Federal Realty Investment Trust

Third Quarter 2023 Earnings Conference Call

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Anthony Powell, *Barclays*

Linda Tsai, *Jefferies*

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PRESENTATION

Operator

Hello, and welcome to the Federal Realty Investment Trust Third Quarter 2023 Earnings Conference Call.

(Operator Instructions)

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Please note, this event is being recorded.

I would now like to turn the conference over to Leah Brady, Vice President of Investor Relations. Please go ahead.

Leah Brady

Good afternoon. Thank you for joining us today for Federal Realty's third quarter 2023 earnings conference call. Joining me on the call are Don Wood, Federal's Chief Executive Officer, Jeff Berkes, President and Chief Operating Officer, Dan G., Executive Vice President, Chief Financial Officer and Treasurer, Jan Sweetnam, Executive Vice President, Chief Investment Officer, and Wendy Seher, Executive Vice President, Eastern Region President; as well as other members of our executive team that are here 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 tonight, our annual report filed on Form 10-K and other financial disclosure documents provide a more in-depth discussion of risk factors that may affect our financial conditions and the results of operations.

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

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

Donald C. Wood

Thanks, Leah, and good afternoon, everyone. It's a good time to own high-quality retail-centric real estate. Demand exceeds supply for the best stuff, and this past quarter's results and in fact, the whole year thus far has made that patently obvious.

For the third consecutive quarter, we signed comparable leases, in other words, 95% of all the deals done during the quarter. The only deals we exclude in our definition of comparable relate to ground-up construction for over 0.5 million square feet, 553,000 to be exact. For the nine months of 2023, that's over 1.6 million square feet of comparable deals, a mark we've never hit before. It's more than the first nine months of '22, which itself was a record and more than the first months—nine months of 2021, which itself set a record.

You can see it in the occupancy numbers, too. While the Bed Bath closings were expected to end it (phon), reduced occupancy in the quarter versus last year by 100 basis points, our overall occupancy declined just 30 basis points on a lease basis and 50 basis points on an occupied basis. That says something about demand.

If you dig deeper, small shop occupancy, the part of the business we hear the most consternation about, increased another 50 basis points to 90.7% on a lease basis and 80 basis points on an occupied basis. This trend has been a steady and powerful trend for two and a half years now. When you look at occupancy

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possibilities going forward by looking at our past, it's reasonable to expect another 100 basis points of small shop occupancy and another 250 basis points of anchor occupancy due largely to Bed Bath, roughly 200 basis points overall in the coming 18 months or two years depending, of course, on the extent of future bankruptcies that are not obvious to us today.

I go through all this to really try to hammer home the obvious health of a business centered around leasing high-quality retail-centric properties in the first-ring suburbs of America's greatest cities. While bottom line results are and will continue to be muted by the higher but certainly historically reasonable cost of capital that's likely here to stay, rents will likely adjust upward over time to that reality, especially with tenants and in locations that are affluent.

I hope that higher interest rates don't cloud investors' appreciation of the strong underlying business fundamentals that exist today and likely tomorrow. Let's talk about rents. A hundred comparable deals, which again represents 95% of the deals done this quarter, was certainly representative of the total company; 553,000 square feet, starting new rent of $34.51; final year-old rent, $31.17. That's plus 11% on a cash basis, 21% on a straight-line basis; a weighted average lease term of 8.8 years, excluding options. The average lease term with all options exercised is more like 16 years; an average CAGR of contractual rent bumps of this quarter's leases was 2.5%; TIs per foot of $31.19 when you don't consider this quarter's option exercises, $16.67 per foot when you do.

Been hearing that our rents are high for the better part of the last 20 years. I guess on a relative basis, they are. Better properties have higher rents. Better properties have higher tenant sales and profitability, too. Frankly, it's obvious. That sustained leasing volume and those economics bode well for the future, especially the contractual rent bumps. Third quarter results benefited from that level of activity over the past six quarters.

FFO per share of $1.65 in the third quarter was ahead of consensus, ahead of internal expectations and ahead of last year's third quarter by 4% despite far higher interest expense and lost Bed Bath income. This is a really strong quarter for us. As you know, we are particularly active on the acquisition front during the COVID years of 2021 through 2022. In total, $1 billion in new additions to the core portfolio during that time, whereby the post-acquisition leasing continues to exceed the acquisition underwriting.

Similarly, leasing production in properties that have recently undergone redevelopment and/or property improvement plans have also continued to outperform our expectations, and we also expect that to continue. While big new acquisitions have slowed given the higher cost of capital, note that in 2023, we've been able to invest over $120 million at 8% with a blended IRR above 10.

We did that through number one, the acquisition of our partner's 22% interest in Escondido Shopping Center; secondly, the acquisition of the fee and the portion of the Huntington Square Shopping Center that we didn't previously own; and number three in October, the fee under Mercer on One in Princeton, New Jersey, one of our best-performing regional shopping centers over the last 20 years, smart accretive capital deployment of real estate very well known to us in each case.

And, as strong as the core shopping center business has been, the large mixed-use properties have been even stronger. Retail leased occupancy at 97%, residential leased occupancy at 98%; office leased occupancy at 97%, excluding buildings under development. Powerful traffic counts and tenant sales make these property the center of the communities in which they operate. They draw customers from distances far more than a local neighborhood.

And so, as not to leave it out and as I've mentioned on prior calls, our multi-tenant leasing strategy at Santana West has generated meaningful tenant interest that has progressed to advanced lease

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negotiations with multiple tenants for more than half the building. While leases are not executed yet, our progress here is noteworthy.

Strength of our business is grounded in superior demographics, always has been, always will be. More density, higher incomes of real barriers to entry are always important in our business but never more so than an uncertain time in the economy. Past cycles have proven this out time and time again. With 70,000 households with annual household incomes of over $150,000 sitting within three miles of Federal centers, there's simply no large open-air portfolio available for the public investor to own than this one, not one.

Naturally, we're all on the lookout for changes in the strength of the American consumer and their spending habits because, as you know, it's remained surprisingly resilient. We tried to dissect the limited tenant sales data that we have for the 2023 third quarter and compared it to the 2022 third quarter. As expected for us, sales were up portfolio-wide. Digging a little deeper, our properties with the highest average income surrounding them saw a quarter-over-quarter tenant sales that were significantly better than our properties with the lowest average income surrounding them. No surprise, but an indicator worth keeping our eyes on in the months and the year ahead. As I said upfront, it's a good time to own high-quality retail-centric real estate.

Let me now turn it over to Dan before opening it up to your questions.

Dan Guglielmone

Thank you, Don, and hello, everyone. Another strong quarter of bottom line FFO growth despite higher interest costs. Even with the headwinds, stronger POI has driven almost 4% FFO growth both to the third quarter and 2023's first nine months. $1.65 per share beat consensus by $0.03 and was $0.02 above the upper end of our guidance range.

With respect to this continued strong performance, we can point to the following drivers: higher property-level POI than forecast, driven by higher min rents as we got tenants open ahead of forecast and kept tenants in longer; higher overage percentage rent in specialty leasing; higher term fees than we forecast as well as lower property-level expenses. Despite the offset of higher interest costs and higher G&A, as you can see, we had another very, very strong quarter.

With respect to our comparable metric, POI growth was 3.8%. On a cash basis, comparable POI growth, excluding term fees and prior period rent was also 3.8%. Year-to-date through the first nine months, cash basis comparable POI, ex term fees and prior period rents stands at 4.6%, at the upper bound of our expectations and will result in an increase in 2023's outlook for that metric, which I will touch upon later. This helped contribute to an overall POI growth of 7% for the third quarter and 7.5% year-to-date.

Term fees in the comparable pool this quarter were up $2.4 million versus $1.3 million in the third quarter of last year. Prior period rent this quarter was down to $900,000 versus $1.7 million in the third quarter of '22, basically awash these two adjustments. Details for term fees and prior period rent in the quarter are disclosed in our 8-K.

Year-over-year occupancy showed continued progress with our overall occupied metric landing at 92.3% and our leased percentage at 94.0%, both metrics meaningfully higher than we had forecasted due to strong leasing and our team's efforts to get tenants open and rent paying. Net of the negative 100 basis points occupancy impact from the Bed Bath departures during the quarter, our occupied metric grew by 50 basis points, and our leased metric grew by 70 basis points. As a result, our signed-not-occupied percentage in total stands at over 250 basis points or $27 million, comprised of roughly $17 million of incremental total rent in our existing portfolio with an additional $10 million of total rent in our noncomparable pool, where leases are signed and the space is to be delivered.

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Now, let me emphasize the strong quarter of comparable retail leasing with 11% cash rollover and 21% rollover on a straight-line basis, which was achieved with meaningfully less capital than we've historically seen. Despite having a significantly higher share of new leases signed during the quarter, which was largely caused due to mix, as last quarter we had a high percentage of renewals. Tenant improvements and landlord work per square foot for these new leases came down meaningfully to $41 per square foot and resulted in a blended $31 per square foot, including renewals.

Strong new leasing activity was evidenced by 61 new deals totaling 423,000 square feet retail leasing, representing 75% of the volume for the quarter with more than half of this leasing for space that was vacant at June 30, a big driver of the strong occupancy gains in the third quarter net of the Bed Bath departures. Historically, Federal's disclosed leasing volume. Rollover and capital metrics have been reflective of arm's length negotiated transactions and therefore, have not included option exercises. Options are one way for the tenant, and they also do not have any capital associated.

In an effort to continuously improve our disclosure, we have expanded the retail leasing schedules at our 8-K to include the option exercise. We had 482,000 square feet of options exercised this quarter, which incidentally had solid rollover of 9% but more importantly, bring our total reported capital number from $32 per square foot in total down to $17 per square foot when including these options exercise. This expanded disclosure can be found on Page 23 of the 8-K supplement. Note that we have also highlighted what percentage of total leases signed each quarter are comparable. Our trailing 12-month average is 95% by number and 97% by GLA, which we believe present a more comprehensive picture for the investment community, particularly for rollover.

Now to the balance sheet. At quarter end, we maintained $1.3 billion of total available liquidity, comprised of $1.2 billion available under our revolver and roughly $100 million of cash. With respect to our leverage, our net debt-to-EBITDA ratio held steady at 6x, and we continue to expect it to be back into the 5s in 2024. Our in-process $750 million pipeline of active redevelopments and expansions, a competitive advantage for Federal given its scale has only $180 million to spend against our $1.3 billion of available liquidity with a large chunk of that remaining figure being leasing capital, which is good news when deployed. This pipeline should continue to drive incremental POI into '24, to '25 and into '26.

Now on to guidance. We are increasing our forecast for FFO per share for 2023 up to a range of $6.50 to $6.58, up from the previous range of $6.46 to $6.58. Guidance now reflects 2023 FFO growth over 2022 of 3% to 4%, 3.5% at the midpoint. We have managed through retailer bankruptcies to date extremely well. As I previously have discussed, we have relatively small exposure to expected near-term retailer pullout.

Our credit reserves will likely come in lower than the originally fully loaded 100 to 135 basis points range that we provided with a revised credit reserve at 85 to 95 basis points. The dip in occupancy we expected this quarter was much less than forecasted as two of our buybuy BABY locations and only one of our Christmas Tree Shops locations went away and were assumed, coupled with strong performance on accelerating rent commencements and the aforementioned strong leasing volumes for the quarter.

From a comparable growth perspective, given the solid first nine months, we are increasing a 2% to 4% comparable POI growth range up to 2.75% to 3.75%, and the 3% to 5% range for comparable POI growth adjusting for prior period rents and term fees to 3.75% to 4.75%. On a cash basis, adjusting for prior period rent term fees, we're increasing our 3% to 5% outlook up to 4% to 5%. Additionally, as discussed previously at length, we expect to continue to capitalize interest expense for Santana West for the balance of this year and through at least 2024 and have refined our G&A assumption down to $51 million to $53 million for the year. As always, we have provided an updated summary of the key assumptions for our guidance on Page 27 of our 8-K. With respect to 2024, we will provide guidance in detail on our 2023 year-end call in February.

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

Operator

(Operator Instructions)

Today's first question comes from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb

Hey, good afternoon and I'll do my best to stick to the one question. Don, you guys sold—I realize it's small, but you sold one of your Third Street Promenade assets in Santa Monica. I remember over the years that, that's been sort of one of the highlights that retail has been a highlight for you. I guess things have changed. Stepping back, are there other areas of the portfolio that used to hold maybe better opportunity, and what's happened in the past few years as populations have shift, you're now reassessing. We may see more sales of assets that previously we wouldn't have seen you guys sell.

Donald C. Wood

Thanks for the question, Alex. The answer is a hard no. Santa Monica Third Street is a—it's a really unique situation, frankly, in the country. We made a fortune on Third Street. If I showed you the IRRs from when we owned it till when we sold that building, and frankly the rest of it, they are really spectacular. There is no doubt that COVID changed Third Street significantly. Yes, there is downside on the Street. We're not believers in the ability to continue what we have. Now, at a different basis, maybe that could make some sense again because it would be reset and starting again. Please don't take Third Street Promenade and extrapolate that to other assets within the portfolio. It's a unique one-off.

Operator

The next question comes from Steve Sakwa with Evercore. Please go ahead.

Steve Sakwa

Yes, thanks. Good afternoon. Don, maybe just sticking on the transaction market in looking for opportunities. One of your, I guess, peers in the shopping center space is kind of pivoting and putting a fair number of assets on the market for sale. I'm just curious if any of those larger format assets might hold appeal to Federal.

Donald C. Wood

From a sales perspective for us, Steve, the answer to that is not really. I mean, it's the same process that we would normally go through each year. As you know, you can always expect $100 million, $200 million, $300 million sometimes of sales depending upon the marketplace and what it is. We don't have—I don't see that for us at this point and including looking forward. I'm really happy, frankly, with the positioning that we have.

On the other side, in terms of buying, there's going to be a buying opportunity, man. I'm not sure if it's right now, to tell you the truth, hard to imagine with all the debt coming due and the situation the banks would be in, in the next year or two or three that there won't be some really nice opportunities that we see, but we'll stick to that time and see it then. Not today would be my answer.

Operator

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

Juan Sanabria

Hi, good afternoon. I'm just hoping you could talk a little bit about the signed (inaudible) occupied pipeline and the expectations for the—for that NOI to come online and maybe the mix on the timing perspective between the development/redevelopment kind of normal course assets, the same-store pool. If you could just give us a little color on the expectations for that. Thank you.

Dan Guglielmone

Sure, sure. I think that you'll see roughly about 10% of the aggregate number, the $27 million coming into the fourth quarter. I think the balance of it largely will come out over the course of 2024. I don't think—I think it will be fairly front-end loaded first half of the year, a little bit more weighted than the back half of the year. It will not be materially different in terms of kind of when it comes online when you look at everything, including the space coming online for the non-comparable properties. Largely well at 10% in the fourth quarter and then the balance in 2024.

Operator

The next question comes from Greg McGinniss with Scotiabank. Please go ahead.

Greg McGinniss

Hey, good evening. Two-parter on guidance here. First is on the implied Q4 FFO per share guidance range, which at $1.59 to $1.67 feels a bit wider than usual. What could take you to the top or bottom end of that range? With regards to development funding, you quite reasonably took equity funding out of guidance but maintained disposition expectations. How should we be thinking about funding development at year-end and into 2024?

Dan Guglielmone

Yes. Look, we narrowed the range, the implied range there. It is what it is, $1.59 to $1.67 is there. I think look, we did an exceptional job this quarter of getting rents started faster than we expected. We're going to hope to do that again. We have been doing, I think, a good job of keeping tenants in place for longer. I think that we'll see occupancy growth in the fourth quarter, given the significant amount of leasing that we had. I think that there's not going to be—probably, it is a little wide.

The $1.59, you probably want to look in a few cents outside of the midpoint there, but I wouldn't read too much into that. I think part of it is also, we'll see what happens with regards to we're fine-tuning our G&A for the remainder of the year. I think one of the things that we did really well is we delivered Choice Hotels early, got it in before quarter end. That will be a nice recognition through the entire quarter relative to kind of what we had expected.

Then obviously, I think you're going to see the headwind of interest rates and who knows what happens through the balance of the last two months, but obviously, we're facing higher interest rates than we had expected. Obviously, the timing and what we do in terms of our refinancing may dictate some of that.

Donald C. Wood

Funding development.

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Dan Guglielmone

Then with regards to funding development, we have an undrawn $1.2 billion credit facility. We are continuing to look at in modest levels Don alluded to, continuing to see if we can get some asset sales done. We're very, very well positioned, I think, from our perspective to be able to—we only have $180 million left on our development—remaining $750 million development pipeline. The $1.3 billion of liquidity at quarter end certainly positions us well over the next four to five quarters to get done what we need to get done.

Operator

The next question comes from Michael Goldsmith with UBS. Please go ahead.

Michael Goldsmith

Good evening. Thanks a lot for taking my question. How does the updated credit reserve guidance compare to historical levels? And related to that, on the tenant watch list, you continue to see strong momentum within the small shop space. Does that represent a larger portion of the tenant watch list in the anchor space? Thank you.

Dan Guglielmone

Yes. With regards to the 85 to 95, that's kind of in line. We end up around about 100 basis points. I think we did slightly better. Better than historically, meaningfully better because I think we had less impact from Bed Bath & Beyond that I think we originally had forecasted. I think that, that's been a positive result from us managing the portfolio over time.

With regards to the watch list, we just don't have much exposure to any of the names that people are worried about. Names like Rite Aid, Big Lots, JOANN, Express represent a de minimis amount of our total rent exposure in the ballpark of about 25 basis points. It's really nothing. I think near term, we feel pretty good about the watch list but we'll assess that for 2024. We'll move forward as we get through our budgeting process through the balance of this year.

Operator

The next question is from Dori Kesten with Wells Fargo. Please go ahead.

Dori Kesten

Thanks. Good evening. You started the call with the expectation of 100 basis points of small shop occupancy and 250, I believe, for anchor to be gained over the next 18 months to two years. Would you expect your leasing spreads to remain comparable to what you've seen of late also over that period?

Donald C. Wood

Yes. I think I would, Dori. It's a good question. We talk about it a lot and the notion of how to lease up, what tenants, the appropriate level of merchandising, what they will do to the rest of the shopping center, I mean we are picky in terms of how we do that. Frankly, I think if you lease up too fast, you're probably leaving money on the table. The notion of being able to get the right tenant and get paid for that, that's something that's really important to us.

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Combine that with the credit, the type of credit of those small shop tenants, the guarantees that we get, the—we very rarely do something with a first-time retailer. It's almost always with a regional player or someone that's got a number of stores, we get the entire organization most of the time on the lease from a credit perspective. For me, that's the key part of where we create the most value in the Company. It is that small shop stuff that works off of the anchors.

On the anchor leases, I can't empirically say this, but I believe the terms of the anchor deals that we get, including the bumps that are in those leases and the strength of those leases, I think they're superior. I think they're some of the strongest leases that those tenants do. It's not just about occupancy, it's about profitability and that balance is something we take really seriously.

Operator

The next question comes from Jeff Spector with Bank of America. Please go ahead.

Jeff Spector

Great. Thank you. Can you provide an update on any office lease progress at One Santana, including there was some news that maybe PwC is looking for space there? Thank you.

Donald C. Wood

Jeff, Jeff, Jeff, no, I cannot name a tenant. Where are my comments? By the way, you just cost me $10 with Melissa. I said if I made the comments that I made in here, which are real clear with respect to where we are, the deals we have, how close we're getting, etc., but we don't have signed leases yet. I said if I made those comments in there, there wouldn't be a question about the same thing. You are and you cost me $10. I'm going to bill you on that, if you don't mind.

That's really all I can say about that. You should be optimistic because we sure are in terms of the ability to keep moving forward, but no, I cannot name a tenant.

Operator

The next question is from Hongliang Zhang with JPMorgan. Please go ahead.

Hongliang Zhang

Hey, I guess a follow-up to the prior question. If we were to think about leasing at Santana West, if you were to get a tenant in, would you fully—would the capitalized interest fully burn off there? Or, would it be a proportional amount if someone...

Dan Guglielmone

We expect to continue to capitalize interest on the balance of the year through 2024 to deliver space to tenants. We would expect that we would be able to match up the reduction in capitalized interest with the rent starts; so that should be expected. Consistent with what we've discussed in the past, there's no changes in our expectation with regards to that number and that policy.

Operator

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

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Ravi Vaidya

Hi there, this is Ravi Vaidya on the line for Haendel. Hope you guys are doing well. What's your early read for '24 same-store NOI? Some of your peers have articulated they expect next year's same store to be above average again. Can you talk about that a bit and the levers that you could possibly pull to achieve above-average same-store level for next year?

Dan Guglielmone

Look, I think, as I said in my statement, we are going to give guidance for 2024 in detail on our call in February, okay? With regard to same store, we will be growing POI next year. We said that before, I'll confirm that here but that's about what I'm prepared to say at this point.

Operator

The next question is from Anthony Powell with Barclays. Please go ahead.

Anthony Powell

Hi, good evening. I guess a question on the residential piece of the business. Obviously, the multifamily REITs had a pretty tough earnings season. What are you seeing there in terms of rent renewal rates or whatnot? And how should that perform in the next few quarters?

Donald C. Wood

Yes, you should be very positive about that. If you think about where our residential is, it's only in four places, four or five places and they're all at the mixed-use properties that have high rents on—in general because of where they are, and the rent growth is generally better because of where they are. We're seeing that particularly true at Assembly in just outside of Boston. We're seeing that equally true in Silicon Valley.

And so when you kind of think about the particular markets that we're in and you think of the cost of home prices and home—and mortgages that effectively go there, renting in at fully amenitized, great locations looks awfully good and that's our business model. I can't really talk generally about the residential world because I don't know it outside of these mixed-use environments in our four big projects. I hope that's helpful. Be positive about it.

Operator

The next question comes from Linda Tsai with Jefferies. Please go ahead.

Linda Tsai

Hi. It looks like your weighted average lease term moved around each quarter but stays pretty consistent in the 6.5 to 7.5 years. I just wonder if there's any desire to drive lower lease terms to capture more upside given the low retail supply.

Donald C. Wood

The only thing I would say to that is it depends on the deal. When you're sitting there and not only can you get a strong starting rent, but you can get strong bumps in there, we want to lock that in, and that's a key part of what it is that we do. In terms of the 8.8 years this time versus 6.5 or 7.5, that's simply a matter of mix.

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Now, there are certainly certain locations where certain things are happening with redevelopment or whatever else, where we're purposely trying to keep it tighter and shorter period of time, and we do stuff like that. Overall, portfolio-wide, I really do, Linda, I'd really love for you to understand those and look hard at those contractual bumps because they're a real differentiator over the term of the lease.

Operator

The next question is a follow-up from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb

Hey, thank you. Don, as we think about the sort of the traditional items and tenant leases that they like, optionality on renewals, cotenancy, use restrictions, are you starting to see the tenants give on some of those as availability dwindles and they need—there's less space especially at the anchor level?

And if you have, can you give some tangible examples of where you've seen tenants make deals today, like the big sort of tough negotiating tenants where they've made deals today that they wouldn't have made a few years ago because of the dwindling availability.

Donald C. Wood

Good question, Alex. It really is. I'm going to turn it over to Wendy to make sure that you get the specifics.

Wendy Seher

Alex, so I would say the answer is yes. Overall, we are seeing with the really, especially from the better specialty brands, they are not able to find the kind of product that they're looking for. There is a big demand for some of our Bethesda Row and The Grove, for example. I was just talking to the leasing people for Bethesda Row, and we have a waiting list of 10 to 12 tenants that are trying to get into Bethesda Row in the right format they'd like to join us.

So when I'm hearing about waiting list, yes, we're able to drive those terms a little bit better than we had before. We just—it’s pretty exciting. We just signed a deal with Bloomingdale's department store to go into The Grove and just over 21,000 square feet, a great opportunity. I can't obviously get into the specifics of that deal. I will tell you from the time we started the lease until we signed it, it was 40 days.

So it was a clear desire on their part to get that deal done in a geographic area that we feel pretty strong will not only benefit them but will benefit our shopping center.

Jeffrey Berkes

I would say, Alex—it’s Jeff. Keep in mind that we're pretty tough on lease terms, and we're not necessarily giving away a lot of the things that you're talking about to begin with.

The leverage is definitely, as Wendy said, shifted to a lot of the landlords in many respects, given the shortage of space and given our proclivity to be tough on all terms in the lease, not just the financial terms. We're cutting good deals right now, and we're cutting them with great tenants. Really, really positive environment right now.

Operator

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(Operator Instructions)

The next question is a follow-up from Juan Sanabria with BMO Capital Markets. Please go ahead.

Juan Sanabria

Hi, thank you. Just going back to Michael's question from earlier in the call about the implied fourth quarter guide. Maybe, Dan, could you provide a little bit of a bridge on the implied sequential deceleration of what those drivers are in FFO from the third quarter run rate to the midpoint of the implied fourth quarter guide, please?

Dan Guglielmone

Yes. Look, I think that—I think we're probably a little conservative candidly on some of the numbers there. I think we've got a good year, which could impact G&A, which would go up. Those are kind of—I think the number is a little bit of conservatism and probably a little bit of increased G&A in the final quarter probably is what, I think, gets you to kind of the midpoint or the implied midpoint of the guidance.

Operator

The next question comes from Nick Joseph with Citi. Please go ahead.

Nick Joseph

Thanks. Just curious kind of the plans and thoughts for Mercer Mall after acquiring the fee interest. I know it's (inaudible) the potential expansion or conversion. Wondering on the timing there and kind of the current thoughts.

Jeff Berkes

Sure. Yes, Nick, let me answer the—this is Jeff. Let me answer the first part of that question, and then I'm going to turn it over to Wendy so she can walk you through some of the things that we've got going on at Mercer. The acquisition of the fee, which happened in October, was something that we baked into the deal 20 years ago; so exercising that option today does not have any bearing on what we would do with the property longer term.

The plans that we have in place for Mercer right now are—would have progressed with or without that. We've got a lot of great things going on at the property, and it's been a great asset for us. Wendy, do you want to fill in some of the details?

Wendy Seher

Sure. We've been working on rebranding the property; so it will be rebranded as Mercer on One. That's kind of a catchy feel to it. We are—you'll be seeing signage going up on the pylon sign to execute on that remerchandising and rebranding of the property. We have DSW, who's going to be leaner and meaner as they downsize and two new tenants coming in right next to them, plus we have backfilled the—as you saw with Crate & Barrel, the portion of the Bed Bath & Beyond that we got, I think it was the end of last year.

So a lot of exciting things going on at Mercer and a lot of investment on our part where we were able to drive those rents with a good demand in the market and get a return on that invested capital.

Dan Guglielmone

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Yes. Just to remind folks that, that was a $55 million investment at 8.7% yield. Kudos to the folks who've embedded that option 20 years ago to allow us to have this really great opportunity to invest capital at a property we own with I think an implied current cap rate on it significantly inside of the yield to acquire a portion of the fee underneath it.

Donald C. Wood

Yes, Nick, and I am going to chime in. I know it's a long answer to a simple question about an asset, but Mercer shows so much about kind of what we—what's right down the middle of the plate for us. There's a big piece of land that we were able to get control of. Jeff got—did an amazing job, frankly, 20 years ago and there's—you think about—when you talk about us for the long term, we didn't take a chance on whether we're going to own the fee or not own the fee. We had it contractually done; so the timing is now.

But if you look at what happened to that income stream on such a big piece of land, there was so much that was done in that property that was not originally underwritten. It reminds me of things like Pembroke today. It reminds me of things like Grossmont today. The things that we've been able to do that you can't quite underwrite, but because they are dominant community-based centers that drop on a large area, we want to keep it going. With what's failing around it and some of the challenges inside mall space around it, it's looking stronger than ever.

Operator

The next question comes from Hongliang Zhang with JPMorgan. Please go ahead.

Hongliang Zhang

Yes. Hey guys. I guess as I look at your redevelopment pipeline, most of your redevelopment expansion projects are expected to stabilize by next year. When should we expect you to start activating future projects in your pipeline?

Donald C. Wood

Yes. It's a great question and one that we spend a lot of time around here doing. Obviously, the higher cost of money means a higher level of return threshold, and so really what it's about for us—and this, I think, is different than most people, is we do have the ability to do given the residential entitlements that we have, given the amount of redevelopment on retail properties with an additional residential component, that's something where you've got rates that change every year.

You got year leases, and so the notion of being able to get something started for a few years from now and having it move in is much more likely in that category than it is obviously when you're talking about some other piece of real estate. You'll see more of those redevelopments, retail redevelopments that we do on our existing properties. That will continue and will start—will pick up again next year. You'll also see some of the larger stuff, I think, later on next year with respect to particularly residential opportunities within the portfolio, places that we've already created that retail environment to be additive to.

Operator

At this time, I am showing no further questions. This concludes our question-and-answer session. I would now like to hand the call back to Leah Brady for closing remarks.

Leah Brady

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We look forward to seeing many of you in the next few weeks. Thanks for joining us today.

Operator

The conference has now concluded. Thank you for your participation. You may now disconnect your lines.

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