

On a total revenue basis approximately 56% of total acquisitions are from investment grade-rated tenants. 49% of the revenues are generated from retail and 51% are generated from industrial. The weighted average initial cash cap rate on industrial acquisitions during the quarter was in the low 5% range, while the weighted average cap rate on retail acquisitions was in the mid 6% range.

These assets are leased to 20 different tenants in 13 industries. Some of the most significant industries represented are general merchandise, food processing and childcare. We closed 15 discrete transactions in the third quarter and approximately 23% of the third quarter investment volume were sale-leaseback transactions.

Of the $412 million invested during the quarter, $384 million was invested domestically in 50 properties at a weighted average initial cash cap rate of 5.8% and with a weighted average lease term of 15.1 years. During the quarter, $27.6 million was invested internationally in one property located in the U.K. at a weighted average initial cash cap rate of 4.8% and with a weighted average lease term of 20.6 years.

Year-to-date 2019, we invested $2 billion in 241 properties, located in 38 states and the United Kingdom at a weighted average initial cash cap rate of 6.2% and with a weighted average lease term of 15.5 years. On a revenue basis, 25% of total acquisitions are from investment grade-rated tenants. 90% of the revenues are generated from retail and 10% are from industrial. These assets are leased to 45 different tenants in 19 industries.

Of the 60 independent transactions closed year-to-date, six transactions were above $50 million. Approximately 65% of our year-to-date investment for volume was sale-leaseback transactions. Of the $2 billion invested year-to-date, nearly $1.5 billion was invested domestically in 228 properties at a weighted average initial cash cap rate of 6.5% and with a weighted average lease term of 15.7 years.

Year-to-date approximately $577 million has been invested internationally in 13 properties located in the U.K. at a weighted average initial cash cap rate of 5.2% and with a weighted average lease term of 15 years. Transaction flow remains healthy as we sourced approximately $15 billion in the third quarter. Of the $15 billion sourced during the quarter, $9 billion were domestic opportunities and $6 billion were international opportunities.

Investment-grade opportunities represented 33% of the volume sourced for the third quarter. Of the opportunities sourced during the third quarter, 31% were portfolios and 69% or approximately $10.4 billion were one-off assets. Year-to-date 2019, we have sourced $45.4 billion in potential transaction opportunities, which marks the highest annual volume sourced in our company's history. Of these opportunities, $35.6 billion were domestic opportunities and $9.9 billion were international opportunities. This continues to confirm our belief that our investment -- international investment pipeline is truly incremental to our domestic business.

Of the $45.4 billion sourced year-to-date, 38% were portfolios and 62% or approximately $28.2 billion were one-off assets. Of the $412 million in total acquisitions closed in the third quarter, 84% were one-off transactions. As to pricing cap rates in the U.S. were essentially unchanged in the third quarter.

Investment-grade properties are trading from around 5% to high 6% cap rate range and non-investment-grade properties are trading from high 5% to low 8% cap rate range. Regarding cap rates in the United Kingdom for the types of assets we are targeting, investment-grade or implied investment-grade properties are trading from the low 4% to high 5% cap rate range. Non-investment-grade properties are trading from mid-4% to low 7% cap rate range.

Our investment spreads relative to our weighted average cost of capital were healthy during the quarter averaging approximately 198 basis points for domestic investments and 188 basis points for international investments both of which were above our historical average spreads. We define investment spreads as initial cash yield less our nominal first year weighted average cost of capital.

Our investment pipeline remains robust and we believe we are the only publicly traded net lease company that has the size, scale and cost of capital to pursue large corporate sale-leaseback transactions on a negotiated basis. We were pleased to announce a diversified portfolio acquisition from CIM Real Estate Finance Trust for approximately $1.25 billion during the quarter, which further demonstrates the advantages of size and scale in the net lease industry. We continue to expect 2019 acquisition guideline -- guidance of $3.25 billion to $3.5 billion.

Our disposition program remains active. During the quarter we sold 27 properties for net proceeds of $21.5 million at a net cash cap rate of 8.4% and realized an unlevered IRR of 7.6%. This brings us to 63 properties sold year-to-date for $71.5 million at a net cash cap rate of 8.6% and realized an unlevered IRR of 7.1%. We continue to improve the quality of our portfolio through the sale of nonstrategic assets recycling the sales proceeds into properties that better fit our investment parameters. We continue to expect between $75 million and $100 million of dispositions in 2019.

In September, we increased the dividend for the 103rd time in our company's history. Our current annualized dividend represents an approximately 3% increase over the year ago period and equates to a payout ratio of 82.2% based on the midpoint of 2019 AFFO guidance. We have increased our dividend every year since the company's listing in 1994 growing the dividend at a compound average annual rate of 4.5%.

We are proud to be one of only five REITs in the S&P High Yield Dividend Aristocrats Index. To wrap it up, we completed another strong quarter and are very well-positioned as we look towards 2020. Our portfolio continues to perform well, our investment pipeline remains healthy and we are conservatively capitalized with ample liquidity to pursue additional growth initiatives.

At this time, I'd like to open it up for questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from Christy McElroy with Citi. Your line is open.

Christy McElroy

Hi. Thanks, guys. Just following up on your comments on the industrial acquisitions in Q3. How much of the volume of the industrial deals was the large e-commerce retailer that you referred to? And what was the difference in cap rate on that deal versus the other industrial deals?

Sumit Roy

That's represented approximately 40% of the overall investments in industrial. And the cap rates in all three assets were fairly close to each other. They were right around slightly north of 5%.

Christy McElroy

Is there more to do with this or other large e-commerce retailers? And how do you think about that, sort of, investment relative to your -- historically what you've done in industrial and kind of relative to what you do in retail?

Sumit Roy

Look, we've always said that there are two asset types that we are very focused on retail obviously being the bread and butter and the preponderance of what we do and that will always be the case. But industrial continues to be an asset type that we are very attracted to. There are points in time where we can make investments in very high-quality tenants with growth rates embedded in these leases that are well above what we have in our overall portfolio with very long-term leases. And that is a very attractive proposition for us, especially, when we can finance it and capture spreads right around our long-term averages, which is precisely what we were able to accomplish this particular quarter. So we were very happy with the ability to transact, especially on these three assets and -- with some of the provisions that I've shared with you it made it that much more attractive.

Christy McElroy

Okay. And then just lastly on the funding for the CIM acquisition and other, sort of, incremental deal volume in Q4. We could see where you're at Q3. And from a funding perspective you closed on an additional billion or you closed on that first billion tranche from CIM after Q3. And where are you, sort of, in your funding you've got a cash balance and then you've got your line of credit. Is your intention to do another bond deal near term? And any, sort of, incremental ATM issuance that you plan for Q4?

Sumit Roy

The beauty of our balance sheet today Christy is that we can pretty much access a variety of capital some of which we obviously pre-funded through the ATM in the third quarter. But having a leverage debt-to-EBITDA of 5.0 at the end of the third quarter gives us the ability to certainly access the unsecured market or the equity market given where we trade. So I don't want to share with you precisely what our financing plans are, but -- because we are analyzing it, looking at it on a day-in day-out basis, but it will be a combination of that along with some of the dispositions and the free cash flow from operations that we are going to be generating.

Christy McElroy

Okay. Thanks so much for the time.

Sumit Roy

Sure.

Operator

Your next question comes from Shivani Sood with Deutsche Bank. Your line is open.

Shivani Sood

Hey, good afternoon. Just on the disposition side, it looks like you guys have cycled the fair amounts of vacant boxes. So just curious if that was driven by something specific or just trying to take advantage of the very competitive private markets right now.

Sumit Roy

Thanks for the question, Shivani. I'm glad you've brought up this thing about vacant assets and why we -- why there was such a preponderance of vacant asset sales. It is not by design that we decided on this particular quarter to have more vacant asset sales. The advantage of being a net lease company is that we are able to look at every asset, freestanding asset and make a determination as to what is the best economic outcome.

Holding on to a vacant asset and incurring some of the carrying costs is justifiable, if our belief is that we can get a tenant that is willing to pay rents that justify the carrying costs and the overall return profile is superior to what we are able to get when we sell a vacant asset in the open market.

And if that equation sort of does not yield that holding on to an asset is warranted, we go to the market and we sell it at a price and that's precisely what we did this particular quarter. But I wouldn't read one way or the other in terms of whether we are going to do more vacant asset sales going forward versus not.

This is a decision that our asset management team is involved in on a day-in day-out basis, where they are constantly determining what is the right strategy for a given asset. And it just so happens that in this particular quarter we had quite a few vacant asset sales.

Shivani Sood

Thanks for the color. It's really helpful. And then just wondering, if you can give us an update on your thoughts on just development as a component of the overall investment pipeline just given the higher relative yields, excuse me. Should we expect that -- to see that continue to increase if we stay in a lower for longer interest rate environment?

Sumit Roy

Shivani, that's a very good question. Once again, our development program has been anywhere between call it $35 million $36 million, which it is today, to as high as $150 million. And that continues to be an area that we are focused on. To the point that you've made regarding higher yield that is part of what the asset management team does.

When we get an asset back, we are constantly thinking about -- one of the options that we explore is to see whether we can reposition those particular assets. And in some cases the answer is yes and that is the vast majority of the developments that we are currently involved in.

And yes, it does give us a much higher yield and allows us to continue to expand our tenant relationships. And in fact, that's how we were able to get Starbucks as one of our tenants. So that is a program that we like. It's a small program today but it's one that we will continue to build on going forward.

Shivani Sood

Thanks for the time.

Sumit Roy

Thank you.

Operator

Your next question comes from Rob Stevenson with Janney. Your line is open.

Rob Stevenson

Good afternoon, guys. So are you guys looking at any non-U.K., European acquisitions these days? And how is your staffing over there going? And sort of what your sort of funnel look like outside of the U.S. these days?

Sumit Roy

So thanks for the question, Rob. Most of what we are looking at currently is all in the U.K. Yes we have sourced in the -- sourcing number that we shared with you the $6 billion. Some of it was in mainland Europe, but it was primarily driven by sourcing in the U.K.

We are continuing to focus on stabilizing and creating a flow business that we can lean on in the U.K. That is our priority one. But that's not to say that for the right opportunity, we wouldn't consider moving to Western Europe. But that is not the focus currently.

With regards to the team and setting up an office et cetera, we are very close to making that happen. I think I've mentioned this in one of my previous calls we have one of our veteran acquisition officers moving to the U.K. potentially later this month but certainly by December.

And we are also in the midst of supplementing that team with somebody from the local markets that we are very excited about. And that will be the seeding of that particular office going forward. And I think I've mentioned this as well that some of the support functions have been outsourced. And over time when we have built a portfolio that can justify bringing in some of these outsourced support functions we will then grow the team to accommodate that as well.

Rob Stevenson

Okay. And then Paul what's keeping you from an A rating at Fitch? I mean, you've been A at Moody's for a while and even S&P upgraded you more than a year ago now. What are they telling you the sort of reason why you're still sort of -- if the word can be termed languishing BBB+?

Paul Meurer

I'm smiling a bit Rob. We agree with your analysis. We think we're well deserving of an upgrade there and certainly have shared with them significant data to show that on a comparable basis versus other A-rated REITs out there, et cetera that our metrics not only support that, but also demonstrates stability through different economic cycles, et cetera.

So we also are a bit perplexed as to where we stand. They do their homework and give a review, but just haven't been ready to kind of move it up to the next level. And we think that it would be appropriate for them to continue that review and hopefully reach that more positive conclusion soon.

Rob Stevenson

Would the upgrade there have any practical impact on you guys? Or is it more of at this point just a marketing positive?

Paul Meurer

Our understanding is at this moment in the market, no. It really doesn't inhibit us in any way at this point nor would it make a market difference to have that additional rating with them.

Rob Stevenson

Okay. Thanks guys.

Paul Meurer

Thank you.

Operator

Your next question comes from Linda Tsai with Jefferies. Your line is open.

Linda Tsai

Hi. Thanks for taking my question. When you look at the investment spreads for domestic and international transactions would you expect these ranges to largely hold in the upcoming quarters? I mean, I realize it has likely to do with the mix of what you're buying, but what are some inputs to consider in terms of potential movements?

Sumit Roy

Well, there are two things that you obviously need to focus on in order to determine what the spread is. One is the cap rates. And as you've pointed out and I think I've said in my prepared remarks that the cap rates for the assets that we are interested in the U.K. tend to be in the high 4s to the mid 5% range.

And then the question becomes, okay, how do we go about financing that particular acquisition. And that's where our cost of capital advantages really come to the 4%. Our weighted average nominal cost of capital in the U.K. today is right around the 2.8%. And so even a 4.7% is a very healthy 190 basis points of spread. And clearly on the U.S. side, our cost of capital is higher. It's closer to 3.7% today 3.8%. And -- but we are able to then buy assets at a higher blended cap rate. And so the spreads are being quite advantageous there as well.

So once you sort of take into account where the cap rates are in the cost of capital, I think the spreads will -- it just so happens that this particular quarter, it's being essentially the same. I think it was 10% less spread in the U.K. or -- versus what we had in the U.S. But that I wouldn't say is the norm going forward. There are quarters -- it's quite possible that in the U.K. we may be able to do even better. But if you have to think about a trend line, I wouldn't forecast one geography necessarily having a superior spread to the other.

Linda Tsai

Thanks for that. And then given you've deleveraged to about five times in 3Q, would this be a reasonable expectation to maintain going forward?

Sumit Roy

I think what we have publicly said and what we have shared with the rating agencies is that we want the flexibility to run our business at a 5.5 times plus minus. And that's the right ZIP Code for us. The fact that it is five today is largely being driven by the over funding that we spoke about given the pipeline that we have visibility into. So I wouldn't necessarily say that five is the new norm. I would just say that it will fluctuate, but 5.5 is where you should expect us to operate in the balance sheet.

Linda Tsai

Thank you.

Sumit Roy

Thank you.

Operator

Your next question comes from Todd Stender with Wells Fargo.

Todd Stender

Hi thanks. Just looking at Walgreens the stock is reacting well today just on speculation that it's in talks to go private. And not that I'm asking you to comment on this but maybe just a couple questions around your Walgreens exposure just as a reminder these individual leases any master leases. That's part one. And then part two when you look at a public tenant maybe in your past going private, how do you kind of look at that risk and maybe just some context around that? Thanks.

Sumit Roy

Sure Todd. It's a very good question. Yes, we have seen the rumors as well real-time or breaking news if that is truly accurate. And look in the past when we have seen smaller operators go private, cash flowing businesses that go private, and especially, if it's going private using the private equity route, that has tended to change the leverage profile of the business. The good news here is you're talking about a company that is approximately $70 billion in enterprise value with an equity market cap of about $55 billion, $60 billion if I remember correctly.

So, the reasons for it to go private if that is true would need to be a lot more strategic. And -- so we feel pretty good. Look we've said that the entire delivery of healthcare is an area that is going through massive changes. But what we are very excited about is the fact that we own the brick-and-mortar. And any solution -- and that's our thesis and our belief is that any solution which is going to lead to more efficiency in the delivery of health care is going to require a brick-and-mortar network.

And so -- and I don't want to start speculating as to who the potential buyers if there's any truth to that, but I think whatever happens, there's going to be some story around that as -- like why is it that as a private company or as a combined company with somebody else, et cetera the value proposition is even better? If that's not the case, I don't think that there would be rumors about it going private. So, we would still be very comfortable.

With regards to whether we have master leases, we don't. But I just want to remind you that most of the Walgreens that we have in our portfolio came through sale-leaseback directly with Walgreens. And so these are institutional quality leases with growth et cetera and I think our weighted average lease term on the Walgreens is right around 10 years. So, we are very comfortable regardless of which direction this news ends up going.

Todd Stender

Okay. Thanks for that.

Sumit Roy

Sure.

Operator

Your next question comes from John Massocca with Ladenburg Thalmann. Your line is open.

John Massocca

Good afternoon.

Sumit Roy

Hi John.

Sumit Roy

So, with regards to the CMFT transaction, is any portion of that portfolio potentially not a good long-term fit within your portfolio? And if so, how might that impact 2020 disposition activity? Understanding you're probably not going to give 2020 guidance, but just any commentary there would be helpful.

Sumit Roy

Sure. And so I think when we first announced this particular transaction, we spoke about -- this is a $1.25 billion transaction. We expect the vast majority of it to close later this year. And we also said that about $200 million of this particular portfolio are assets that we wouldn't have pursued in the one-off market. And so -- but that does not necessarily mean that all of the $200 million that we have acquired are going to be disposed of day one.

In some cases, the economic argument would be that we hold on to the assets, collect the rents for the duration of the remaining lease term, and then given the location, given the below-market rents, whatever the dynamics are that it might actually be better for us to hold on to it and try to re-tenant it. Or it could also imply holding on to the assets until the end of their initial lease term and then selling it.

So, -- and then there's a small bucket of that $200 million that we are absolutely going to come out with in 2020. And when we come out with our guidance in February, we will share that information with you.

John Massocca

Okay. That makes sense. And then, looking kind of at the existing debt stack, you've seen some of your peers kind of prepay some higher coupon debt. I mean does that make sense potentially for you guys going forward?

Paul Meurer

It very well could. We did a fair amount of that refinancing activity over the past 24 months, if you will. And some of that we already kind of took care of. But it is fair to say that they're still a little bit there that we're taking a look at. And as we get closer, obviously, it becomes cheaper to do so. And it is something that we're taking a look at.

John Massocca

Okay. That’s it for me. Thank you very much.

Operator

[Operator Instructions] Your next question comes from Collin Mings with Raymond James. Your line is open.

Collin Mings

Hey, good afternoon.

Paul Meurer

Hi. Collin. How are you?

Collin Mings

Doing well, doing well. I just want to pick up a bit on John's question, just as it relates to the CIM deal and maybe more broadly your ability to execute on larger portfolio deals. Can you maybe just update us on if you believe there's a portfolio discount available in the market right now, and just maybe talk a little bit more about that opportunity?

Sumit Roy

Yeah. Look, I think variants of this question have been asked in previous calls. And at least over the last couple of years, I would say, that we believe that there has been a decided discount when we pursue portfolio transactions. And we've seen this in the sale leaseback market. We've seen this even in the U.K. When we are able to come in and write big checks $0.5 billion, $1 billion, et cetera, we do get some form of discounts. And so, I don't want to speak specifically to the CIM portfolio. But largely speaking, we have seen portfolio discounts. And those portfolio discounts could range anywhere between 25 to 75 to even 100 basis points, if you compare it to the one-off 1,031 market. And that is one of the advantages of having size and scale.

Collin Mings

And I guess to that point to your comments that you've highlighted and talked about this dynamic before, do you feel like that gap is widening or narrowing? Or can you speak to that at all? Or does it just really vary deal to deal as you look across the marketplace?

Sumit Roy

I think it's the latter, Collin. I can't tell you that on every portfolio you have x basis points of discounts, and that remains constant regardless of the tenant regardless of the market environment. What I can tell you is we do see a discount, but the amount of the discount will certainly vary. And we've seen that on multiple sale leasebacks that we've done with the same tenant, in fact, where given market conditions, they're willing to accommodate us given our movements and cost of capital. And then, when things improve we accommodate them. So, it's not one fixed number, but it is a discount.

Collin Mings

Okay. And then, just one last one for me. Just more directly, can you maybe touch on the drop quarter-over-quarter in the Circle K exposure?

Sumit Roy

That probably has to do with rollovers. I think we've had a couple of Circle K rollovers, one of which we got back. And there was another one where we actually entered into a very long-term lease, and we invested the capital to expand the space, because they want to expand their convenience store. So, it really is a function of just what is precisely happening. I don't really know what the movement was, but I do remember seeing a couple of these and the investment committee. And so, in certain cases we've invested more and in others we've got back vacant assets.

Collin Mings

Got it. Thank you very much.

Sumit Roy

Sure, Collin.

Operator

This concludes the question-and-answer portion of Realty Income's conference call. I will now turn the call over to Sumit Roy for closing remarks.

Sumit Roy

So thank you all for joining us today, and we're looking forward to seeing everyone at NAREIT. Thank you.

Operator

This concludes today's conference call. You may now disconnect.