Federal Realty Investment Trust

Fourth Quarter 2022 Earnings Conference Call

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PRESENTATION

Operator

Greetings, and welcome to the Federal Realty Investment Trust Fourth Quarter 2022 Earnings Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Leah Brady. Thank you. Ms. Brady, you may begin.

Leah Brady

Good afternoon. Thank you for joining us today for Federal Realty's Fourth Quarter 2022 Earnings Conference Call. Joining me on the call are Don Wood, Dan G., Jeff Berkes, Wendy Seher, Jan Sweetnam and Melissa Solis. They will be available to take your questions at the conclusion of our prepared remarks.

A reminder that certain matters discussed on this call may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any annualized or projected information as well as statements referring to expected or anticipated events or results, including guidance.

Although Federal Realty believes that expectations reflected in such forward-looking statements are based on reasonable assumptions, Federal Realty's future operations and its actual performance may materially differ 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 afternoon, our annual report 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 results of operations.

Our conference call tonight will be limited to 60 minutes. We kindly ask that you limit yourself to one question during the Q&A portion of our call. If you have additional questions, please feel free to re-queue.

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

Don Wood

Well, thanks, Leah, and good afternoon, everybody.

We ended 2022 on a very strong note and reported FFO per share of $1.58 in the quarter and therefore, $6.32 for the full year, ahead of both internal and external consensus expectations and a precursor to the strong guidance, the great real estate with class-leading demographics will allow us to forecast.

We're more than a year ahead of where we thought we'd be in recovering from the depths of the pandemic in terms of leasing, occupancy and bottom line earnings. We executed a record 497 leases for over 2 million square feet of retail space in 2022, and the comparable deals were done at 6% more rent on a cash basis and 15% more rent on a straight-line basis than the leases that were expiring. We did that while simultaneously increasing our inherent contractual rent bumps to over 2.25% annually overall.

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And by the way, based on what we see looking forward into 2023, at this point, while I doubt that we'll do 497 leases again,I would expect a higher lease rollover percentage in 2023 as continued strong demand and inflationary pressures are helping negotiations.

We leased up the portfolio at 94.5% at year-end compared with 93.6% a year before and still have room to further increase in 2023. Most importantly, that intensified focus we've been talking about over the last year or so, aimed at minimizing that difference between percentage leased and percentage occupied, i.e., getting tenants rent paying more quickly. Well, it's working.

While our percentage lease continues to grow, up 90 basis points in 2022, our percentage occupied is growing even faster, up 170 basis points in 2022, suggesting some of the quickest times between lease signing and rent paying in our history, a particularly impressive feat during the supply chain struggles of the past two years.

So all of these things resulted in 2022 FFO per share of $6.32, 13.5% higher than the year before and right on top of our pre-pandemic record.

I know you've heard me say it many, many times before, but it bears repeating; demographics matter, especially in times of economic pressure. Past cycles have convinced us that families simply have to have money to spend for retail real estate cash flow to grow. Sixty-eight thousand households with annual average household incomes of $150 to $1,000 sit within 3 miles of Federal Realty centers. That's $10.2 billion of family income generated within a 3-mile radius, and more than half of those people have a 4-year college degree or better. I know of no other significantly sized retail portfolio that can say that.

So it's manifesting itself in a myriad of ways, including a wide variety of tenants who saw their sales exceed the percentage rent threshold in the lease in the fourth quarter. While not a huge absolute number, since we strive for strong fixed rent in our leases, the broad-based percentage rent contribution in the quarter, particularly among our restaurants and soft goods tenants over and above the fixed rent, is notable and contributed an additional $0.02 per share compared with last year's fourth quarter and is a continuation of the trend that we've been seeing all year.

Now as economic activity falls and higher interest rates affect everything from car loans to mortgage payments to deal underwriting, we would certainly expect to see a slowdown in consumer spending which very well may cause retailer reticence and a slowdown in the period. It hasn't happened so far. Leasing—that kind of change is pretty obvious. But that's okay. This business remains more solid. And if history is any indication, Federal Real Estate will outperform given the superior demographics, along with a very strong diversification of rent. No one tenant makes up more than 2.8% of our rental stream, and that tenant is TJX.

To put a finer point on that, when you think about today's troubled tenants, Bed Bath, Party City, Rite Aid, Tuesday Morning and even Regal Cinemas, of which we have no exposure, all of them combined comprise less than 1% of our 2023 forecasted rental stream. Average in-place base rent at our nine Bed Bath & Beyond and Buybuy Baby locations is $15 a foot . Rent that will be more than replaceable as we navigate through the expected bankruptcy process with.

We continue to opportunistically prune the portfolio of non-core and slower-growing assets. And in the fourth quarter and the last few days of the third quarter, we sold three smaller properties, all in Maryland, for proceeds of about $135 million at a combined flat 5% cap rate: one, a legacy residential community from Federal's earliest days; the second a Federal developed residential building on excess land in Towson, Maryland; and the third, one of our earliest small retail developments in Rockville Maryland. Those and earlier sale proceeds were reinvested into assets like Kingstown and the shops at Pembroke Gardens, which are generating better going-in yields and add significantly better growth prospects.

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The ability to sell non-core assets accretively is just one of the differentiating tools that we have, to manage this company through economic cycles. And of course, you only need to look at the $600 million-plus construction in process number on the year-end balance sheet to identify a large source of future income, much of it leased not yet reflected in the results.

Okay. So that's about it for my prepared remarks this afternoon, so I'd like to leave you with one final thought before turning it over to Dan.

The run-up in interest rates will surely pressure everybody's earnings to some extent in the years ahead, ours included, beginning in 2023. Dan will go through the expected impact in a few minutes. But keep in mind that Federal has been around since 1962 and has raised its dividend every year since 1967. This business plan doesn't need money to be virtually free to thrive. It's proven that. In terms of 2023, know that significant incremental rent from contracts that are already in place, particularly where demand is strongest at our mixed-use operating properties, like Assembly Row, Pike & Rose, Santana Row, Darian and CocoWalk, along with a full year of contributions from 2022 acquisitions, will more than cover incremental interest and lead Federal to what we believe will be an all-time record earnings year in 2023 with sector-leading growth. Dan?

Dan Guglielmone

Thank you, Don, and hello, everyone.

Our reported FFO per share of $1.58 for the fourth quarter and $6.32 for the year were up 7.5% and 13.5%, respectively, versus 2021. For both periods, we're at the top of our previously increased guidance range. Primary drivers of the outperformance: acceleration in occupancy up to 92.8%, a gain of 70 basis points for the quarter and 170 basis points for the year. Other drivers: higher percentage rent, which more than doubled in 2022 versus the previous year; and continued strength in consumer traffic at our mixed-use assets, driving property revenues higher. This was offset by higher property operating expenses and higher interest expense.

Comparable growth, our GAAP-based metric for same-store in the fourth quarter and the full year, came in at 5.4% and 7.7%, respectively, strong metrics despite the negative net impact of prior period rents and term fees. On a same-store cash basis, we came in at what we believe to be a sector-leading 5.5% for the quarter and 8.5% for the year. Excluding the negative impacts of prior period rents and term fees, cash same-store growth was 7.8% and 10.8% for the fourth quarter and full year, respectively.

For those analysts and investors to keep track, we had $1.1 million of term fees for the fourth quarter against a 4Q '21 level of $1.7 million. Prior period rent contributions related to COVID-impacted negotiated yields were $2 million this fourth quarter versus $4 million in the fourth quarter of '21. Please note that in our investor presentation on our website, there are updated slides plus an appendix which provide all of these figures.

Don already highlighted continued strength in leasing, but let me point out a few more statistics of note. The 94.5% and 92.8% in leased and occupied metrics represented growth of 90 basis points and 170 basis points, respectively, over 2021 and 20 and 70 basis points of sequential growth over the third quarter.

We continue to see strength in our small shop leasing, which now stands at 90%, a level not seen since 2017, but still short of our targeted and historical peak levels. The 80 basis points of relative pickup in our SNO spread over the course of 2022 demonstrates our ability to get tenants open and rent paying. More

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upside to come in 2023 as we target an SNO spread at more typical levels of 100 to 125 basis points long term.

I mentioned leasing activity has been strong to start 2023, and our pipeline of deals executed to date in the first quarter and those under executed LOI is in line so far with 2022's strong leasing volumes. Additionally, we remain optimistic that we can continue to drive favorable lease terms in 2023, including both strong lease rollover growth and sector-leading contractual rentals. A big driver of our growth in 2022 was the continued stabilization of a large portion of our redevelopment and expansion pipeline. We expect that to be the case in 2023 as well.

Having placed $800 million of projects into service in 2021 and 2022 at Assembly Row, Pike & Rose and CocoWalk, we saw a $24 million of incremental POI 2022. We expect another roughly $12 million of incremental POI in 2023, just from those three projects alone. The balance of our development pipeline now stands at roughly $730 million which will deliver incremental POI starting this year and continue for the next few years but is less than $300 million remaining to spend.

Now to the balance sheet, and a quick update on our liquidity position. We ended the year with $86 million of cash available and an undrawn $1.25 billion credit facility for a total liquidity in excess of $1.3 billion. Our leverage metrics continue to be strong. Fourth quarter annualized net debt to EBITDA is roughly 6 times. That metric is forecasted to improve over the course of 2023 as development POI comes online and occupancy drives higher. Again, our targeted level is in the low to mid 5 times range. Fixed charge coverage was 3.7 times for the fourth quarter and 4 times for the full year.

Now on to guidance. For 2023, we are introducing FFO guidance of $6.38 to $6.58 per share. This represents 2.5% growth at the midpoint of $6.48 and 4% at the high end of the range. Despite the challenging capital markets environment and embedded headwinds, as promised, Federal will grow in 2023.

This is driven by a comparable growth forecast of 2% to 4%. This assumes occupancy levels will increase from 92.8% at 12/31, up above 93% by year-end 2023, although that progression will not be linear throughout the year. Additional contributions from our redevelopment and expansion pipeline will total $15 million to $18 million. For those modeling, let me direct you to our 8-K on Page 16 and 17 where we provide our forecast of stabilized POI and timing by project.

Accretion from our 2022 acquisitions being online for a full year will also contribute. Those $500-plus million of 2022 acquisitions are expected to outperform our original underwriting by at least 50 basis points. This will be offset by lower prior period collections with a net 2022 level of $9 million that's expected to fall to a range of $4 million to $6 million in '23. And lower net term fees, we had $9.5 million in 2022 and forecast $5 million to $6 million in 2023, more in line with our historical averages.

Despite over 100 basis points of headwinds, our comparable growth forecast is 2% to 4% for 2023. It would be 3% to 5% without the headwinds from prior period rents and term fees. Quarterly FFO cadence, we'll have one quarter being the weakest with sequential growth thereafter.

Other assumptions include $175 million to $200 million of spend on redevelopment and expansions at our existing properties; $175 million to $225 million of common equity issued throughout the year, refinancing our $275 million of unsecured notes, which mature in June in the mid-5% range; G&A in the $52 million to $56 million range for the year; and capitalized interest for 2023 is estimated at $20 million to $22 million which includes the continued capitalization of interest at Santana West. Given our change in leasing strategy from a single tenant leasing approach to a multi-tenant building as we build out tenant floors and add tenant amenities.

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Dispositions completed in '22, contributed roughly $5 million of POI during the year. That POI will not be there in '23. We've assumed a credit reserve, excluding the impact of Bed Bath & Beyond of roughly 75 basis points. With respect to Bed Bath, we are adding another 25 to 60 basis points of reserve depending on the uncertain outcome with respect to this tenant. Please note, in 2023 and moving forward, we have less than 70 basis points of exposure as our Wynnwood location had a natural expiration in January 2023 and has not been on our '23 forecast since mid last year.

As is our custom, this guidance does not reflect any acquisitions or dispositions in 2023, except what has already been announced. We will adjust for those as we go given our opportunistic approach to both. This guidance also does not assume any tenants moving from a cash basis to accrual basis revenue recognition. Please note the expanded disclosure in our 8-K on Page 30 provides a detailed summary of this guidance.

And before we go to Q&A, let me take a minute to highlight the strength, the outperformance that our signature mixed-use retail assets demonstrated in 2022.

The big four of Santana Row, Assembly Row, Pike & Rose and Bethesda Row, took a disproportionate hit during COVID, because of government shutdowns in their respective markets, but as they now sit, they finished 2022 at 99% leased.

Reported retail sales were 15% to 20% higher than the prior year and are back up above pre-COVID levels. Consumer traffic was up 20% versus the prior year and 7% above pre-COVID levels. Comparable retail POI at these assets were up 30% versus 2021 and over 6% above pre-COVID levels. Plus, we are forecasting comparable growth in retail POI for 2023 of 6% to 8% at these four assets given continued strength in leasing demand.

The retail components of our mixed-use assets are unique and have driven and should continue to drive POI growth materially above that of a typical open-air shopping center, providing an additional point of differentiation between Federal and its peers. Further, our operational mixed-use capabilities in design, construction, leasing, operations are unrivaled and a unique competitive advantage moving forward amid the continued evolution of open-air retail, capabilities that are applicable across our entire retail portfolio and a big reason why we expect that sector-leading retail growth for years to come.

And with that, Operator, you can open up the line for questions.

Operator

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

Juan Sanabria

Hi. Good afternoon, and thanks for the time. Just curious on the total portfolio to one of your later comments in your prepared remarks where NOI sits relative to 2019 levels and when do you expect to get back to that. You kind of made the comment for the big four, but just curious on the broader sample set?

Don Wood

We're back. Yes, we're, in fact, well above 2019 levels. So I know Juan, that what Dan was just talking about was specifically with respect to the four mixed-use assets and for obvious reasons there. But the whole portfolio is on an overall back above 2019. It's the higher interest expense that effectively brings us back down to about the same FFO, but certainly, operationally, significantly above.

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Operator

Thank you. Our next question is from Craig Schmidt with Bank of America. Please proceed with your question.

Craig Schmidt

Thank you. I just wondered if you could just give us what the drag will be on the increased interest expense of '23 versus '22?

Dan Guglielmone

Roughly $0.30 per share, plus, minus depending upon where we end up.

Craig Schmidt

Okay. And then just real quick. The small shop was relatively flat sequentially. Do you still see that as a major opportunity for growth on your POI?

Don Wood

Yes. And Wendy, I don't know if you want to add to this or not, but I'm very, very positive about our small shop occupancy. And I think we're sitting there at 90% or so now, which is back to a place that we haven't been for quite some time, and we're not done. We've got some more room to grow there.

Wendy Seher

And I would add to that, there's a real sense of urgency on the leasing side overall, especially on the small shops. Through COVID, the weaker guys, as we know, have gone away and our small shops are thriving right now. Obviously, we're heading into maybe some headwinds, but some of the technologies and so forth that have come post COVID are really driving sales for a lot of the retailers, including the restaurants.

Operator

Thank you. Our next question is from Greg McGinniss with Scotiabank. Please proceed with your question.

Greg McGinniss

Hey, good evening. Dan, I was hoping you can just touch on what would be driving you to either the bottom or top end of guidance this year?

Dan Guglielmone

Look, I think a big variable is what happens to the Bed Bath bankruptcy. I think that probably at the top of the range, we'll expect to have a more normalized Chapter 11 where we expect to get a few boxes back, whereas, if it's a liquidation, that will push us towards the bottom of the range. I think that's probably one of the bigger drivers that takes us either up or down.

Greg McGinniss

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Okay. And if I could just…

Operator

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

Samir Khanal

Hi there. Thanks for the question. Maybe you can touch upon the transaction market and kind of what you're seeing from pricing or cap rates today. I don't know if there's a way to bifurcate between sort of your suburban open-air centers versus any color you can provide in lifestyle centers. That would be great. Thanks.

Jeff Berkes

Yes. Hey, Samir, it's Jeff. Not a lot of color because there's not a lot of transactions. We're always in the market looking for stuff regardless of what's going on, but there's just not a lot out there right now. I mean, if you want a data point, back in the day, when the market was active for the best grocery-anchored centers or maybe 100 to 150 basis point spread cap rate over the 10-year treasury. But we haven't seen many trades, and I don't expect to see a ton of trades this year. So kind of anybody's guess at this point.

Operator

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

Michael Goldsmith

Good evening. Thanks a lot for taking my question. My question is on the comparable property growth guidance. Can you help reconcile kind of the moving pieces that generate your guidance of 2% to 4% growth in ex prior period in term fees, 3% to 5% this year relative to last year. (Inaudible), you're expecting a little bit less occupancy growth and maybe walk through some of the other pieces. And then on capital interest, does that go from a potential headwind to tailwind this year? What are the implications for '24?

Dan Guglielmone

Okay. Look, I think the building blocks that kind of are comparable is kind of a combination of things that get us there. I think we would expect I think contractual bumps, which continue to be kind of sector-leading, kind of north of 2.25% and include kind of some of the office. I think occupancy growth relative to where things were last year will add, I think, a good chunk of rollover because what's interesting is ours is a GAAP number, so the contractual rent bumps don't contribute as much. What really does is the rollover to rollover growth, which is the straight line rollover, which captures those rent bumps. And so that should be a big driver because of the progress we've made.

And you've got residential. I think we'll continue to see percentage rent and parking. And then we mentioned the probably 100 to 130 basis points of credit reserve, then also about 100 basis points of term fee headwind and prior period rent headwind that gets us kind of to that midpoint of that metric.

Operator

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

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Craig Mailman

Hey guys. I just wanted to circle back up on the interest capitalization question. Dan, just two questions on this, basically. Just what would guidance have been if you guys had burned or ceased capitalization on Santana West? And kind of from a timing perspective, even if there was no leasing, when would you have to just finally stop capitalizing there? And then just secondly, the strategy shift to the multi-tenant, what kind of demand are you guys seeing, if at all, in those smaller spaces? And are you guys doing buildout suites or just trying to demise the space?

Don Wood

No, it's a good question. Listen, it became pretty clear. As you know, we worked hard to get a full building user at Santana West. We shifted to that strategy, we talked about a little bit last year, but we shifted to the strategy of building out the individual floors instead. The accounting for that is to capitalize and continue to capitalize. But the reason for it, the business reason for that, is that we do see more demand in that 50,000 to 100,000 square foot user. There are tours that we're giving now. Obviously, you know what's going on with tech in Silicon Valley. So I certainly don't have anything great to say about the demonstrative progress there. But that building is getting a lot of looks, and so we're very hopeful that this strategy of looking for 100,000 square foot tenants rather than the full 350,000, 375,000 will be fruitful. It feels good that way.

In terms of what that means on the accounting is you've got $250 million into a building at call it 5% or so a year of carry on that. And so that winds up continuing at this point to be on the balance sheet. And effectively at some point, it will wind up going through the P&L, but you can do the math on that.

Operator

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

Haendel St. Juste

Good evening out there. So Don, I was intrigued by your comments on the better rent bumps and the superior long-term core growth profile of the portfolio. I remember a while back you provided a buildup of what you thought the portfolio could do over a longer-term basis in terms of that core internally generated growth, I think it was like 3% to 4%, which included some of the bump spreads redevs. So I guess I was curious if you could give us an updated sense of what do you think the long-term core growth profile looks like now or could look like now with the improved bumps you're referencing as well as maybe factoring some of the various low rent tailwinds coming online here. So would like to unpack…

Don Wood

That's fair, Haendel. I mean, look, the business, the general business and the shopping center business, allows the portfolio to grow with common occupancy of a typical shopping center of 1.5%,1.25%. It's what they do. We've been able to have long-term growth of 3%, 3.5%, something like that, on an occupancy neutral basis. I feel very good about that.

And with respect to the comment I was making about the rent bumps, it's really—we've talked about this in the past, a little bit of inflation is a really good thing in our business. Too much inflation certainly isn't. But to the extent we get to a normalized level of inflation, it allows us to push more. And Wendy and that team is having success effectively with the ability of increasing or improving the economics for longer-

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term deals because inflation is real, and everybody knows it. You're not trying to push a noodle uphill. So that long-term growth rate of 3%, 3.5%, I feel very good about.

Operator

Thank you. Our next question is from Floris Van Dijkum with Compass Point. Please proceed with your question.

Floris Van Dijkum

Thanks. Guys, I appreciate you throwing out guidance that is a little bit more adventuresome than some of your retail brethren. And maybe if you can talk a little bit—as you know, not all space is created equal. And I know you've been saying that for a long time, Don. But one of the things that intrigues me about your portfolio and where I think people might be underestimating the growth potential, particularly in your small shop space because your rents are double your anchor tenants, you talked a little bit about your lease percentage. How much of that is occupied? How much more do you expect to gain in terms of lease growth in '23?

And then maybe if you can—if we walk through the elements of your growth for '23, you talked a little bit about—Dan, you talked about the 2.25% fixed bumps. You have an element of leases that you signed in '23 that were—where you got a partial year, and obviously, those are going to contribute in '23 as well. And then you got your SNO and you get your spreads. If you do the math, I mean, it looks like you're going to be well north of 4% NOI growth, if I'm adding it up correctly.

Dan Guglielmone

Yes. I appreciate the question, Floris. Look, if you add all those things up, yes, it gets beyond the 4%, but then you apply a credit reserve, you've got some headwinds and so forth. And so look, we're hopeful that our 2% to 4% net comparable growth is a conservative estimate. And we hope that the strong rollover we're expecting in 2023, continued contractual rent bumps, continuing to be able to push occupancy, will continue to drive a strong core portfolio growth profile in 2023. But there are headwinds out there, and so the 2% to 4% reflects that.

Operator

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

Derek Johnston

Hey everyone, good afternoon. Yes, so you mentioned earlier and obviously it's widely understood, with debt cost of capital elevated, what about tapping the equity markets as valuation here recovers. I think there's $200 million issuance at the midpoint. But really, guys, it seems to match the development spend. So I guess how do you view greater equity activity as a financing tool given the state of capital markets and as values recover? Thanks.

Don Wood

Yes, Derek, let me start, and Dan will add to this. Look, there's a couple of principles involved here. So one is I never want to surprise our audience, so I never want a whole bunch of equity out there at any one time. I'd like to do it in conservative amounts as we go through a year. We opportunistically then obviously can turn that dial up or back based on where we believe value lies and what the uses are.

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The most important thing is what is the use for that money. And at the end of the day, to the extent we are very comfortable that we can use shareholder or debtholder proceeds to be able to create incremental value, that's what we will do. That's the driver always because we don't have to, to the extent we don't have those uses, and even the development pipeline as you know, it's far lower than it was, only a couple of hundred million dollars left to spend at this point. So lots of flexibility.

And that's what I always want to maintain with respect to the balance sheet here is the ability to kind of take advantage opportunistically of what's going on in the marketplace to create value. And I look at debt and equity similarly that way.

Operator

Thank you. Our next question is from Anthony Powell with Barclays. Please proceed with your question.

Anthony Powell

Hi, good afternoon. It's a question on lease spreads. Good to see the acceleration in the fourth quarter. How are you balancing higher lease spreads versus maybe higher bumps? And are you seeing any tenant pushback in your conversations or tenants just saying we need the space and like the space, so we're going to accept the higher prices?

Don Wood

Yes. Look, these are an amalgamation of a number of deals. In any particular quarter, you'll see some deals that have higher rollover, you'll see some that are more anchor related versus small shop related. There's a giant mix. I don't want you to look and say, I see a deceleration in leasing spreads in the fourth quarter. There's no trend there. The trend you should expect to see is actually higher rollovers in 2023 based on what we see in the pipeline.

And that's simply an opportunistic notion of being able to understand what spaces are coming due, where the demand is for that space, and that's what's in the pipeline. And that's opportunistic based on what's happening there. But in every case, we're pushing for very high contractual bumps associated with those leases.

So, in total, the economic contribution is greater. I don't want you to just look at that lease rollover spread. I want you to look at it holistically, in total, including the contractual bumps.

Dan Guglielmone

And I think because demand is strong and continues to be strong, we found success in being able to push on both of those levers, particularly in the last couple of quarters.

Operator

Thank you. Our next question is from Alexander Goldfarb with Piper Sandler. Please proceed with your question.

Alexander Goldfarb

Hi, thank you. Good evening. Just a question on Santana West because it seems to be—that seems to be the delta versus the Street. I think it was $0.20 is what you originally guided when you ceased capitalization. Now obviously, great to hear that there's work going on in demand.

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But I guess my question is, do you guys think that you were a little too conservative in ceasing capitalization? I understand that you stopped work on the project, but given markets are moving or fluid when it comes to leasing, do you think that maybe should have just left it as a capitalized project? I'm just wondering because all the other stuff that you guys are doing is great, but that capitalized interest seems to be the delta between the '23 outlook and where the Street is, so I'm just trying to understand.

Don Wood

So, Alex, my point on that is—the direct answer to your question is no, I don't think we are too conservative on that. I think your inherent premise and what you're saying is that the accounting drives the business decision. And it's exactly the opposite. It is the business decision with what—with the strategy towards a building, that drives whatever the accounting is and frankly, we didn't even know the accounting when we first talked about how we were going to go after—what tenant base we were going to go after once we lost the first couple of big building users.

So, no, I don't think so. The notion of looking at capitalized interest as a positive or negative thing with respect to '23, here's the fallacy in it. What we're laying out in '23, agree, does not have an impact from Santana West. What it does is show the impact of everything else in this company.

And that's why that operating growth is coming through. That's why the bottom line is coming through. Ideally, you will see, as we move forward, rent debt more than pay—rent on Santana West that more than pays for the interest expense. But it's not like we're getting a benefit for that in '23. We simply don't have any impact of Santana West for '23. So just fundamentally, I think you're looking at it a little backwards.

Operator

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

Paulina Rojas

Hi. Good evening. Last time we spoke, I think office traffic at Santana Row was still down materially versus pre-pandemic. I don't remember the exact figures, but maybe in the neighborhood of 30% down. Has that changed at all? And at this point, what is your view of how those traffic patterns will look like in the midterm?

Jeff Berkes

Yes. Paulina, it's Jeff. And I think I understand your question. I think you're talking about the number of people that come to work every day, Monday through Friday, at the office buildings at Santana Row. I'll tell you two things about that. One, that's a small part of the traffic at Santana Row. Santana Row generates a ton of traffic over the year. And the primary reason people are coming there is to shop, eat and enjoy the property.

The weekday traffic is building as well as return to office is ramping up in Silicon Valley. So, we do see that coming back and coming back strongly. But overall, that's a relatively small component. And like Dan said in his prepared remarks, traffic today at Santana Row is above what it was in 2019. So, we're in pretty good shape there, and I appreciate the question.

Operator

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

Michael Mueller

Hi. I guess looking at the future phases at Assembly, Pike & Rose and Santana, whenever you think the time is right, I guess, what's the timeframe to reactivate those various phases in the projects?

Don Wood

That's a great question, Mike. And there's an important underlying assumption here. We love the development component of our business. And there are certainly times like now where we turn down that spigot and aren't comfortable to be able to start construction. But don't let that misinform you to believe that that capacity and the work that we do with our team, which stays together during down cycles here, making it shovel ready to be able to activate quicker—the idea is to be able to activate quicker than any of the competition. That's what we try to do. So, the ability to stay very tight on not only with our contractors, with pricing, with entitlements for future phases at places like Assembly, it's front of mind all the time.

So, whatever is going on in the market, Mike, and I don't have a crystal ball with respect to '23 or '24 or '25, but I know we'll be back at it faster than most. And that's the key from a competitive standpoint in terms of the way we look at it.

Operator

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

Ki Bin Kim

Thanks. (Inaudible) belabour the point on Santana West. But from a business standpoint, I'm actually curious if you go multi-tenant. And I would guess that maybe prolongs the lease-up timeframe. So even though you're capitalizing cost for longer, shouldn't the all-in cost expectation go up, therefore, the yield comes down incrementally? I'm not sure if there's probably other variables to consider, but I was just curious if you can provide some color around that.

Don Wood

Yes. No, it's a very fair question. I'm not sure it will take longer. And the reason is because we are building out the individual floors. So that work, effectively a year's worth of work here, is being done ahead of time. And so, on timing, I think feeling pretty good.

In terms of the extra carry and potentially on cost, yes, I would expect those to be incrementally higher, but we also have benefits in terms of our base building and lots of other things that are reducing the cost of Santana West.

And I guess the last point to really make just make sure you're not overemphasizing this one building that makes up 1.5% of the asset base of the company. And when you kind of sit back and you take our entire office portfolio, and you back out just Santana West, just alone, even our ongoing other buildings, which are under construction, in total, they're 92% leased. And if you knock out the one that's being built here at Pike & Rose, that's not finished yet, they're 97% leased.

So, the product—and this is really important, from a real estate person's perspective, the product is right all the way through, and it's a different product when it's attached the Santana Row, Assembly Row, Pike & Rose.

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Operator

Thank you. Our next question is from Craig Schmidt with Bank of America. Please proceed with your question.

Craig Schmidt

Great. And just one, I wanted to congratulate Jan Sweetnam on his new role of Chief Investment Officer.

Jan Sweetnam

Thank you, Craig.

Don Wood

Thanks, Craig.

Craig Schmidt

Are you staying West Coast based? Or will you be moving East?

Jan Sweetnam

Still West Coast based but spending some more time on the East Coast, Craig.

Craig Schmidt

Okay. And then just maybe what are some of the opportunities you most want to pursue in your new role?

Jan Sweetnam

Well, that's a good question, Craig. Well, look, there's a—feels like there's going to be some increase in product out there, Craig, and some new product for us to look at. Expanding our base in Phoenix, I think, is going to be a big focus for us.

But I feel pretty good that there's going to be some larger good product for us that we can buy accretively. So, nothing's set in stone, feet ready to go, and we'll see where it takes us.

Operator

Thank you. Our next question is from Greg McGinniss with Scotiabank. Please proceed with your question.

Greg McGinniss

So just a couple of follow-up questions. One is on the disposition pipeline. I think you noted $350 million on the last call. Just curious if you're still pursuing the remainder of those transactions.

Dan Guglielmone

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Yes. Essentially, we got done, the one Rolling Wood, which was $68 million. We're still in process on about $130 million of additional acquisitions. We'll see if we get them over. And then I would say the balance, we determined that it didn't meet the timing parameters we needed or the pricing parameters, and we stayed disciplined and decided not to move forward. But there's a possibility we bring those back later in the year when there's a more receptive capital markets environment.

Greg McGinniss

Okay. Great. And then on the resi occupancy, which fell quarter-over-quarter, was that because of the Rolling Wood sale? Or are there some other reasons for that?

Don Wood

No. That's just timing a little bit. We're pushing hard on rate. And so, as turnouts come, we don't want to leave money on the table. So that balance between rate and occupancy is always—it's always part of the formula. And we push (inaudible) on rate. You'll see that come back in '23.

Operator

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

Juan Sanabria

Hi. Just curious if we should expect any action on the balance sheet in terms of your '24 expirations given you've got a couple of chunky pieces of debt coming due and kind of how you guys are maybe thinking about getting ahead of that?

Dan Guglielmone

Yes. Look, I think we're going to look to be opportunistic like we always are. I think we're going to—we created a significant amount of capacity to give us the flexibility to be opportunistic. Completely undrawn on $1.25 billion will give us flexibility from a timing perspective. But we expect to access the bond markets throughout 2023 to address the maturities that we have, June maturity as well as the January '24 maturity.

Operator

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

Michael Goldsmith

Thanks a lot for taking another one for me. The lease occupied spread compressed by 50 basis points down to 170 basis points. So, on the one hand, you're monetizing all the leasing that you're doing, but maybe on the other side, you're not—there's maybe a little bit less benefit in the pipeline. How do you think about it? It seems like you've been very positive on being able to monetize it sooner, but just wanted to kind of get your thoughts on either side of that argument?

Don Wood

Well, Michael, I want to make sure we agree on the premise. The lease percentage continues to get better, get higher. The primary thing there is that we continue to lease up the portfolio. We feel very good about that. Now that's a job of that leasing team, and that's working out pretty darn well.

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But the job of the tenant coordinators, the job of the construction people, the job is to get those tenants open. And frankly, that has just been, as amazing as leasing is, and leasing's had record years, tenant coordinators and that part of the construction of those spaces to get them open, is just stellar.

And so, I hope when you look through what's important about leased versus occupied that, if you're in the middle of COVID, it's great to have a whole bunch of leasing done and not a bunch of stuff open as they come back up. But to get to normalized operations, you want that as tight as you possibly can to be able to turn a contract into rent.

So, I love where we are, in fact, because we're doing both increasing that lease and more than increasing that amount by occupancy.

Dan Guglielmone

Yes. And just to add another thing that's not in that 170 basis points of signed and not open SNO is our non-comparable pool where we have an equivalent amount of POI that's expected to come on from what we're delivering stuff, buildings that are not yet placed into service, where we have leasing done, contracts leases that are done. And it's the equivalent of that same 170 basis point spread. So that's an added differentiator and an advantage that none of our peers have because they don't have the scale of that non-comparable pool.

Operator

As there are no further questions at this time, I would like to turn the floor back over to Ms. Leah Brady for closing comments.

Leah Brady

Thank you, everyone, and we look forward to seeing many of you at the Citi Conference.

Operator

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

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