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Federal Realty Investment Trust (FRT)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Federal Realty Investment Trust Second Quarter 2026 Earnings Conference Call.

All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Jill Sawyer, Senior Vice President of Investor Relations.

Jill Sawyer

Senior Vice President & Head-Investor Relations, Federal Realty Investment Trust

Thanks, Abby.

Good morning. Thank you for joining us today for Federal Realty's second quarter 2026 earnings conference call. Joining me on the call are Don Wood, Federal's Chief Executive Officer; Dan Guglielmone, Chief Financial Officer; Wendy Seher, Eastern Region President and Chief Operating Officer; and Jan Sweetnam, Chief Investment Officer, as well as other members of our executive team that are 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. 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 the 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 conditions and operational results.

Given the number of participants on the call, we kindly ask you to limit yourself to one question during the Q&A portion. If you have additional questions, please re-queue.

And with that, I'll turn the call over to Don Wood.

Donald C. Wood

President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

Well, thank you, Jill, and good morning, everybody.

Strong quarter, $1.88 a share, 7% year-over-year growth, 96% occupancy, record leasing volume, 59th year of consecutive dividend raises, another beaten raise, all validating the optimism for the rest of the year and next. Dan will get into the specifics for modeling purposes.

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After roughly four exceptionally strong leasing years, this quarter set records again. Here we are in the second quarter of 2026 and are reporting 124 comparable deals for a staggering 819,000 square feet and an average first year cash rent of $33.68, which is 15% higher cash rent than the prior year, and 28% higher on a straight line basis. That sort of volume is record setting and all contributions to it came from all of our markets. Southern California and Virginia were instrumental in signing a few anchor deals that will be transformational to the properties that were done in.

The first effect is the market dominant 860,000 square foot Grossmont Shopping Center in suburban San Diego, where remerchandising this 2021 acquisition is now seriously underway. We've signed our first deal ever with hugely successful outdoor retailer Bass Pro Shops to a 20-year deal for 161,000 square feet replacing an underperforming Macy's and adjacent small shop tenants with a national draw unlike most shops.

We also signed a new 53,000 square foot deal with AMC at Grossmont for a new state-of-the-art theater where a shuttered smaller theater operator once was. With an anchor system comprised of Bass Pro, AMC, Walmart and Target and 350,000 square feet of other space to feed off that system, Grossmont will be among the most productive assets in Federal's portfolio once the significant redevelopment has been completed. We're looking at a $56 million comprehensive redevelopment and an incremental 10% cash-on-cash yield.

The second effect is the market dominant 500,000 square foot Barracks Road Shopping Center in Charlottesville, Virginia, home of the University of Virginia where we signed a 79,000 square foot deal with Harris Teeter for an expanded flagship grocery store and where additional important merchandising improvements that will be announced very shortly will further solidify Barracks Road as the preeminent shopping center in the market as it has been since we bought it some 40 years ago.

As we talked about before, these large market-leading dominant retail centers, not unlike most of the acquisitions we've made over the past few years, are our property type of choice in every major market we're in. They tend to provide opportunities for both continued cash flow growth and value enhancement for decades. Stay tuned for more in the quarters ahead.

Opportunities for additional accretive acquisitions net of dispositions continue to be a laser like focus of the team, and are expected to continue to improve our overall growth. We're getting close on a couple of very important deals, though a bit too soon to announce on this call. Stay tuned in the weeks ahead.

On the development side, let me give you a quick update on the status of our residential pipeline that as you may remember is only undertaken on excess land at our existing shopping centers. With little to no incremental land costs and higher rents because of the proximity to our shopping center amenities, the math works in the right locations. Currently, we've allocated a total of $400 million for the residential development of the Blayr at Bala Cynwyd, which is already two thirds leased and well ahead of projections for both timing and rate. By the way, that fast lease-up pace has reduced the earnings dilution that normally comes at this stage of resi development.

301 Washington Street in Hoboken, which is on-time and on-budget preparing for a 1Q 2027 delivery, lease-up begins later this year. Early renting inquiries, spurred on by the construction progress, have been far in excess of our expectations. Lot 12 at Santana Row is well under construction on-time and on-budget for a late 2027 delivery as many of you saw at our June Investor Day. Hope you found the work that we're doing there to be as impressive as we did. And an incremental 261 units at Willow Grove Shopping Center outside of Philadelphia for which the site has been prepared and cleared and is now fully underway.

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Together, this densification of our shopping center assets will add nearly 800 units and $27 million of new operating income to the portfolio once stabilized over the next few years. Our experience with residential development at our retail centric properties is a skillset developed over 25 years, and is certainly a unique differentiator of our business plan.

Incremental income in the form of parking revenues, sponsorship opportunities, signage revenues are also benefiting by the high traffic counts at our large properties, including not only our mixed-use assets, but also the broader portfolio, more upside to come here too. We're firing on all cylinders. Leasing operations, including a comprehensive technology-based efficiency program – we'll introduce you to our Senior Vice President of Digital Innovation at some point in the future – the hunt for special acquisitions and a modestly sized but impactful redevelopment program, are all working. Enhanced internal and external growth using all the tools at our disposal is the name of the game. Quarters like this increase my confidence of our ability to do so.

And sincere and grateful thank you to all of you that gave us your time and your attention at our Investor Day at Santana Row either live or on the webcast. We're a proud and talented group of real estate execs who love to share our story. We hope you enjoyed it and found it useful, and believe these second quarter results help validate to you the focused path that we're on.

Let me now turn it over to Wendy, and then to Dan, to provide some additional color. Wendy?

Wendy Seher

Executive Vice President, Eastern Region President & Chief Operating Officer, Federal Realty Investment Trust

Thank you, Don.

This quarter, our leasing platform once again delivered record volume, signing 819,000 square feet, the most comparable square footage in a single quarter in company history. Rent spreads for these deals were 15% over prior in-place rents, and that 15% is not a one quarter story. In fact, the trailing 12-month comparable rollover sits at 17%, the highest in any 12-month period in more than 10 years. This tells you everything you need to know about the desirability for our high-quality shopping centers.

What I'm most proud of this quarter is occupancy. Despite the timing of expected anchor transitions, the strength of our small shop leasing held occupancy neutral to last quarter. We delivered over 100,000 square feet of net small shop occupancy this quarter increasing our occupied rate by 100 basis points in just three months. Our small shop portfolio is now 93.9% leased and 92.3% occupied, levels we haven't seen since 2007. Put that alongside a record leasing quarter and you get a clear picture. The demand for our centers is not slowing down.

A natural question is how much upside is left? And I would say, more, much more. At these occupancy levels, we can drive small shop rents in the double-digit range on average, something we've done consistently for the past three years. Our current pipeline, which is always a good indicator of future leasing momentum, remains strong with over 1.5 million square feet of space in lease negotiations. In addition to our pipeline, we have fully executed leases that will contribute an additional $31 million in revenue delivering over the next 18 months.

Just as important, our high leased rate lets us pre-lease well in advance of vacancy. This translates to less downtime from one tenant to the next, a metric we're focused on quarter-after-quarter with clear progress being made as highlighted by our 100 basis point jump in small shop occupancy this quarter. Foot traffic across the portfolio is up, reinforcing the health of our consumer, and collections remain strong across the portfolio.

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Our retail redevelopment pipeline is delivering the same story. In Philadelphia, Giant just opened a brand new prototypical 45,000 square foot grocery store in our Andorra Shopping Center with small shop leasing rents coming in 16% over underwriting. And Andorra is just one example. We have another half a dozen centers in various stages of reinvestment with many more in the pipeline. Historically, these reinvestments have produced 10% plus returns on average with a single objective, drive productivity and rents at our centers making our existing portfolio a continuous source of multi-year growth.

And finally, our business development platform that we highlighted at Investor Day had a standout quarter with our incremental income initiatives on track to be up 20% for the year over the prior year comparable pool. That is extraordinary given the fact that our occupancy continues to climb and improves. This program is much more than leasing temporary space. It is a sustainable source of revenue, unique to our property set of large, dominant, and/or mixed use assets. Parking revenue alone, which is very unique to our portfolio, is expected to be up almost $3 million year-over-year driven by higher rates, events, activations and partnerships. The through-line across all of it is the same, dominant, durable, high quality real estate creates value. And in this K-shaped economy, our centers are thriving.

Now, let me turn it over to Dan to dive into the numbers.

Daniel Guglielmone

Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

Thank you, Wendy, and hello, everyone.

Our FFO per share of $1.88 for the second quarter reflects 7% growth versus last year and highlights another exceptionally strong quarter operationally. This result came in $0.03 above the midpoint of our guidance range highlighting a business plan that's delivering across all of its components. Drivers for the outperformance this quarter include $0.03 from higher rental income and recoveries, $0.02 from stronger percentage rent, parking revenues and the incremental income initiatives Wendy just referenced, almost $0.01 from better term fees than we had forecasted, as well as another $0.005 further benefit from our capital recycling activity. This was essentially offset by $0.015 from a one-time investment write-off, $0.01 from straight-line write-offs, and $0.01 higher G&A than we had originally forecast. Net-net, a $0.03 beat on the shoulders of $0.05 better than expected rents, recoveries and incremental income.

Adjusted comparable growth, our cash basis comparable growth metric, was 4.2% for the quarter, and stands at 4.6% year-to-date. Our GAAP metric was 2.8% for 2Q and 3.7% year-to-date. Both outperforming the expectations we set out on our call in May. Also the result of the drivers that we just highlighted. Cash basis revenues increased 3.6% for the quarter. And all of these metrics, all these variations of same-store metrics, were ahead of our expectations highlighting the solid first half of the year.

Now, let's turn to our balance sheet. With the exception of $30 million maturing in August at a 7.5% interest rate, we currently have no debt maturing until mid-2027, while sitting with $1.2 billion of liquidity at quarter-end. We continue to see strong free cash flow after dividends and maintenance capital, forecasting over $100 million for this year, but that figure heading towards $150 million by 2028 as we convert straight-line rent to cash paying rent. If you'll recall, we outlined these figures at our Investor Day in May. This will also have a positive impact on AFFO through 2028 and beyond.

During the second quarter, we closed on another $66 million of retail asset sales, bringing the year-to-date 2026 total to $225 million at a blended 5% cap rate. When combining 2025 and year-to-date 2026 asset sales, our total stands at $540 million at a blended initial cash yield of 5.4%. And note that the estimated forgone unleveraged

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IRRs on this pool blends to an average of less than 7% with no assumed terminal cap rate compression. All metrics, which reflect a very, very attractively priced source of capital. Through this active and disciplined asset recycling program, our net debt metrics remain solid. Second quarter annualized net debt to EBITDA has improved to 5.4 times, and fixed charge coverage stands solid at 3.9 times.

Now, on to guidance. As a result of another solid FFO beat for Q2 on the heels of a robust first quarter along with an encouraging outlook for the balance of the year, we are raising guidance for both Nareit and core FFO to $7.48 to $7.56 per share. At the $7.52 midpoint, this increase represents 6.5% growth for core FFO when compared to 2025 with the range being roughly 6% and 7% at the low and high end of the range, respectively.

Drivers for the guidance increase include our comparable GAAP-based POI growth outlook improving to 3.25% to 3.75% from the previous 3.125% to 3.625%. Our cash comparable growth or adjusted comparable for our disclosure is expected to be 75 basis points higher. So, a range of roughly 4% to 4.5%. That's a 35 to 40 basis point increase.

Small shop momentum helped us maintain our occupied rate during the second quarter and we continue to forecast a spike in our overall occupied rate to the mid to upper 94% range by the end of the year powered by leases that have already been signed. We continue to see stronger than expected contribution from the $750 million of dominant high quality properties acquired in 2025. And our outlook on term fees also moves higher to $10 million to $11 million as the second quarter fees were roughly $600,000 to $700,000 higher than our forecast with better visibility into the second half of the year. This roughly $2 million increase is offset by a $2 million rise in our forecasted G&A as we make investments in our digital innovation and business development teams. Incremental development POI is up $500,000 to $14.5 million to $15.5 million as we deliver space to tenants ahead of forecast.

We're keeping our credit reserve as is at 60 to 85 basis points rental income as we effectively run near the midpoint year-to-date. And lastly, we have adjusted our interest rate outlook to reflect more conservative current market expectations. Additional guidance assumptions remain unchanged and are outlined on page 27 of the 8-K.

This updated guidance also reflects the $66 million of asset sales completed during the quarter with the foregone yields in that mid to upper 5% range. Please also note that we issued $61 million of equity during the quarter through our ATM program further enhancing our capital base. We continue to be active on capital recycling with additional acquisition and disposition opportunities targeted for the second half of the year. And we will adjust guidance for those likely upwards as we go.

To summarize, our guidance increase is driven by the following puts and takes. $0.03 of forecasted operational outperformance driven by parking, percentage rent, and incremental income and stronger occupancy than we forecast, plus $0.02 from term fees, offset by $0.02 of higher G&A with the aforementioned investments in digital innovation, business development and $0.01 to $0.02 from a more conservative interest rate outlook. With respect to our expectations for quarterly FFO cadence over the remainder of 2026, we've set the third quarter at $1.82 to $1.86 per share and the fourth quarter at $1.91 to $1.95 per share primarily driven by the aforementioned contractual occupancy growth.

As a result of the strong year-to-date and our bullish outlook, Federal will continue to lead the REIT sector as its only dividend king, a distinction of 50-plus consecutive years of annual dividend growth, as we once again increased our dividend for a 59th consecutive year to $1.16 per share per quarter or $4.64 annually. You've heard me say since I joined the company a decade ago, for every year I've been alive, Federal Realty has increased its

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annual dividend. Think about that, since 1967, at roughly a 6.5% cadence. That's a record Federal team continues to be tremendously proud of.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions]

The first question is from Michael Goldsmith with UBS. Please go ahead.

Michael Goldsmith
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. You had previously spoken about NOI growth accelerating in the back half of the year after the lower second quarter results. Is that still the case? And then can you provide some color on what's driving that? Is that occupancy growth? Is it increasing rent growth or any other factors? Thanks.

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

Yeah, I think consistent with what we shared kind of on the May call, the second and third quarter will continue to have some occupancy churn in the third quarter. So, that'll keep a lid on until an acceleration in the fourth quarter, which we really won't see the benefit of probably till next year as those tenants get open and operating and rent paying. But yes, it's consistent with kind of I think what we shared with you at Investor Day and on the May call.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Yeah, Michael, I'd just add to that. Think about the anchor progress that we've been making and the timing of the openings of those stores very heavily weighted to 4Q, which should bring occupancy of the anchor side up into the 98-plus percent range after that.

Operator: The next question is from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey, good morning down there. Don, the robustness of the leasing and obviously against the economy and everything else that's in the macro, do you get a sense that all the tenants are leasing on full offense? Or do you feel like increasingly tenants are leasing because they have to because there's not enough space left, and therefore they feel more compelled to lease? I'm just trying to understand the robustness. If it's all 100% offense for growth or some of the tenants are increasingly feeling like they need to take the space because if they don't, there won't be anything left for them out as space dwindles.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

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Yeah, I think that's a great question, Alex. And as usual, the answer is a balance of both. And it's hard to paint this broad brush of the reason people lease what they're trying to do. Clearly, in large measure, business plans are long-term in nature, expansion plans are long-term in nature, and accordingly, the offensive nature of growing your portfolio is the driver. Having said that, it's no secret to anybody that because there has been no new supply that's been added over the last 15 or 20 years at this point that making sure that retailers are in the places they need to be, and that does include a – anytime a great piece of real estate comes available, there is always ample demand for that space.

And so, I don't know if you define that as defensive or you define that as part of the offensive strategy of the company. I personally don't care. It's about making sure great space is – the demand for that space exists and exceeds the supply. That is the case. It's been the case. And everything we see suggests that should continue to be the case. So, offense is the real answer to the question.

Operator: The next question is from Haendel St. Juste with Mizuho. Please go ahead.

Haendel St. Juste
Analyst, Mizuho Securities USA LLC

Q

Thank you. Close enough, but good morning. Hey, Don. So, I wanted to ask you about acquisitions. You guys obviously have been more active the last couple of years. There's a lot more that we're hearing on the market today for various reasons. So, I guess I'm curious if you could add some color on your, broadly your appetite here kind of maybe what inning are we in kind of the – some of the portfolio moves you've been making in recycling some assets. Are you seeing more deals that are passing your screening? And maybe some color on target returns, and if equity could play a role here? Thanks.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Yeah, no, it's a great question. It's a great question. I'd love to turn that over to Jan Sweetnam to make sure that you get a fulsome answer to that question.

Hey, Jan, you there? Jan...

[indiscernible] (00:26:03)

Jan Sweetnam
Executive Vice President & Chief Investment Officer, Federal Realty Investment Trust

A

Hi. Hi, Haendel. That's a loaded question. So, I'll do my best to try to get through it. And let me just sort of start with what are we seeing and how big the pipeline is. And so in Investor Day, we were looking at about $1.4 billion of assets that we thought were interesting and provided some of the large centers that we're looking for the returns and all that. And kind of as we go through it in terms of what sort of come out of that pipeline because it just didn't fit for us, couple of assets that we're working on, Don referenced a little bit earlier and kind of what's come in, the pipeline is still pretty robust. In fact it's probably a little bit bigger than $1.4 billion today.

So, I think the deal flow is looking and feeling really good for us as we progress through the balance of the year. And so our appetite is still very strong to acquire assets. But look, it's gotten a little bit more competitive out there. Cap rates have come down a little bit, in particular for the best of the best properties. But look, this cuts both ways as we're recycling capital and lower cap rates make our acquisitions more expensive, but they make our dispositions more valuable.

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But turning to acquisitions, yeah, it's more competitive. And I'll give an example where there are a couple of properties that we like. They're really good properties with good mark-to-market on the in-place rents, but they're set to trade at cap rates lower than 5%. Breathtaking, really, and a steep climb to get to 8% unlevered IRR. And we just couldn't get there. It's competitive, but we remain optimistic that there are properties where we can deliver our returns. We'll look at opportunities in the 6s, 6% cap rates and maybe even a little bit less than a 6% cap rate, if the growth is really good. 4% to 5% CAGRs over the first five years should get us to better than 8% 10-year unlevered IRRs.

But, as you know, Don said just a little bit earlier, it's about is there material unmet demand and the ability to push rents and get to spaces in a reasonable timeframe. That's what's going to drive those CAGRs. And that's how we drive revenue. And as we look at opportunities, Wendy and her team are laser-focused on understanding demand and our ability to drive rent or not.

Wendy Seher
Executive Vice President, Eastern Region President & Chief Operating Officer, Federal Realty Investment Trust

A

Yeah, Jan, I'll just jump in here. It's really – as you said, it's all about revenue growth and getting comfortable with our mark-to-market underwriting assumptions. And so when we go through this due diligence process, it's not calling a couple of tenants and we go very deep. As you know, we are format agnostic and we have various different properties that we own. So, we have a really wide lens of retailers that we do business with. But really the secret sauce of our due diligence is those relationships and the tenants who are not in that particular shopping center and getting that unfiltered, honest, in-depth feedback that helps us with not only underwriting, but what's working at the property, what's not working? Is the property on their list for expansion? Why is it not on their list? Is it lower on the list? If we owned it, would it be higher on the list? And we saw that example in Kansas City. I mean we've just – well, we've just bought that property a year ago. We've already done over 20 deals and we were making chess moves with tenants before we even bought the property. So, that's why ALO just opened and Vuori is under construction.

So, and Haendel, you're getting a long answer on this one. But lastly, I think it's important to mention our operating platform. We know how to operate properties efficiently. We know how to scale management and local operators along with that. And when you're setting up in a situation that might have fixed TAM like Kansas City and Annapolis, that goes straight to our bottom line, very productive.

Operator: The next question is from Greg McGinniss with Scotiabank. Please go ahead.

Greg McGinniss
Analyst, Scotiabank

Q

Hey, good morning. So, you finished acquiring the entire Kingstowne assemblage. It's not in the redevelopment pipeline. So, is this a simple lease-up strategy, and doing more in the same space, or is there a different long-term plan there? And then not to get you too far over your skis, but on the potential two deals that you talked about, Don, are those considered kind of market dominant centers in new markets or more of a clustering opportunity? Thanks.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Thanks, Greg. Couple of things to talk about. First, with respect to Kingstowne, that's just good real estate acquisition. That is a piece of land in the middle of our two shopping centers that are effectively there, that are

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certainly better off in our hands than anybody else's hands. It is a stay-the-course strategy effectively for the near term, but because of where they are and some of the due diligence that we did with respect to alternatives, should there be an issue with the current tenancy, we've got a good plan. So, in some respects that's defensive to fill out the nice square of the two shopping centers there, but also offensive because of what we think we've got going on there.

Look, on the properties we're looking at, I can't talk to you about it until we're all done. With respect to those, I will tell you that I think we've been pretty darn clear over the last year that we'd like to be in three to five new markets. We've also been pretty darn clear that filling in existing markets remains a priority. It's a combination of both of those things. While I won't comment on two particular properties that are referenced, that's the business plan of the company. That's what we're doing, and trying to continue that program. Frankly, having more success than even at the beginning of the year that I thought we'd have.

So, things have changed. I like Jan's answer on the fulsome nature of all that stuff that's available. And I hope to provide better news even – or more complete news, if you will as the rest of the year continues.

Operator: The next question is from Andrew Reale with Bank of America. Please go ahead.

Andrew Reale
Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thanks for taking my question. Maybe just to hit on the guidance, could you provide maybe just a little more color on some of the tenants driving the term fee higher this year? And then on the higher G&A, Dan, I know you mentioned there might be some investments in digital initiatives. So, maybe you could just speak a bit more about those. Thanks.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Thanks, Andrew. Let me tell you about one particular term fee issue that I really kind of wanted to get this out there and why it's so important to us. I can't give you the specifics obviously for the – in terms of the tenancy. But imagine you've got a really strong lease at a good shopping center where that tenant is obligated, they do other go dark, right, that can go dark, they have an obligation to pay rent forever. And it's a very important component obviously to the long-term lease. They are paying rent and continue to pay rent regularly. However, when you have a really good shopping center, you should be able to backfill, and backfill hopefully with a better tenant, a tenant that does more for the shopping center that pays at least that amount of rent and hopefully more.

And so while we were accepting the ongoing rent of this particular tenant, the ability to re-lease it were there. So, we've got a new tenant coming in, a new tenant paying a better rent, a new tenant that will be better for the shopping center. And by the way, the old tenant is paying us seven years of rent. The math works all day long. So, the notion of – and that's $3 million, that was a $3 million term fee. That's why that, the change in the assumption for the year. I'll take that all day long, and hope that somehow that's included in the understanding of what our business is and the strength of our leases.

Dan, you may have more in guidance, but Andrew, thanks for asking that because I really do want you to understand the math and the reason for doing deals with high credit tenants that have the ability to either continue to pay or because the lease is really strong, when we have another tenant to be able to backfill, cutting a deal right then and now, so that we can double dip. That's what we're doing. Double dipping.

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Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

Yeah, I'd also shade a little bit of color. I mean, the anchor tenant was not leaving for credit issues. It is a strong investment grade backed tenant who made a strategic decision to exit a particular market, okay? And this was, as I said, not a credit issue. In fact, of our $8.6 million of term fees year-to-date, over two thirds of it were from investment grade rated or investment grade backed tenants. And so with regards to guidance, we increased the guide for the year driven by about $600,000 to $700,000 of beat in the second quarter. Plus we have greater visibility into the second half of the year. And that implies roughly $1 million per quarter on average in Q3 and Q4. So, you have that color for the balance of the year.

Jill Sawyer
Senior Vice President & Head-Investor Relations, Federal Realty Investment Trust

A

G&A, G&A.

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

And then lastly, G&A.

Jill Sawyer
Senior Vice President & Head-Investor Relations, Federal Realty Investment Trust

A

Digital [indiscernible] (00:36:07)

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

Yeah, look, we are making investments with regards to guidance. We are making those investments. We expect to get strong returns. I think we will get returns immediately on some of the business development stuff which we're really, really excited about. And with regards to the digital innovation side, I think that's a little bit longer term an investment. But we've got a really strong group of professionals who have joined us. And we feel really good about making these investments and that will obviously impact the G&A line item in the second half of the year.

Operator: The next question is from Juan Sanabria with BMO Capital Markets. Please go ahead.

Juan C. Sanabria
Analyst, BMO Capital Markets

Q

Hi. Thanks for the time. Just maybe a question for Dan. Same-store NOI implies a bit of a decel from the first half into the second half. So, just curious on what's driving that if that's how we should think about it. And maybe how the build or in-place occupancy should trend for the balance of the year as a subset of that?

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

Yeah, just with regards to – we had indicated I think previously some, obviously, lower numbers in the second and third quarter and a stronger first quarter which you saw and a stronger fourth quarter. So, you should expect in the low 2s on our GAAP-based metric for comparable and probably in kind of the low 4-ish range. So, blended in the low 3s and that should – that gets us into kind of the low-3s in the second half of the year. That's what it implies. Hopefully we can do better than that.

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And then the second piece was...

Jill Sawyer
Senior Vice President & Head-Investor Relations, Federal Realty Investment Trust

A

[indiscernible] (00:38:00)

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

...yeah, same, same, same thing. I mean that's really – occupancy is driving a lot of that and getting tenants open. And we'll see kind of a nice resurgence in the fourth quarter on that comparable metric and feel good about the comparable metrics entering 2027.

Operator: The next question is from Jamie Feldman with Wells Fargo. Please go ahead.

Q

Hi. Thank you. You've got [ph] Connor (00:38:30) on with Jamie. Can you talk about where yields are today on your entitled multi-family pipeline? How we should think about potential start activity over the next 12 to 24 months and which locations are closest to penciling?

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Yeah, [ph] Jamie (00:38:47), I can do that a little bit. So, we've got – what we'd love to be able to do is on a cash-on-cash basis be in the mid-6s to 7% or so on the residential stuff that we do. I don't – if it doesn't pencil, if it's below a 6% or somewhere like that, we're just not going to do it. So, when you look at where we are, what we've got opportunities for, we've got things like Pembroke in Florida, which I would – we're getting close on seeing if we can make that one work. There's also an opportunity potentially at Assembly for one of the sites that we have. And so, those two I would say are the closest to be in the next stage, if you will, after Willow Grove.

Now, what you should remember is we've got something squared away now for 2026, for 2027, for 2028, and effectively what we'll hit 2029. So, the notion would be in the next 12 months or so getting that next project or two or three teed up. Those are our best guesses at the moment.

Operator: The next question is from Michael Griffin with Evercore. Please go ahead.

Michael Griffin
Analyst, Evercore ISI

Q

Great. Thanks. Jan, I want to go back to your comments around cap rate compression, and just as it relates to some of the opportunities in the expansion markets. I mean I think if I recall correctly both Town Center and Village Pointe were in the high 6s. So, if you're talking about deals that you're finding now in the low-6s, that feels like a decent amount of cap rate compression over the past year.

I guess, number one, is it increased competition that you're seeing for some of these more operationally complex assets, or is it just a mix of kind of the more coastal core markets that you highlighted at the Investor Day that you're targeting versus the potential expansion markets?

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Jan Sweetnam
Executive Vice President & Chief Investment Officer, Federal Realty Investment Trust

A

Yeah, hi, Michael. Good question. I think one of the overall factors is there's just so much more capital chasing retail right now. And so that's just created more competition for the supply of product that's out there and that's just has pushed the yields down. And a lot of that capital was – it's focused on some of the best properties that are available in the marketplace. And so, I just – overall, whether it's in California or whether it's in Kansas City, there's probably more competition today than there used to be. So, that's on the one hand.

On the other hand, what we've seen by owning Kansas City, by owning Village Pointe in Omaha, and really spending the time – and so much more time and energy over the last couple of years, in the last 12 months, in the last six months, underwriting these assets and really talking to these retailers and seeing the performance that we have delivered and we can deliver, it feels like even though the yields are a little bit lower going in, we can still drive the 8% or better IRRs. We can drive the growth out there. So, from sort of our perspective, even though the yields are lower, it feels sort of neutral in our ability to execute, if that makes sense.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Griff, let me just add a couple of things to that because as I'm listening to the conversation and listening to your question, one of the things that comes to mind here is the type of stuff we look for is really unique. And it is a really asset by asset kind of thing. I know you'd like to say, all grocery anchored shopping centers trade at a blank and all lifestyle-type centers trade at a blank, but it really doesn't work like that.

And so when you go back to the conversation that Jan and Wendy had before, it really does depend on our ability to underwrite IRR. Now, there's a limit to going in cap rate. As Jan said, we're not going to be down in a place where it's dilutive to us to get started. That's a key tenet of what it is that we do. But when you get one of these larger properties that truly has been undermanaged and truly has significant lease-up that you can get to, important that you can get to over the next five years, I got to tell you, man, when it comes to a mid-8s IRR, the going-in cap rate is less important. Now, not unimportant, it's got to be accretive. But these are specialty assets. These are the biggest, best assets in the communities that we're talking about there. And it's an important distinction.

So, the notion of saying, well, it's 50 basis points tighter or 75 basis points or 25 basis points or whatever it is, it's a broad comment and not necessarily untrue, but it's on a very small sample size of the type of asset. And those type of assets are very much dependent upon what the underwriting is going to look like over the next five years. I hope that's helpful, kind of putting that in perspective. These aren't generally $20 million, $30 million, 100,000 square foot shopping centers that are pretty generic.

Operator: The next question is from Floris van Dijkum with Ladenburg. Please go ahead.

Floris van Dijkum
Analyst, Ladenburg Thalmann & Co., Inc.

Q

Hey, thanks. I know you have the $200 million mortgage coming due on Bethesda Row I think next year. You have an option to extend that. Is that also potentially an asset you could sell a JV interest in? Can you maybe talk about your thought process potentially of partially monetizing an asset like that that has less expansion possibilities? Or is there enough growth in your view that you want to keep 100% interest in, in assets like that?

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Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Thanks, Floris. That's a great question. When we look at how we fund our business plan, it's pretty cool to have a lot of different options. And frankly, more options than most other companies have. One of those things, as you just pointed out, are assets that are very important to the company where we've done some pretty darn good work over a lot of years for which we do not want to lose control, importantly, of that, but could be a source of a very low cost of capital. We need to look at that.

And while the notion of wholesale joint ventures on the big stuff and blah, blah, blah, that's not going to happen. Sharpshooting, as part of the overall capital structure and capital plan, that's pretty cool. It's a pretty cool opportunity. So, yes, we will be looking at that in the coming months and years as an incremental tool to be able to expand the business plan.

Operator: The next question is from Craig Mailman with Citi. Please go ahead.

Craig Mailman
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, everyone. Just want to go back to just bigger picture on the acquisition side of things. I mean institutional capital continues to push cap rates down in a space where rent growth has – or the ability to push tenants has been a little bit more elusive given fragmented ownership and the importance of some of the anchors. I mean when you're talking to brokers and they're underwriting some of these newer capital sources, are these compressing cap rates in a pretty sticky interest rate environment indicative of just a view that rent growth is going to accelerate across the space, or is it a hedge on inflation or just a byproduct of more accessible capital markets on the debt side? Just trying to get a sense of how anyone's making these numbers pencil on an IRR basis unless they're just accepting lower returns in this environment. Just maybe some thoughts on that.

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Yeah, you just asked a macro question to which my answer, I can't help myself. I tend to get to the micro. I get to the particular asset, the particular opportunities to grow the income stream in the asset, which I talked about. It is why that on a macro basis to the extent I think a number of things that you just said are really important. You remember, Craig, that really up until the last year or so, it was all about the grocery anchored shopping center and that center in a bite size $40 million, $50 million kind of purchase price, that served as a wonderful hedge against not only inflation, but against – it was a risk-off move. And it makes all the sense in the world, we love those centers. That's great. There is no doubt that with more focus and money on the bigger stuff that there is in my view a bit of a realization that larger assets that are privately held do require capital. That capital is often not spent by the ownership whether that's institutional ownership or a local ownership in some form, that a company like ours or others out there can provide outsized growth with credit.

You put money into a shopping center, all money is not equal. You put money into a shopping center with better credit tenants with better opportunity for growth in highly affluent areas. That's pretty good use of capital. And it's always considered in the underwriting. And so it's a combination of everything that you kind of said, but there is a realization that retail real estate is more than triple-net leases or grocery anchored shopping centers, that there are core-plus and opportunistic opportunities that are there, that people are more comfortable that there are a few operators that can really extract that value. We're certainly one of them.

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Operator: The next question is from Rich Hightower with Barclays. Please go ahead.

Richard Hightower
Analyst, Barclays Capital, Inc.

Q

Hey, good morning, guys. I guess maybe a bit of a similar line of questioning, but obviously you guys have a pretty deep menu of redevelopment projects going on in the portfolio. And I'm wondering just kind of given the strength in underlying trends that we've talked about on the call, does that sort of open up or maybe allow other assets in the portfolio to sort of pass the hurdle to spend that capital maybe in a way that you weren't considering six months ago or a year ago? Does it change the math on that sort expenditure as well?

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

I think it does, Rich. I think that's a great question. It's a great observation. The one thing about portfolios, particularly portfolios that have been held for a long period of time, there are periods when things work better and there are periods in real estate when the math just doesn't work. Your observation is really good. And one of the things that is worth saying here is while inflation generally doesn't make it easier to go buy groceries and all the stuff that's read in the newspaper every day, it sure ain't bad for retail. And as long as it's controlled and the ability to effectively push rents, the ability to effectively in a supply constrained marketplace which this is and has been does open up other opportunities, we're looking hard at stuff that we haven't looked at because the math hasn't worked in the past. And I would be bullish, if you will on some of those opportunities finding their way into the business plan over the next 12 months.

Operator: The next question is from Michael Mueller with JPMorgan. Please go ahead. Okay. Michael Mueller, you are now on the podium. Please go ahead.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Yeah. Oh, hi. Sorry. So, I guess following up on the redevelopment question, how do you think the annual spend is going to trend over the next three to five years compared to where you are this year? Do you think we're closer to a material pivot to the upside?

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

We could, we could. This is Dan. Good question. We've been kind of analyzing and looking at what the pipeline looks like and what we could add and what things are ready to move forward and where they're penciling. And so I think over the next, call it, 6, 12, 24 months, you could see us continue to add more and more projects whether it be resi over retail projects that Don alluded to earlier, or whether they're commercial retail oriented projects, redevelopment that we could add to it. It's probably in the neighborhood in terms of the next 12 to 24 months that we would consider $400 million to $500 million of projects that could get started. But we're going to be disciplined. And we're only going to pull the trigger if they make sense from a return perspective.

Don, anything more?

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

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No, no. As all of these questions are about how do we accelerate growth. That's right. That's the basis of all of these questions. And the one question that hasn't been asked about are our operating margins. And the notion of effectively what digital innovation, what business processes, what is available over the next few years, how to get income rent started earlier, all of these notions, I do believe that technology will make us more profitable also. So, just add that to the list of things about how and why there should be good growth going forward to our business.

Operator: The next question is from Paulina Rojas with Green Street. Please go ahead.

Paulina Alejandra Rojas Schmidt
Analyst, Green Street Advisors LLC

Q

Good morning. You've talked about targeting properties with really specific characteristics, really high standards. What tends to be the hardest characteristic to meet? The one that makes a center good, but not really quite good enough to meet your bar. And I ask because sometimes I see properties transact in affluent pockets of materially higher cap rates that you have quoted. So, I wonder what the breaking point tends to be in your case? Is it perhaps that the market is not large enough, or the lack of flexibility for densification, or something else?

Donald C. Wood
President, Chief Executive Officer & Board Trustee, Federal Realty Investment Trust

A

Good question. Jan and Wendy, you probably want to add to this. It's about the details in the leases for the property. And so when you have a property that has been fully exploited, if you will, even if it's in an affluent area, it works as a wonderful hedge and that's terrific from a bond perspective. But if there's not the growth available by remerchandising that or by adding a redevelopment component, if there is not, then it's going to trade at a higher cap rate. And that higher cap rate, if you look at just broadly, can be confusing. Why in this affluent area is this property trading at this? One, because there's no growth. And at the end of the day, that's the single biggest thing is where are the leases? And that's determined in that marketplace as to what the future of that marketplace looks. And how that marketplace is creating jobs? How that marketplace is creating the ability to create growth and better merchandise? And so it's hard to put this big-wide paintbrush on the issues that way because it is a local business. That's the single biggest driver is what are the in-place rents and what are the opportunities for changing that cash flow stream.

Daniel Guglielmone
Executive Vice President, Chief Financial Officer & Treasurer, Federal Realty Investment Trust

A

I don't know [audio gap] (00:56:22) position of that asset within that market. We target the best assets in those markets. And sometimes you may be looking at cap rates for an asset that is positioned as the third or fourth best asset in that market. That is not going to command the demand from tenants that we really, really look to make sure it's there, and that we can underwrite. And so you'll see us pass sometimes on assets like that that we just don't see long term there being the opportunity. And that's reflected obviously in the higher cap rate.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Jill Sawyer for any closing remarks.

Jill Sawyer
Senior Vice President & Head-Investor Relations, Federal Realty Investment Trust

Thanks for joining us today, and have a great rest of the summer.

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Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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