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Federal Realty Investment Trust

Second Quarter 2022 Earnings Call

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PRESENTATION

Operator

Greetings. Welcome to the Federal Realty Investment Trust Second Quarter 2022 Earnings Call.

Please note that this conference is being recorded.

I will now turn the conference over to your host Leah Brady. You may begin.

Leah Brady

Good morning. Thank you for joining us today for Federal Realty's Second Quarter 2022 Earnings Conference Call.

Joining me on the call are Don Wood, Dan G., Jeffrey Berkes, Wendy Seher and Melissa Solis. They will be available to take your questions at the conclusion of our prepared remarks.

A reminder that certain matters discussed on this call may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include any annualized or projected information as well as statements referring to expected or anticipated events or results, including guidance. Although Federal Realty believes that expectations reflected in such forward-looking statements are based on reasonable assumptions, Federal Realty's future operations and its actual performance may differ materially from the information in our forward-looking statements, and we can give no assurance that these expectations can be attained.

The earnings release and supplemental reporting package that we issued this morning, our annual report filed on Form 10-K and our other financial disclosure documents provide a more in-depth discussion of risk factors that may affect our financial condition and results of operations.

Given the number of participants on the call, we kindly ask you to limit yourself to one question and an appropriate follow-up during the Q&A portion of the call. If you have additional questions, please requeue.

With that, I will turn our call over to Don Wood to begin our discussion of our second quarter results. Don?

Don Wood

Thanks, Leah and good morning, everyone.

An all-time record quarter for us in a number of important respects, none more important than bottom line earnings. At $1.65 per share of FFO, the 2022 second quarter handily beat our previous record of $1.60 posted three years ago in the second quarter of 2019. Even when adjusting for COVID one-timers, second quarter FFO per share matched that previous high watermark.

Lots of things going very well here at Federal. We did more deals both on a comparable basis and overall in those 90 days than we've ever done in our company's 60-year history. We continue to lease up our development pipeline and increase our occupancy percentage. We ended the quarter at 94.1% leased. We've added multiple new strategic properties to our portfolio that have clear paths to future growth. Our balance sheet remains strong with $177 million of cash on hand and zero drawn on our $1 billion line of credit at quarter end.

As we've been saying all along, the execution of our multifaceted business plan, which in these uncertain times does not rely on a big bet on any one particular income stream, continues to set us up extremely well for the future. The quality of our assets, combined with our sector-leading demographics and high barrier markets tend to outperform through economic cycles as has been the case every time in the last 25 years. So check this out because we did just get new demographic data in as of August 1.

Within three miles of our centers, there are 175,000 people on average, that's 68,000 households, 68,000 households, right, $150,000 of average household income. That equates to $10.2 billion of spending power within three miles of our shopping centers. More than half of those people have a four-year college degree or better. Who else can say that? It's about that spending power that's critical in uncertain times in my view.

Cyclicality of the economy is far different than the unprecedented restricted market shutdown due to a global pandemic. They're different. Perhaps the best way we can demonstrate our confidence in the portfolio is by standing behind and in fact raising our dividend to shareholders just as we have each and every year since 1967. 1967. That's 55 years a totally unprecedented track record among REITs and among most companies in any industry, one that speaks to the commitment to our owners and to the quality of the income stream. At an annualized rate of $4.32 a share, that's a 4.1% dividend yield at the current share price pretty darn strong for a company of this quality.

Okay. Let's start with leasing during the quarter. Over the last decade average second quarter production for comparable properties at Federal meant doing a little less than 100 deals for just over 400,000 square feet. In the 2022 second quarter, we did 132 deals for 562,000 square feet nearly 40% more than the average, and we've never come close to doing 132 deals in any quarter.

But the fact that demand has remained this heated with a deal pipeline that looks to stay strong, speaks volumes about our properties and the markets that they're in and naturally about future earnings growth. One of the reasons Dan is again raising annual earnings guidance $0.23 at the midpoint.

So one of the more underappreciated phenomena of the strong demand is that, we're able to be more proactive in terms of leasing space that's not yet vacant. While that leasing doesn't immediately show in the occupancy stats, it will mean, less downtime in the future and shopping centers that are merchandised with more relevant tenants sooner than they would otherwise be.

The portfolio was 94.1% leased and 92% occupied at quarter's end with continued improvements expected by year-end particularly on the small shop side. At 89.3% leased, small shop space is a remarkable 580 basis points higher than the COVID low-point.

Our stepped-up post-COVID reinvestment effort is another critical component to future growth. It's no news to anyone on this call that the traditional generic and homogenous shopping center business is cyclical in nature and not a high-growth business. You have to stand out to outperform over cycles. You do that by picking the right markets and positioning and merchandising in those markets, but you also have to reinvest to continually find the edge. Reinvesting is more important now than ever before.

It's why we have nearly two dozen active and meaningful development projects in planning or underway totaling over $100 million this year and next, which will likely yield double-digit un-levered yields over the ensuing years through higher customer traffic and rents, in line with our historically observed results following property improvement projects. That reinvestment is one of the primary reasons we can continue to push rents.

Leasing has been exceptionally strong at our newly development assets also, from the completion of CocoWalk, to the office projects at Pike & Rose, to the residential over retail at Darien and to the residential and office Phase 3 at Assembly Row each of these additions have exceeded our post-COVID expectations in terms of lease-up pace. In the case of the residential product at Assembly that's exceeded in both pace and rental rate.

Now the one exception is Santana West and there's no question that the cooling of the technology sector in the last 90 days both in terms of their stock prices and getting employees back into the office has been a wet blanket on what had been strong leasing momentum. It has therefore been difficult to bring fully negotiated deals over the transom.

Disappointing yes, but when put in proper perspective having a brand-new state-of-the-art office building adjacent to one of the most successful amenity-rich destinations in the tech capital of the country, isn't so bad. Particularly, since it only represents about 2% of Federal's asset value and will be an important driver of future growth when it hits. It's a matter of time. Stay tuned.

We've also remained active on the acquisition front. Following the end of the quarter, we completed the all-cash acquisitions of two very special properties in two of the markets where we're focused on expansion. The Shops at Pembroke Gardens a 392,000 square foot dominant retail center on 41 acres at the corner of I-75 and Pines Boulevard in Pembroke Pines, Florida, as an important asset to our portfolio eight miles south and west of our equally dominant Tower Shop Center in Davy and 20 miles north of our newly completed and highly acclaimed CocoWalk mixed-use destination in Coconut Grove.

Our ability to remerchandise and push rents potentially add density down the road and fortify Federal must-talk-to-player in South Florida were all considered in this important acquisition. The $180 million purchase will generate better than 5% return in year one with a very strong going forward NOI growth that will produce an IRR well in excess of our cost of capital.

Across the country in Scottsdale, Arizona, we were able to acquire the 214,000 square foot office building directly adjacent to our Hilton Village property, giving us over a third of a mile of contiguous frontage on Scottsdale Road immediately across the main entrance to Paradise Valley, the region's most affluent, in our view, underserved community.

The integration and rebranding of these properties as one, along with the proximity of work, home and retail and restaurant amenities in this post-COVID environment is expected to allow us to create a seamless, modern environment that will support greater rents and higher long-term occupancy. This $54 million acquisition will yield 6% in year one, and like Pembroke, is expected to provide very strong NOI growth that will produce an IRR well in excess of our cost of capital.

These two acquisitions, along with the previously announced 410,000 square foot Kingstown shopping center, in Northern Virginia, represent a combined investment of $435 million at a 5.25% yield in year one and more importantly, very strong IRRs on three dominant retail destinations in three particularly fast-growing markets from a good jobs perspective.

Okay. That's about it from my prepared remarks this morning, though, I want to leave you with one final thought before turning it over to Dan. Investing decisions grow tougher as economic uncertainty increases, and real estate investing is clearly a cyclical business. It's why the underlying business plan of this company has always contemplated cycles in its investment strategy. These are the times when well-leased, well-located dominant retail and mixed-use centers in supply-constrained, affluent, densely populated markets and submarkets shine. Whatever it is to come economically over the next couple of years, Federal is well positioned to outperform.

Dan?

Daniel Guglielmone

Thank you, Don, and good morning, everyone.

As Don outlined, the record $1.65 per share reported FFO for this quarter blew way our expectations and consensus by over 10%. As in the first quarter, our outperformance was across all aspects of our business, continued gains in small shop occupancy; stronger performance in our residential portfolio; surging parking revenues and gains in percentage rent; underscoring continued momentum in consumer traffic and tenant sales; higher collections than forecast, both in the current and prior period; and larger term fees, offset by higher G&A and interest expense.

While some of these items can be considered timing related or non-recurring, the lion's share of this outperformance is driven by continued strength in our in-place portfolio, which drove another increase in our guidance. Let me spend a little time here highlighting some metrics, which demonstrate this strength, led by our dominant mixed-use properties.

Near-record parking revenues, a strong indicator of consumer traffic at our mixed-use assets, was a near record $3 million for the quarter, up 80% over second quarter 2021 levels and up 25% sequentially over the first quarter.

Percentage rent, an indicator of tenant sales strength, was up over 90% on a comparable basis and up 18% sequentially on a rolling 12-month average. With respect to specific tenant sales metrics, at Assembly Row, reported tenant sales were up 13% over 2019 pre-COVID levels and are up 10% sequentially on a rolling 12-month basis versus first quarter.

At Santana Row, tenant sales were up 13% over 2019, with traffic up despite the impact from work from home. The Bethesda Row tenant sales were up 9% over 2019. Pike & Rose reported sales are up over 5% versus 2019 levels with consumer traffic up almost 10%. These data points all serve as a testament to the relative strength of the consumer in our high income, highly educated, densely populated high barrier markets. Again, markets that have demonstrated resilience over cycles and the ability to outperform during cyclical downturns. Very different than the pandemic-related market-specific government shutdown.

As a result, our comparable portfolio growth metric was again sector-leading at 8.2% for the quarter. Comparable growth, excluding prior period rent and term fees, was 9.5%. As we highlighted last quarter, a cash basis same-store metric would have been 9% and 10.5%, excluding prior period rent and term fees. Term fees this quarter were actually up, up to $5.6 million versus $3.4 million in 2021. Prior period rent was down to $3 million versus $6 million in the second quarter of 2021 as adjusted to reflect only COVID-19-related prior period rent payments.

Year-over-year, occupancy results were also strong, as our overall occupied metric grew 240 basis points year-over-year from 89.6% to 92% and our lease percentage increased 140 basis points from 92.7% to 94.1%. We should continue to see upside in those metrics, as we realistically target 94% to 95% for occupied and 95% to 96% for leased.

As we have now had eight consecutive quarters of above-average leasing activity, we're continuing to see strength in our leasing pipeline as it's never been this full. The volume of deals in process are up 15% versus pre-COVID 2019 levels and are as strong as they were last year at this time when we had a record year of leasing volume.

While deals in the pipeline still need to be brought to completion, demand is broad-based across tenant categories as best-in-class retailers all look to expand and upgrade their real estate footprints within Federal's best-in-class portfolio.

Again, we had strong, solid quarter achieving sector-leading rent bumps. We continue to drive average annual contractual increases in the 2% to 2.5% range across all our leases anchor and small shop.

Now let's review the math once again. For every 1 percentage point more in annual rent bumps, the ending rents in year 10 will be 9%-plus higher over a 10-year lease, plus you are collecting more rent along the way. Contractual rent increases do matter.

With respect to our residential portfolio, it now stands at 98.5% leased on a comparable lease basis, and 97% leased overall when you include the new 500-unit Miscela building at Assembly Row, which we expect to stabilize this quarter. We hadn't expected Miscela to stabilize until late fourth quarter and it is now achieving higher rents and lower concessions than we had underwritten. Despite this competition from the new 500 units next door, our existing Montage residential tower at Assembly is almost 100% leased and saw a 23% rental increases during the second quarter.

Now on to the balance sheet and an update on our liquidity. At June's quarter end, we had $1.2 billion of total liquidity with an undrawn $1 billion revolver and $177 million of cash. Additionally, we have over $400 million of non-core dispositions under consideration with pricing expectations at a blended cap rate in the sub-5% cap range. We closed out our remaining forward equity this quarter, issuing $177 million of common stock at a net price of $120 per share further bolstering our liquidity.

With respect to our leverage metrics at quarter end, our net debt-to-EBITDA ratio is now down to 5.8 times annualized for the quarter as we continue to target a ratio in the low to mid-5 times range over time. Our fixed charge coverage ratio increased to 4.3 times comfortably above our targeted level, and 93% of our outstanding debt remains fixed rate.

Our significantly derisked $700 million of in-process pipeline of active redevelopments has $340 million remaining to spend, much of that being tenant improvement dollars tied to tenant leases.

Now on to guidance. Given the comprehensive outperformance during the quarter across all aspects of our business, we are increasing our guidance by roughly 4%. That's $0.23 at the midpoint to a tightened range of $6.10 to $6.25; $0.01 to $0.02 of the $0.23 increase is from our recent purchase of Scottsdale Forum in Phoenix and Pembroke Gardens in South Florida and their roughly half year contribution to 2022.

The balance is from another quarter's outperformance and a better than forecast outlook for the rest of the year in both the comparable and noncomparable pools. This guidance assumes ranges of $1.48 to $1.55 of FFO per share for both the third and fourth quarters, which reflects an increase over our previous guidance for those quarters.

We are also bumping our forecast for comparable POI growth to 5.5% to 7% from the prior range of 3.5% to 5%, a 200-basis point increase for the metric. Excluding prior period rents and term fees, our comparable POI forecast increases to 7.5% to 9% from the prior range of 6.5% to 8%. While the cadence may be a little choppy, we continue to expect our occupied rate to climb from 92%, where it is today, up into the 92.5% to 93% range by year-end. As we continue to get tenants open, on time and on budget overall. A testament to the capability of our legal leasing, tenant coordination and property operating teams.

Now I don't want to just highlight those specific groups at Federal, let me take a little bit of time to thank and congratulate all 320 employees at Federal for their tremendous effort over the last two-plus years working intelligently, creatively and tirelessly through the unprecedented challenges of COVID, but also for driving to achieve a record quarter in funds from operations for the Company.

For many of us here at Federal, it really means something to be part of a company that stands alone in the REIT sector with a 60-year public history coupled with a 55-year track record of increasing dividends.

In celebration of both of those milestones, members of the Federal team will be ringing the closing bell of the New York Stock Exchange this afternoon.

Lastly, during the quarter, we released our annual corporate responsibility report. It's available on our website. I encourage all to give it a read to appreciate the long-standing and established commitment to sustainability, our communities, our corporate culture and our strong governance practices that we have at Federal.

With that operator, please open up the line for questions.

Operator

Our first question is from Alexander Goldfarb with Piper Sandler. Please proceed with your question.

Alexander Goldfarb

Hey, good morning. Goldfarb.

First, enjoy the bell rings today. Don, I have to say your decision during the pandemic to not cut the dividend, certainly paid off. That's the decision on your part, but I guess, well done.

Two questions here. First, as you guys are looking, certainly, you've expanded into Arizona, into Florida, what's going on with the tenants as far as—are there regional tenants, which you would have normally seen in like your home bases in New York or Bethesda Mid-Atlantic or San Francisco, etc., that really aren't down in Florida or Phoenix and you see an opportunity to bring tenants down where people who used to live in your home markets have moved down? Or is your view that because the country has become so sort of homogenous that there's less opportunity and as people move to new markets, it's not as though they're really missing that many of their home stores or home restaurants or whatever it is?

Don Wood

Listen, Alex, first of all, I got to really thank you for that comment on the dividend because we in this company believe what you just said in terms of its importance, more than a lot of people for whatever reason. Yes, we're real proud to have be able to raise the dividend every year since 1967, and that includes COVID.

With respect to your question on demand and regionalization of tenancies, there are absolutely tenants that are looking for new markets to expand into and particularly the well-capitalized companies to be able to do so. What is always important to us, and I know you've heard this before, but it's so true, is the merchandising of those centers.

When you look at CocoWalk and you look at the mix of regional tenants, but also really important local tenants that make the place special. The secret sauce is the mix that happens. Yes, we will have success effectively getting any particular tenant with the wherewithal to be able to expand to the extent we can show them a profitable opportunity in a new market. I think we can do that. I think we do that well. Jeff?

Jeffrey Berkes

Yes. Alex, it's a bit of a two-way street, particularly between Arizona and California. What we found during the last year or so since we've been in Arizona, those are relationships, our leasing people in California can bring to the leasing team that's running our Arizona properties. In addition, particularly in the food space, whether it's QuickServe or Sit-Down or some other type of specialty food, there are some really good operators in the Phoenix, Scottsdale market that we're now closing to our California portfolio. It is a two-way street. Some real advantages there to the expansion.

Alexander Goldfarb

Okay.

The second question is, Don you mentioned, Santana West looks to be sort of on pause as far as the leasing and what's going on with tech. Elsewhere in your portfolio, where you have office are you seeing a similar slowdown or an acceleration as more people look to work remotely or work in suburban settings? Just curious, if Santana West is a read-through to the entire portfolio or stands in contrast to the portfolio?

Don Wood

Yes, it's a great question. The two places, in particular, where we continue to lease up office products, both at Pike & Rose and at Assembly, nothing has changed. They are—there is still that strong demand, and we're running out of product.

At the Choice building, which is the one that Choice has taken about 40% of the building for, we've got really good activity moving along in the rest of that building, and that feels great.

Just one other comment on Santana West, man. Short Silicon Valley at your own peril. There's no question that a pause caused by getting people back to work and what's that going to be and what our space needs are going to be, at the same time, those stocks have been hammered. I mean, you as a CEO, any of us a CEO, would sit back and take pause about that. But when you think about that particular product, in that particular place and what is likely to happen, you have to be positive about that. I don't know, Jeff, whether you've got anything really to say further on that.

Jeffrey Berkes

Yes. Let me add a little bit to that, Alex. Let me also maybe clean up a bit where you started, too. You mentioned San Francisco is one of the markets we're in. We're not in San Francisco. We're in Silicon Valley, and there's a big difference between the two. A lot of people read headlines or watch the news and hear about things that are happening in San Francisco and attribute it to the whole Bay Area and it's just not accurate, if you will.

San Francisco is still struggling mightily through some social issues that are making a return to office and office leasing very difficult. That's not really the case in Silicon Valley. We're not taking a pause on leasing, if you will. We're out there working as hard as we can to lease a building as quickly as we can. Year-to-date, the Silicon Valley Class A office market has absorbed 2.8 million square feet of space, vacancy is 12%. If you include sublease space, I think it goes up to 14%, which historically for Silicon Valley is not great, but nationally, those aren't bad numbers.

Last quarter, there was 1.8 million square feet of positive net absorption and four big leases between 150,000 and 380,000 square feet that accounted for 1.1 million square feet of that positive net absorption. I think what's happening now is—and it's going to be choppy for a few quarters, and I think we're probably going to see more sublease space come to market. The companies are really struggling with a way to get their employees back to work and figure out what the appropriate locations and space needs are for those employees. I think we're going to see some downsizing, and perversely, that might work to our advantage in Santana Row.

You remember NetApp took 700 Santana Row because they downsized out of multiple buildings that were not state-of-the-art and not fully amenitized. There's other tenants in the market right now that are thinking about doing the same thing, and when you look at One Santana West, it is the only fully amenitized Class A building of size in Silicon Valley. While I think it's, like Don said, disappointing that we're not leased yet. We're working hard on it, and we're confident about it.

When you step back and look at the rest of our portfolio, excluding One Santana West and 915 Meeting Street, which is still under construction, our Class A office space and our other office space and our mixed-use properties is 95% plus leased. There is a very, very strong positive reaction whether you're a small tenant or a large tenant to officing in properties that offer a full range of amenities close to where you live, which is why we bought Forum down in Scottsdale.

We can talk about that further, if you want, but I just wanted to make sure you got the full kind of detail on what's going on in the portfolio and our thinking going forward on One Santana West.

Operator

Thank you. Our next question is from Craig Schmidt with BofA. Please proceed with your question.

Craig Schmidt

Yes. Thank you. Good morning still.

I'm just wondering if the second quarter results are really highlighting the difference in dealing with the COVID market pressure versus dealing with a challenging interest rate and inflationary market pressure? The former, you have very little control, but the latter would seem like whether it's your first ring demographics or the qualities of your center, you're able to put up more of a challenge to it?

Don Wood

Thanks, Craig, for the question.

Look, man, consumers have to be able to consume. At the end of the day, that means you got to have money to spend. That means there's got to be great product out there. What I think is really—and obviously, I think this about Federal is that we don't go all in on any one particular format. We don't go all in on any one particular market.

The notion of the sector-leading demos—I mean, I've said in the prepared remarks, think about this, $10.2 billion worth of spending power within 3 miles of this portfolio's assets. That's a crazy big number. Does that help you work through good times and bad times and higher interest rates and inflationary pressures? Of course, it does. It's not a leap. I think that's got more to do with this performance and the performance that whatever that might be over the next few quarters or a few years than anything else.

Craig Schmidt

What are you hearing from your tenants that are taking space now? The challenge being there's a possible recession soft or otherwise. We still haven't solved inflation, and yet they're taking space. What are they telling you that they're seeing that gives them the confidence?

Don Wood

Do you want to do that?

Wendy Seher

Sure. Thanks, Craig.

Basically, during COVID and post-COVID, the retailers confirmed that their greatest customer acquisition tool is the right location. They are focused on that to set the stage for growth continuing, especially with more relevant tenants and the savvy tenants, and there's a sense of urgency in getting the right real estate. We're seeing that in our performance. We're seeing that in our pipeline. We're seeing it on our varied shopping center opportunities that we have with all—it's not just value based, it's not just service based, it's all across the sector, full-paced apparel and value as well.

We are seeing that sense of urgency on setting their fleet in the right direction for the growth and being able to go through what is normal cycles and being able to mitigate that downside.

Operator

Thank you. Our next question is from Craig Mailman with Citi. Please proceed with your question.

Craig Mailman

Hey good morning.

I just wanted to go back to the leasing during the quarter in the pipeline. Looking at the stats, you guys had a healthy amount of renewals there. I'm just kind of curious from a tenant perspective, how much of that is being pulled forward as tenants want to lock in rates today in anticipation of maybe higher rents in the future? How you're balancing that financial tenant mix and credit versus kind of downtime of re-tenanting?

Wendy Seher

Yes, I think what you're—I don't know that I focus 100% from quarter-to-quarter on renewal rates and whether they're slightly up or slightly down because they all have a way of working themselves out throughout the year. But what I will say is that we are seeing a tremendous amount of retailers within our portfolio that want to have those discussions a little bit earlier because they want to invest in their store. They want to make sure that they have return because they see the value of the real estate long term. They want to invest, and that's—we're seeing it as a very positive momentum, and we're also investing in a big way in our shopping centers. The partnership together has been very strong.

Jeffrey Berkes

It is a robust discussion. There's obviously tension, particularly in an inflationary environment where we're pushing hard to get the kind of increases during the term that Dan talked about in his prepared remarks and not give an excessive amount of term when we're in an environment like this. It's a healthy conversation. It's not unusual. Every lease negotiation is tense, and Wendy and her team and the folks on the West Coast do a really good job of balancing everything they need to balance to make sure we have the right people in our properties that are investing in their operations, and we're getting the best economic deal possible.

Don Wood

I guess, Craig, the only thing I would add to that, and I do think this is such an important component of the negotiations are the bumps during the term of the lease. I mean I know Dan goes through the math of what it means, but when you think about inflationary time and being able to push three and sometimes four and sometimes better annual bumps into the lease that getting that along the way is a whole lot better than sitting there and looking at a flat lease and maybe getting 7% after five years or something like that.

I don't know the best way that you can understand that or compare that. I don't think we found a good way that, that can be compared, but I know it's a critical focus of the Company, and because the real estate is really good, we have probably more success that way than you would otherwise think.

Craig Mailman

That's helpful.

Then just a guidance question. The lease term fees in the quarter looked like they added a couple of pennies on a sequential basis. What's the impact of that in the full year guidance raise? I mean what are you expecting the back half of the year?

Daniel Guglielmone

The back half of the year, I think, is probably back—looking back to the last year in line with our last year's performance in the second half of the year. We're ahead. We're probably $0.02 to $0.03 ahead in term fees, and that's reflected in the guidance.

Craig Mailman

Great. Thank you.

Operator

Our next question is from Samir Khanal with Evercore ISI. Please proceed with your question.

Samir Khanal

Hey, Dan.

Dan, can you help us walk through sort of the '23 growth at this time? On the one side, you've done a great job on the leasing front, right? The leased versus occupied, that pipeline is pretty solid here. But on the other hand, you have potential headwinds from closures. Santana West, it seems like maybe getting pushed out a little bit here on the timing perspective. I guess how are you thinking about growth today versus a few months ago?

Daniel Guglielmone

Look, I think that we've been really pleasantly surprised with how strong the performance has been. This is the first time I've been here since my six years at Federal where we increased guidance to this magnitude in consecutive quarters. We've increased to $0.10 one quarter and then $0.23 the next. The 5% to 10% guideposts that we provided previously, were off of previously lower guidance.

I feel comfortable with that guidance with where 2023 is off of that. I think we're going to take a step back with regards to 2023 and provide formal guidance at the normal timing. We still expect to see strong internal growth in our portfolio, but we'll provide more detailed formal guidance at the appropriate time, in line with the industry in February.

Samir Khanal

Okay. Thanks for that.

I guess, Don, just on the acquisition of Pembroke Gardens and with the 41 acres that comes with that property, just curious, is the near-term goal more of a remerchandising play at this point? Just trying to figure out the near term and maybe kind of what the long-term focus is on that, just initial views.

Don Wood

Yes. There is—this piece of land is what made us so darn interested in this thing. If you kind of see where Pines Boulevard and I-75 come together, there is no good product out there. There are amazing traffic counts, and so we love what we've got in place, albeit you will see remerchandising as the primary way we create value over the next few years.

Having said that, and you know as well as I do, big pieces of land, things happen that you can't underwrite initially. I know if you go and spend some time at the property and the surrounds and you look at housing stock around there, you understand the traffic patterns, I think you'd be salivating for the possibilities over the mid- and longer-term, even beyond the remerchandising of the asset. But that's what it would be for now, Samir.

Operator

Thank you. Our next question is from Juan Sanabria with BMO Capital Markets. Please proceed with your question.

Juan Sanabria

Hi. Thanks for the time.

Just wanted to touch—go back, and apologies if I missed this. Is there any update in terms of the rent bumps you are getting in the strong leasing environment with regards to what you have kind of on the books and have historically achieved?

Don Wood

I don't know if I'm allowed to say this or not, so I'm looking at Dan and Melissa because we do try to take an accounting, if you will, of how many of our leases have 3% bumps, 4% pumps, flat, whatever is happening internally in the leases. I can tell you that over the past two years, basically, what's happened coming out of COVID, not the beginning part of COVID, but coming out of COVID that the percentage of our deals that are—that now have stronger than 3% bumps is up about 20% from where it was.

The notion of being able to do more of those deals, which is bringing up the overall portfolio to over 2% annual bumps, as Dan said before. The trend is in the right direction, and it's been a major focus.

Juan Sanabria

Great.

Then just on the Phoenix office acquisition, I was just hoping you could maybe spend a little bit more time on outlining a plan there and how that's integral to retail and if that's going to be redeveloped as well potentially down the track?

Don Wood

Yeah Juan, let me give you a couple of things. I'm sure Jeff will have more on this. But I personally couldn't be more excited about this. First of all, Hilton Village, which we bought last year—I guess, a little more than that now at this point—we just see very strong re-leasing potential to make it much more of a specialty shopping center with a higher-end tenant because of where it is. Our first 12 months of leasing or so there has kind of validated that, that's what's happening.

With respect to that first acquisition, we are more than pleased with the basic thesis for buying it. When this office building adjacent to it, which is a very attractive office building, but frankly, leased in a very pedestrian way, we think we can do the same thing on the office side to make it way cooler to the right type of tenant base that would—that's the same tenant base that we're aiming for in the adjacent retail property, putting those two things together, especially in a post-COVID environment where individuals and companies in the area are looking to be closer to home with an amenitized environment, we feel like there's great upside, all while yielding over 6% yield while we do that.

I love the idea of being able to not to take our vision for the retail and effectively expand and integrate what it is with the office building, which really is building directly adjacent to it. That's the thesis for what we're trying to do here.

Jeffrey Berkes

Yes. Juan, it's Jeff.

I'll just add a couple of things. One, owning those properties together is synergistic in both directions. We can certainly offer the office tenants the amenities of Hilton Village as we make the project look and feel like one project and market them together and upgrade the merchandising and food offering at Hilton Village, like Don mentioned. But owning the office building is also good for Hilton Village because we just picked up a ton of parking that we can use nights and weekends to support more intensive uses at Hilton Village. So that's great.

Then second, just kind of on a stand-alone basis, when you think about Forum, we bought Forum for roughly 60%, 65% of replacement cost, 85% leased at rents that are probably 10% to 15% below market with a weighted average lease term of less than five years. By upgrading the building and applying creative intensive leasing effort to it, we think we can really bring those numbers up and make the return much, much better than it is today. On its own, we think we made a real great real estate deal.

There's a couple of buildings in that market that traded recently where a local developer that's done something similar to kind of Class B, B- buildings and much, much lesser location than Scottsdale Road across the street from Paradise Valley, and those buildings sold basically a replacement cost at sub-5% caps recently.

We think the institutional investment market appreciates real estate like this, and we think we made a very good buy and really happy to have it. Like I said, when I was answering Alex's question, we've proved multiple times now that amenitizing office space, making a great space and having it in close proximity to decision-making—decision maker housing is a real win for us. Just really, really happy with the deal.

Operator

Our next question is from Haendel St. Juste with Mizuho. Please proceed with your question.

Haendel St. Juste

Hi, there. Hi. Good morning.

Don, I was hoping you could talk a little bit about how being an all-cash acquirer has given you maybe an edge in the acquisition market here in terms of maybe (audio interference) closed? Is that something you expect to be able to continue to use for advantage near term? I noticed that there aren't any acquisitions contemplated in the second half guide here. Curious, what, if anything, is interesting or perhaps under discussion out there? Thanks.

Jeffrey Berkes

Yes. Haendel, it's Jeff again.

We are obviously in a market where there's less certainty than there used to be. Having the ability to close all cash and not have to tap the secured mortgage markets is definitely an advantage as a buyer. That combined with really a two decade track record here of being very transparent with an intermediary and an owner about what we'll do and what we won't do and how things are going along the way and ultimately doing what we say we will do gets us deals and gets us deals at better prices than other people have to pay.

We kind of like the type of market we're in right now. We think there's going to be more opportunities, but I'll let Dan answer questions about our go-forward guidance on that.

Don Wood

Before you do, I want to add one thing to that, Haendel, and I really do think this is important. We've talked about this in the past. When you look—when you have multiple ways to grow and you don't want to rely on any one thing, you don't turn those switches on and off. When it comes to acquisitions, this is one of those examples where, yes, you can turn it down when there's uncertainty of the pricing or turn it up when effectively, you think you can get a good deal. But it is that ability to be in the markets regularly, not just on the publicly marketed stuff. In fact, hardly in the publicly marketed stuff, but the ability to do what you said you were going to do.

When you turn that off for a couple of years and turn it back on, it's not much different than the dividend in our view, then you are looked at differently than when a seller knows you're going to be there and do what you say you're going to do. I think that is as much of an advantage as being an all-cash buyer is, in fact, I think it's more important.

Sorry, Dan, go ahead.

Daniel Guglielmone

No. With respect to guidance, we do have a pipeline, and we do expect to be active on the acquisition front, but be disciplined, but we don't provide guidance for speculative acquisitions or dispositions. When they happen, we update guidance to reflect that. Yes, there's no forward-looking acquisition or disposition impact on the guidance we have.

Haendel St. Juste

Got it. Got it. Thanks.

Maybe one more just on the slow rent. You've been able to get them—I guess the stores open on time, get the store rent in. I guess I'm curious if you're seeing any signs of the delays from labor shortage or supply concerns. On restaurants and particularly some concerns in certain pointers about getting some of the equipment in place, which could be impacting the timing of certain things. Thanks.

Don Wood

Haendel, it's a great question, and it's been a critical focus and frankly, a worry of mine for the past year and a half or a little bit more. I don't exactly know beyond our approach to it why it has not been the problem that I worried it was going to be, but it has not been.

We found alternate solutions. In a number of cases, it's been job number one for the operating team, the tenant coordination team, the ability to effectively do things different than the lease contemplated in order to get a restaurant open or a store open have been critically important tools.

That, again, is a relationship part of our business. It's a critical part to it. When I look at have we been hitting our opening dates? The answer to that is yes, we have, and it was the single biggest thing I was worried about coming into 2022. It’s being handled, I think, pretty darn well, even though the spectre of delays, kitchen equipment and other things is certainly still out there.

Daniel Guglielmone

I think it's evident in our metrics. The fact that with record leasing volume, we're tightening our spread between leased and occupied. We're getting tenants open. I think that's again, in my prepared remarks, I mentioned and gave a shout out to the strength of our legal leasing, tenant coordination and property operating teams, they've been really successful on average, getting tenants open on time and in many cases, ahead of time and on budget.

Operator

Our next question is from Michael Goldsmith with UBS. Please proceed with your question.

Michael Goldsmith

Good morning and thanks for taking my question.

You called out the strength of parking revenues and percentage rents. Has that continued into August? How sustainable is the run rate achieved in the second quarter?

Daniel Guglielmone

Well, we would expect given traffic in July was strong as well, where we have parking revenues coming in, we hope that it continues to be sustainable. I mean I think the traffic volumes at our big mixed-use properties where we can charge parking revenues. We see that being a consistent source at least through the balance of the year.

Don Wood

Michael, I think the only thing I would add to that is—where it comes from, as Dan just said, are only a few of our properties, and they're the big ones. If you think about those properties, particularly Pike & Rose and Assembly Row, those properties have matured into critical places in their communities.

It's not just about coming out of COVID. It's about these are now community centers, if you will. I would expect the traffic comparisons period over period to continue to increase. As we've seen—we've seen in July, too, obviously, we're in the beginning of August. We've seen that same thing at Pike & Rose and Assembly in July relative to the July of 2019. I'm very much positive or hopeful that it will continue.

Michael Goldsmith

That's helpful.

My follow-up is just given the strength of all of these factors that you've noted, how should we pair that with the implied same-store property NOI growth guidance for low single digits in the back half?

Daniel Guglielmone

Well, I think the comparison or kind of the implied slowdown in the second half of the year is really difficult comps in the second half of the year, plus the week of prior period rent and kind of a pretty modest forecast for turn fees in the second half of the year. Hopefully, we can outperform that, but I think that those are the big headwinds, particularly prior period rent. We've got some pretty tough comps in the third quarter and even fourth quarter of last year.

Operator

Our next question is from Derek Johnston with Deutsche Bank. Please proceed with your question.

Derek Johnston

Hi everyone. Thank you.

I'll try to get creative, most of what I wrote down was asked. Your 2022 equity issuance guidance, I think it moved back to $350 million at the midpoint from $450 million last quarter. Just wondering if anything drove that? I mean, is it the share price related? Or should we read through that maybe 2022 acquisitions are pretty baked in at this point?

Daniel Guglielmone

Yes, I think with regards to—we are making progress and we've kind of pivoted and I think elevated our discussions and our activity on the disposition front. Given the visibility we have kind of as the year goes along, I think that dispositions can serve as a surrogate for kind of raising equity, and given that visibility, we're tempering kind of the expectation of raising equity, plus given where our equity has been traded.

We've raised the lion's share of what we expected at a very strong blended price. We basically contracted for that all last year in 2021 when our stock price was obviously at a different time, really pleased that we did. I think it positions us—we look to be very balanced in how we approach financing the business and feel very, very fortunate that we're as well positioned to continue through with the equity that we raised over there throughout COVID.

Derek Johnston

Okay. Great. Thanks Dan.

Some investor pushback I hear on Federal, it has always been the high ABR, right? But despite the economic backdrop, right, and really, even more importantly, elevated vacancies across your peer set, you've continued to grow rents. How do you kind of respond to that? What is it really attributable to? Any thoughts there, I think, are helpful.

Don Wood

Tenants need to make money. Rent is one component of their expense structure. To the extent they're doing the volumes and trading value, they'll pay the rent. With us, it's not just about beating on that tenant for rent, we are partners, and so the notion of making that shopping center or a mixed-use property, the best place, the go-to place is just a critical part to what we do.

I mean if you think about it, Derek, the 580 basis points increase since the bottom of COVID in terms of small shop occupancy, up almost 600 basis points. That is only because there is demand from people who have a chance to get into a Federal center who could not get into it before because of the high occupancy and are willing to pay that because they're going to make money when they pay that. It's really not much more than that. I know there's always focus on our ABR. I've been here 25 years, there was focused on our ABR 25 years ago. It's—they're better assets, man, and those tenants can make money at those levels.

Operator

Our next question is from Ki Bin Kim with Truist Securities. Please proceed with your question.

Ki Bin Kim

Thanks, and good morning.

A quick one first. What has your retention ratio been historically and where do you see that for the remainder of the year?

Daniel Guglielmone

Yes. I think historically, it's kind of been in and around 65%, 70%, but we have seen better this year, better retention rates north of 80%. We're pleased with that. Tenants have been successful at our centers. They want to stay, they want to renew, they want to exercise options and they want to continue to make money.

Ki Bin Kim

Going back to that previous question about profitability, I mean that makes sense, right? It's not just sales you have to be profitable. Any high-level metrics you can share in terms of how much more profitable do you think tenants can be at your centers versus some other centers on a just low rent basis? Yes, just trying to get a sense of what—how much mode of safety there is for tenants to continue to pay these higher rents?

Don Wood

Well Ki Bin, I'm just looking at Wendy Seher because I don't have a metric that I can give you. What do you think, Wen?

Wendy Seher

It's the consumer spending power. It's the demographics that Don mentioned in his opening remarks, which is the quality of the real estate in the demographic markets with high average household incomes that have the ability to spend. That's a critical component when they're looking at these markets.

The other piece of it is the history. If you can go into a center, as Don said, you haven't been able to get into Federal Realty Centers always, and they have a history of performing and there's value in that, and that's recognized, so that's why we've been able to keep up this leasing demand is partly because there's this need to get—they might be doing less locations, but they need those locations to perform. They're willing to make a higher spend in order to make sure that there's confidence that, that store will be profitable.

Operator

Our next question is from Linda Tsai with Jefferies. Please proceed with your question.

Linda Tsai

Hi. Thanks for taking my question.

Just going back to the quarter's leasing strength, I know you discussed the philosophical benefit of tenants being able to make money at your centers. But where are you seeing that price demand? Is it a certain tenant type or regionally based?

Don Wood

No, Linda, it's broad, it's broad. I mean we see it at the mixed-use centers in particular because they were hurt the most during COVID, but it's everywhere throughout the portfolio. I don't have a better market or a worse market for you in terms of the ones we're operating in. Just please always remember, this is still a very local business, and it comes down to the specific shopping center and the specific tenant base in that shopping center. I think I'd leave it at that, it's broad-based.

Linda Tsai

Thanks.

Then in terms of BioMed Realty, getting construction financing for the first phase at Assembly Innovation Park. Does this give you more conviction towards a large lease for life science tenants at Assembly Row? What would you be looking for to proceed with more confidence?

Don Wood

Please, let me just correct the premise. We could not be more confident in Assembly Row as a life science destination for many, many years and decades to come. We're just at the beginning of that. All we've done at this particular time, given the uncertainty in the venture capital market and what's happening there is to hold back and see where things become a little more certain.

Certainly, great for BioMed in terms of being able to raise that capital. I wouldn't be—I'd be surprised if they couldn't, frankly, given the Blackstone involvement, too. We will be—I mean, there will be a life science building done by Federal Realty on that site at some point. But prudence and capital allocation at this point suggest that we sit on the sideline and let BioMed make it a little further.

Operator

Our next question is from Mike Mueller with JPMorgan. Please proceed with your question.

Mike Mueller

Yes. Hi.

Dan, I think you were talking about cash collections in the quarter running at a higher level. Can you talk about what the level was in Q2, maybe how compared to Q1? Is the higher level continuing into the third quarter?

Daniel Guglielmone

Yes, we're essentially back to normal, back to pre-COVID collection levels on the current period collections. We're effectively above 99% overall in collections in the second quarter. I think that is faster than we expected, faster than we had forecasted, and we expect that to continue. There's a normalization in that part of the business with the added benefit of continuing to collect rent from prior periods. But we're back.

Mike Mueller

Got it. Okay. That was it. Thank you.

Operator

Our next question is from Chris Lucas with Capital One Securities. Please proceed with your question.

Chris Lucas

Hi good afternoon everybody.

Talked a lot about the leasing strength on the retail side. Just curious as to how you described the leasing strength on the residential side and what the sort of rent growth has been in your portfolio on a year-over-year basis?

Don Wood

Let me go on the three big properties—or actually four big properties, if you throw in Bethesda, Chris. Let me go in order. Unbelievable at Assembly Row, 20% plus.

Daniel Guglielmone

Yes. Twenty-three percent increases in rents.

Don Wood

Just what's happening at Assembly Row not just on resi, but on office, on retail as such a critical place in the marketplace, it's really impressive. You should be very optimistic about the future including rent growth—future rent growth at Assembly. Santana Row? Equally. Again that's the place you want to live and I don't know where we are on rent growth there.

Daniel Guglielmone

Mid-teens.

Don Wood

Mid-teens and looking extremely strong. Pike & Rose, the demand is there, but we're still just about out of this COVID cap on the amount of rent increases that there can be. It's artificially been kept down. But you could see it from the occupancy, and we know in terms of the demand to be able to move into the space is that once that cap is lifted, which should be hopefully later on this year, you'll see similar demand there.

These are the type of properties people want to live in. It's the same as on the office side. It's—you got to make the money after you spend all that time and effort on creating the street in the place by getting it done upstairs, too.

Chris Lucas

Okay, great. Thank you.

Then just on the Plaza El Segundo sort of consolidating your ownership position there. I guess just curious, is there anything operationally that improves? What drove the timing, just a little bit of background on that?

Jeffrey Berkes

Yes. Chris, this is Jeff.

We have two individuals that when we acquired the asset, I guess, the very last day of 2011, decided to stay in the deal and they've been in the property with us as partners since that point in time up to a few weeks ago. They both decided they wanted to exit for their own personal financial reasons.

They had no day-to-day involvement in the running of the asset; we reported to them on a regular basis, and that was about the extent of it. Nothing changes at Plaza El Segundo as it relates to how that's run or leased.

Dan Guglielmone

We got it at an attractive return.

Operator

Our next question is from Paulina Rojas with Green Street. Please proceed with your question.

Paulina Rojas

Good morning.

You talked about the names you're seeing in resi. Is it possible to have a notion even a range for how we think property NOI trending on the same property basis, not for your office on resi segment? Is it also in the high teens?

Leah Brady

Paulina, we're having a hard time understanding you. Can you try to say that again?

Paulina Rojas

Yes. Can you hear me now?

Don Wood

Yes. That's better.

Paulina Rojas

Okay. Yes, I was saying that is it possible to have a notion of how is same-property NOI trending for your office and resi segments?

Don Wood

Same-property NOI for office and resi?

Dan Guglielmone

They're trending up. We don't have those —and we don't publish those. But we can—but they're certainly heading, and they're modeled and forecasted to continue to trend up.

Don Wood

We can talk offline about that, Paulina. We can get a little more granular on that with you.

Paulina Rojas

Okay. Thank you.

Then the other thing is have you provided any reference for how much of your signed but not open leases are scheduled to come online in 2023?

Daniel Guglielmone

Yes. I think what we have in our existing kind of comparable pool is about $23 million of incremental rent, which have come online over about half over the balance of this year and half in 2023. We have another $15 million of signed, not occupied in our noncomparable pool, which should come online probably similarly. I think most of the lion's share of that will be over the next six quarters in terms of contribution to our POI line item.

Operator

Our next question is from Tayo Okusanya with Credit Suisse. Please proceed with your question.

Tayo Okusanya

Yes. Good afternoon.

First question, thank you for the update on just life sciences at Assembly Row. Curious if you could also give an update on life science potential at Pike & Rose at this point?

Don Wood

Yes. As you know, when I think about that market, I don't think that market is as advanced in terms of demand and supply as Somerville, Massachusetts is but it sure is on everybody's radar screen, including ours as to what it is that we can do there. We're having conversations with a number of people there, none of which are far enough for us to really say anything more about it.

But when you think about life sciences, as another use as a component at a place like Pike & Rose. I mean, it's a distinct possibility. It's going to come down to economics. Will the incremental rent be enough to support the construction of that product type at Pike & Rose. We don't know the answer to that yet, but we're certainly in the heavily exploratory phases to find out.

Tayo Okusanya

Got you.

Then second of all, some of the mall REITs and open air center guys are kind of at that point where they are renegotiating a lot of the short-term percentage rent deals back to kind of more traditional leases. Are you guys kind of running up against any of that at this point? Does it kind of change the dynamics of what the retail component of your income could look like in 2023?

Wendy Seher

I would say that most of our percentage deals that we were working on during COVID have all burned off and we have established new deals moving forward. We are not still working on a tremendous amount of renegotiating post COVID. This is more kind of looking forward and doing new deals based on the environment that we're in.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call over to Leah Brady for closing remarks.

Leah Brady

We look forward to seeing everyone this fall. Have a great rest of the summer and thank you for joining us today.

Operator

This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.