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Federal Realty Investment Trust

First Quarter 2022 Earnings Call

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Michael Bilerman, *Citi*

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Derek Johnston, *Deutsche Bank*

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PRESENTATION

Operator

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

Please note this conference is being recorded.

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

Leah Brady

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

Joining me on the call are Don Wood, Dan G., Jeff Berkes, Wendy Seher, Dawn Becker, 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 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 yesterday, our Annual Report filed on Form 10-K, and our other financial disclosure documents provide a more in-depth discussion of risk factors that may affect our financial condition and results of operations. Given the number of participants on the call, we kindly ask you to limit yourself to one question and an appropriate follow-up during the Q&A portion of the call. If you have additional questions, please requeue.

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

Donald Wood

Thanks, Leah, and good morning, everybody.

There's lots going right in Federal Realty these days. Demand for our products has outpaced even our raised expectations, and 2022 first quarter was no exception. Yes, the reported—the reported $1.50 per share, beat both the street and our internal forecast. Of course, last year's COVID impacted quarter by 28%, but it's really the contributions from all parts of this multifaceted business plan that's at the heart of our optimism, starting with the enduring strength of leasing.

Over the last decade, average first-quarter production for comparable properties at Federal Realty meant doing about 80 deals or roughly 375,000 square feet. In the '22 first quarter, we did 119 deals for 444,000 square feet, 50% more than the average. We've never come close to doing 119 deals in any quarter, never mind the normally weaker first quarter, before last year's record-setting COVID recovery demand. The fact that that demand has remained this huge with a deal pipeline that looks to stay strong speaks volumes about our properties and the markets they're in and naturally of our future earnings growth.

One of the reasons Dan is raising annual earnings guidance $0.10 at the midpoint of the first quarter, something we rarely, if ever, do. That leasing demand is broad and has resulted in a 130-basis point increase in small shop lease percentage 88.7% sequentially over the fourth quarter, well ahead of expectations. That small shop lease rate is also a remarkable 490 basis points higher than a year ago. Now, we did lose 40 basis points of anchor occupancy since the fourth quarter. That's just typical first quarter expirations of few boxes' portfolio wide. The portfolio was there for overall 93.7% leased at the top at the end of the first quarter. Importantly, there's plenty of room to go. We expect continued small shop occupancy gains throughout 2022.

All of this commentary thus far relates to our core portfolio, and it doesn't speak to the multiple additional ways that we grow earnings and value. Selective acquisitions, development, redevelopment, all add incrementally to our best-in-class core portfolio.

Here's a case in point. We did 10 deals, both new and renewals, in the first quarter at the four properties that we bought last year, Chesterbrook, Camelback Colonnade, Hilton Village, and Grossmont. The rent rolled up in every single one of those deals and overall up by 33%. Even though no redevelopment has started yet at any of those centers, the universal belief during those tenant negotiations was that Federal would improve the productivity of those shopping centers, enabling them to afford higher rents. That reputation and credibility grounded in a long-established track record is critical to all that we do and, in my view, one of our key differentiators.

When we tied up Fairfax County, Virginia’s Kingstowne Shopping Center for $200 million in a five cap some months back, we similarly expect to improve the productivity of that 410,000 square foot destination through better merchandising and operations and finding the inevitable opportunities that always seem to accompany big land parcels. This one is 45 acres in a densely populated affluent first-ring suburbs. As I assume you read in our press release a couple of weeks back, we closed on the first half of that parcel in late April and expect to close on the second half in late July. Northern Virginia is an important and a growing market for us.

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

Reinvesting is more important post-COVID than ever before. It’s why we have nearly two dozen active and meaningful development projects in planning or underway, totaling over $100 million this year and next, which will likely yield double-digit unlevered yields over the ensuing years through higher customer traffic and rents, in line with our historically observed results following redevelopments. That reinvestment is one of the primary reasons we can continue to put—push rents (phon).

Now as to our development business. At the Citi conference in March, we were able to tour live in-person CocoWalk, our fully leased mixed-use development. We had an impressive group of investors attend, and our team was proud to showcase the unique approach that we take to real estate development and value creation. Consider that in its first stabilized year, the project will generate in excess of $11 million of NOI on a $190 million investment with rents that are already undermarked. Our unlevered IRR is over 8%. CocoWalk is pretty special.

At Santana West, while I don't have any specific announcement to make on this call as to the leasing of our newly constructed office building, interest in the product and negotiations are more active than they've been at any time during the COVID era. I'm hopeful that we'll be able to provide a positive update in the coming months.

Office demand is back in earnest in Silicon Valley, given the Google and Apple back-to-office announcements in the past month or two, and we have the only new fully amenitized state-of-the-art project in the market. We've updated costs and returns on the accompanying 8-K based on real negotiations and market conditions, in short higher costs, along with higher rents, thus maintaining yield expectations.

With residential base rents comprising 11% of our total rented base, the upward pressure on apartment rents in many U.S. markets is also benefiting our bottom line. A meaningful residential income stream in our fully amenitized properties is such a unique incremental benefit of Federal. At Assembly Row, lease-up of Miscela, our 500-unit apartment building, continues faster than forecast and a higher net effective rent. We're currently 70% leased at 10% higher rents than forecast.

Our office building, affectionately known as the PUMA building, as you can see, the PUMA sign from New Hampshire is now 88% leased with another 5% at lease. Assembly Row has really outperformed all of our expectations coming out of COVID. Nothing yet to announce with respect to the next phase of expansion here as we've yet to lock down costs, but we are getting close to a go-no-go decision on a life science project here that complement the growing life science demand and adjacent Somerville projects; more to come.

Pike & Rose, Darien construction both continue on time and on budget. One thing that always strikes me about our mixed-use development pipeline is the extent to which we incorporate what we've learned over the years into our core portfolio. While mixed-use development is certainly a different business than operating four shopping centers, much of what makes our big development special can be seen throughout our portfolio.

From a broad array of tenant relationships to state-of-the-art construction techniques relative to placemaking, storefronts, any coordination, and environmental considerations to unseen but impactful operational efficiencies, our 25-year experience building mixed-use communities adds and continues to benefit our core shopping centers far greater than most people realize.

Expect to be more—see more of our showcasing that in the coming quarters and years. When you think Federal Realty, think about the multifaceted ways that we've got to grow. Just as we did between 2010 and 2019, and just as we plan to do from 2021 on with assets in the team whose confidence is proven and time tested. Dan?

Daniel Guglielmone

Thank you, Don, and good morning, everyone.

As Don outlined, $1.50 per share reported FFO for the first quarter outperformed against every one of our benchmarks. Last quarter, year-over-year, versus consensus and versus our own forecast. That outperformance was broad-based. All aspects of our business model played a role in the results of drivers such as better-than-expected small shop occupancy, stronger residential performance, particularly in Boston and San Jose, better improvement in collections than forecast both in the current and prior periods, growing parking revenues and percentage rent underscoring accelerating traffic and tenant sales, particularly at our large mixed-use assets. However, this was offset by higher-than-forecasted property expenses.

Our GAAP-based comparable portfolio growth metric was exceptionally strong at 14.5% for the quarter, more than 3% above forecast. Comparable growth, excluding prior period rent and term fees, was 18.5%. To emphasize the strength of these metrics relative to the broader sector, our cash basis same-store metric, as calculated in line with our peers, would have been 18% on an apple-to-apple basis and 18-plus percent excluding prior period rent and term fees.

Term fees this quarter were $1.5 million versus $2.8 million in 1Q '21. Prior period rent this quarter was $5 million versus $8 million in '21. Year-over-year occupancy results were also strong, with our overall occupied metric growing 170 basis points year-over-year from 89.5% to 91.2%, our lease percentage increasing 190 basis points from 91.8% to 93.7%.

More upside to come on both of those metrics in the coming years as we realistically targeted 94% to 95% for occupied and 95% to 96% for leased. Our signed not occupied spread in the comparable pool held steady at 250 basis points representing over $24 million of incremental total rent, which should come online over the balance of this year and into 2023. In our non-comparable pool for designed signed not occupied upside stands at $19 million of total rent.

New lease deals and our leasing pipeline for currently unoccupied space will drive another $12 million of incremental total rent, primarily in '23 and '24. This totals roughly $55 million of cumulative incremental rent, which will very visibly drive bottom-line results over the next two-plus years, highlighting the diversity and strength of our multifaceted business plan. As a testament to our asset management and tenant coordination teams, we have not seen any material delays in getting tenants open and paying rent due to supply chain issues or labor issues to date, further enhancing the timeliness of that income coming online.

Rollover for the quarter was solid at 7%, in line with our expectations and our trailing four-quarter average as we continue to take a long-term approach to leasing up our portfolio in the wake of COVID and look to balance driving occupancy, improving merchandising, enhancing tenant credit quality, increasing starting rents and importantly, getting strong and practical rent bumps.

Contractual rent bumps are an extremely important part of our business plan, one that is not always visible to our investments. We believe that we achieved sector-leading average contractual rent bumps anchor and small shop blended in the 2.25% range, given the quality of our portfolio. In this quarter, the blended annual increase releases signed with an exceptional 2.5%. From a pure math perspective, 2.5% compounded over 10 years results in a rent which is 9% higher in year 10 than a lease, with compound at 100 basis points slower growth or 1.5% annually. It's not just about rollover; contractual rent bumps do matter.

Now to the balance sheet and an update on liquidity. We ended the quarter with over $1.3 billion of total available liquidity comprised of an undrawn billion-dollar revolver, $160 million of cash, and $175 million remaining on our forward equity contract. Additionally, we have roughly $150 million of noncore dispositions under consideration with pricing expectations that have blended cap rate below 5%. We have no maturities in 2022, with our only near-term maturity being $275 million of unsecured notes, which mature in mid-2023.

We've reduced our encumbered pool to just seven assets, increasing our unencumbered EBITDA to 93% of total EBITDA or $600 million. With respect to our leverage metrics, our net debt to EBITDA is inside of six times as adjusted for our forward equity. We fully expect to be back to our pre-COVID target of low to mid-five times by late '23.

Our fixed charge coverage ratio is over four times already above our targeted level, and 93% of our outstanding debt is fixed rate. Additionally, we are targeting free cash flow after dividends and maintenance capital to return to pre-COVID levels by next year. As CocoWalk in the Phase IIIs at both Assembly Row and Pike & Rose are largely complete from a spending perspective and are stabilizing, $700 million comes out of our in-process development pipeline. These three projects will yield roughly $48 million when stabilized versus their 2021 contribution of $12 million.

As a result, our in-process pipeline of active developments now stands at $800 million, with roughly $425 million remaining to spend. As we always do, we sit with significant dry powder against our $1.3-plus billion of liquidity.

Now on to guidance. As Don said, even after such a strong start to the year, it is rare that we would raise guidance for just one quarter in the books. However, the steady momentum we're seeing in the business makes it really difficult not to. As a result, we are pushing our guidance range up $0.10 to $5.85 to $6.05 from the prior range of $5.75 to $5.95.

One to two cents of the $0.10 increase is from our recent purchase of Kingstown and its contribution to 2022. The balance is from the first quarter outperformance and a better than forecast outlook for the rest of the year in both the comparable and non-comparable pools.

We are also bumping up our guidance for comparable POI growth to 3.5% to 5% from the prior range of 3% to 5%. Excluding prior period rents and term fees, our forecast increases to 6.5% to 8% from a prior range of 6% to 8%. We still expect our occupied rate to climb from 91.2% today up into the 92.5% to 93% range by year-end, as the SNO spread in our operating portfolio of 250 basis points begins to come online.

In terms of FFO growth in '23 and '24, we are still comfortable with the 5% to 10% growth guidepost we've given previously. The strength of our business model provides us with a diversity of avenues to grow sustainable sector-leading FFO growth. Beyond driving portfolio occupancy levels back to our mid-90s targets, Federal has additional years to propel growth, a proven track record and cost of capital to opportunistically acquire assets accretively over the near, middle, and long term, a completed redevelopment, and expansion pipeline totaling $700 million, an in-process redevelopment and expansion pipeline totaling $800 million. Together, these redevelopments and expansions will drive an incremental $80 million to $85 million of POI over the coming years through 2025.

As we have highlighted previously, this is not pioneering development in a proven location. This is redevelopment and derisked expansions at established and highly successful properties that we already own and know extremely well. On a risk-adjusted basis, there is no better, more compelling business plan in the sector today.

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

Operator

Thank you. Our first question comes from the line of Craig Schmidt with Bank of America. Please proceed with your question.

Craig Schmidt

Great. On Kingstowne Town Center, I'm just curious, why is it being purchased in two phases? Then when we think about you being able to increase value here, obviously, remerchandising it upfront, but the incremental capital investment, is that to take advantage of the 45 acres?

Jeffrey Berkes

Hey Craig, it's Jeff.

Yes, that was a seller requirement that we closed in two phases, something that the seller asked for to be accommodated. Just a little bit more color on that acquisition. We're really, really happy with it for a number of reasons. When we talked about this a lot in the past, we've, for a long time, had a hit list, and we were very proactive about working our hit list, and—in this case, that really paid off. Barry Carty and team here has done a really good job of developing a relationship with the seller. We've been talking to the seller for a long time before the property came to market. Through that relationship and our credibility, we developed with the seller, we were able to step in and buy that even after it went to market at what we think are pretty good terms, going in at a 5-cap and kind of mid-6s unlevered IRR. That IRR does contemplate a lot of upgrading in the way of merchandising and some investments in the assets itself so we can push rents—really happy with that.

It goes into our Virginia portfolio. We opened an office in Northern Virginia a few years ago that has just been incredibly successful running our assets and adding value; Chesterbrook, Twinbrook, Fairfax Junction, Kingstowne all added to that portfolio in the last few years, so real happy about it.

Finally, and I know you know this, just as a reminder, buying Kingstowne helped us cover a pretty big gain that we created when we sold under threat of condemnation half of San Antonio Center in Mountain View, California, with more than double what we paid for it five or six years ago. All around just a really good deal, and we couldn't be more excited about it.

Craig Schmidt

Great.

Then just as a follow-up, I noticed you mentioned in the call that Northern Virginia is kind of growing in importance to Federal. Could you talk about Pan Am? I'm understanding you're possibly planning to redevelop a mixed-use there. Then maybe some information also on the new parklet that's coming to Mount Vernon Plaza?

Donald Wood

Yes, Craig, you've hit on something that's really important. When you—as you know, we've owned Pan Am, and we've owned an awful lot of assets in Northern Virginia for a long time, but it really wasn't until we put the office over there we're able to make inroads in the acquisition market that, whether you're a Fairfax County or Arlington County that, these leaders of those governments helped recognize Federal as a big player there. Accordingly, we've been able to make some strides. We're certainly not all the way there yet, but strides with the entitlement process in Fairfax County with—at Pan Am. We'll get through the rest of it, but we've made already more inroads than we would have, I believe, if we were still operating the portfolio somewhat remotely. It just proves again how important local knowledge is and local presence is to the portfolio.

Don't have a lot to say yet about Pan Am. I can tell you; you know where it is; we're at the Nutley Street exit off Route 66 in the middle of Fairfax County on, again, a big piece of land. There really is a common thread there with us because stuff happens on the big pieces of land much more easily.

That will go on to—I'm hopeful our redevelopment pipeline list and—I don't want to give you a time frame, in the not-too-distant future, I'm hopeful. Good stuff there.

In terms of Mount Vernon—you got it, Wendy?

Wendy Seher

Yes. The parklet, Craig, that you had mentioned. As Don mentioned in his opening remarks, we have more than two dozen investments happening in our existing portfolios to strategically make them better and get them stronger coming out of COVID. This parklet is a good example of not a full redevelopment how we continue to invest in our properties to make them better for the communities that they serve. This parklet we've been working on for a while. It's going to open shortly. We just got the building permit, and it's going to make kind of a center of gravity for Mount Vernon. As you know, it's a very large center, and it will provide some opportunity not only to the community but the four or five tenants that circle the parklet. Again, really just kind of doubling down on that outdoor amenity program and outdoor seating that we see was so valuable during COVID.

Operator

Thank you. Our next question comes from the line of Greg McGinniss with Scotiabank. Please proceed with your question.

Greg McGinniss

Hey, good morning.

Dan, I can understand your general hesitance to increase guidance on Q1 results, but even so, it feels maybe a bit underwhelming, considering the outperformance versus our estimates and maybe even your own internal numbers, especially when looking at percent rent reimbursement and other revenue contributions. I guess I'm just trying to understand what can even push you to the lower end of the guidance range, even assuming that there is no more prior period rent contributions?

Daniel Guglielmone

Look, I think that there are massive kinds of macro kind of storm clouds up. I think it's just us being, I think, a little cautious in nature. I think the bump in guidance is, I think, reflective of a strong first quarter—we'll see. I think we want to be mindful of increased inflation and all the other things that we worry about every day when we go to sleep. I mean, that's—I don't know, Don, if you have anything more to add?

Donald Wood

Greg, gosh, it's hard for us to argue with the premise of your question when over the last six quarters, each time, we have outperformed and increased guidance, and it wasn't enough. I certainly understand your question. There is absolutely an inherent conservatism in the way we run this business. There—'22 is looking real good, to your point. We're trying to reflect that in the guidance, but if it comes out better, it comes out better.

Greg McGinniss

Okay.

Dan, I forget if you covered this, but have you talked about what kind of prior period rents are included in the guidance number?

Daniel Guglielmone

Yes. No, we've had—we're actually increasing that number. We had—in our original guidance, that I mentioned on our last call in February, roughly about $5 million to $8 million. Obviously, we did very well in the first quarter, increasing that range up from 5 to 8 to 9 to 11. The pool of potential rent to grab from is shrinking. We're doing a lot better at grabbing it, as evident by a strong first quarter and hence (phon) the increase there over the balance of the year.

Operator

Thank you. Our next question comes from the line of Michael Bilerman with Citi. Please proceed with your question.

Michael Bilerman

Yes, thanks for that.

Don, in your opening remarks, you talked a little bit about Santana West and how you—sort of the costs had gone up, but the rents went up as well, which were able to maintain your yield. I was wondering if you can just sort of step back on the entirety of the redevelopment and development pipeline. Your commentary on the core portfolio and the leasing environment is so optimistic and strong, and clearly, the numbers are coming in the leasing environment. Why isn't that translating more into the redevelopment and development pipeline? I would have thought at this point, especially during COVID, where you marked down a lot of those yields, that those would actually start seeing the other side. Is it all just on construction costs that you're just finding that you're just not able to get those yields up?

Donald Wood

Mike, just let me make sure I have the premise, or we agree on the premise of the question. We have not adjusted in any significant way, the guidance that we've given kind of pre-COVID because we're—we want to make sure that we've got good numbers and the ability to be accurate when we change it, not do it in its depth of 1,000 cuts.

When in terms of the Santana West piece, what this reflects is a real negotiation that gives us a much better window on what rents really are today. What costs really are for the remaining piece in Santana West, it's basically just the TIs, which is a big number, but it's that and some other stuff.

We didn't want to change part of it without doing the whole thing. That similarly applies throughout the development portfolio. As you know, much of our development stuff is baked and done under GMPs. To the extent, we're comfortable with that, and we are, that's what you see disclosed. You might have seen I also made a comment that we're not ready yet to talk about or announcing a life science building up at Assembly specifically to your question, specifically because I want to make sure we are locked down on costs before we're able to do that. We're getting close, we're not there yet.

What we do seem to see in all of our markets where we are developing is that the higher costs, which are clearly out there on new money relative to a year ago or two years ago, are being offset by higher rent expectations that seem to be able to be met. There's nothing on the development side yet that we've seen that has stopped as a result of higher cost, no ability to push those rents that create a decent return on those costs. I don't know—there's a lot in there, and we'd have to go project by project, but that's the general landscape.

Michael Bilerman

Yes. I guess I was just—I guess I was surprised that with all of this commentary and the commentary that you normally don't increase guidance at the beginning of the year and how strong the leasing environment is and record leasing that, that somehow is not translating into better yield on the development and redevelopment. In fact, Santana West, if it wasn't for lifting the rents, that yield would have gone down, and it's not inconsequential. You're talking about $130 a foot, $50 million increase. That’s not small.

Donald Wood

No, there's a fair—that's a fair point, Mike. Maybe like—I'll give you a great example. Right, with what's happening up in Assembly on the residential business. We're going to be at the upper end of that range, and we may even increase that guidance going forward based on the actual residential leasing that is happening on there relative to the cost. Is there an inherent conservatism in the way we try to do things? Absolutely. It’s kind of ties to the earlier call.

But, it's a pretty—there are headwinds out there in terms of the marketplace. We try to take the most balanced approach we can. I think you guys look at our history and can determine whether you believe we'll get there or we won't get there and act accordingly, but no, there is an incurrent conservatism in the way we report.

Operator

Thank you. Our next question comes from the line of Mike Mueller with JPMorgan. Please proceed with your question.

Michael Mueller

Hi. I guess given the commentary on strong demand and leasing volumes, is it your expectation that once we move into '23 and '24, we're going to see rent spreads take a notable step up?

Donald Wood

Oh, gosh, how do I answer that? Mike, I would say it is so hard to answer your question about '23 and '24 as we sit here on May 5, '22, right? I mean, the reason we originally gave guidepost going out was because, you'll remember, we had better visibility post-COVID than we did in the middle of COVID. That's why we started getting those guideposts out.

Now, as I sit here and you look at the macro issues affecting the economy, trying to figure out exactly what's going to happen with lease negotiations in '23 and '24. I'm looking at Wendy here, and I am getting a little bit of a shrug. There—that's not an indictment of the portfolio or an indictment of the way we do business. It's simply the market out there is uncertain.

What we know is—what we are seeing really good progress with is where we spend capital to be able to create a better place-making asset. We get paid. I don't expect that on a relative basis to change one bit, but it is on a relative basis, based on what's going on in the more global economy, and that's affecting real estate. As I sit here today, I am really bullish on all the facets of the way we're growing, including the basic leasing of shopping centers, especially those that have been redeveloped and invested in but more of a crystal ball than that for '23 and '24, I don't think I can give you today.

Michael Mueller

Got it.

Then just a quick follow-up here. On the comments about rent bumps and escalators. Was that a comment just on the retail portfolio, or does that cover the office portfolio as well?

Daniel Guglielmone

It's the commercial portfolio, including office. Yes.

Operator

Thank you. Our next question comes from the line of Derek Johnston with Deutsche Bank. Please proceed with your question.

Derek Johnston

Hi, everybody. Thank you.

Regarding acquisitions, with local retail cap rates, the spread to the 10-year treasury really historically tight right now. What kind of cap rates are you seeing for quality assets or, I guess, more importantly, expecting to see in private market transactions in the next quarter or two? Are there currently fewer bidders for assets, or are cash buyers now really in the driver's seat given rising rates?

Jeffrey Berkes

Yes, Derek, it's Jeff. Let me take a shot at that. I mean, we've been pretty active for the last 12 months to 18 months, coming out of the pandemic and bidding on stuff and being successful in several cases and buying properties. In this most recent round of deals, we've still seen a very active bidder pool and a very well-capitalized bidder pool. There is at least—in this last round of deals, there's been a lot of capital in the market.

A lot of people think big picture. That's because the yields on retail are better than they are in multifamily and better than they are in industrial, which is why you've seen a lot of low to mid-4 cap rate purchases by institutions the last couple of quarters, and there's some deals in the market price like that. They're going to close in the next couple of quarters as well.

Not every buyer is a leveraged buyer—a lot of institutional capital out there that needs to be placed. Going forward, I think it's not just interest rates that are going to drive cap rates, it's what are returns on other product types? Does that have wall of capital stay in the market, or does it not?

To be determined, but a lot of money for high-quality retail right now, competitive market. As always, there's a big spread between A and B quality property, right? We're looking at stuff that we think we can add value to overtime, really focused on value-add opportunities, densification opportunities, and more of the IRR than the cap rate. Kind of keep that in mind as you think through maybe where pricing might go to.

Derek Johnston

Okay. That's helpful. Thank you.

Then kind of where Mike was headed but not so long term. Clearly, healthy retail leasing activity this quarter, built on strength of last year, which clearly is positive, but investors have focused on the high ABR versus peers in the post-pandemic era as being a possible headwind or perhaps led to year-to-date underperformance. When you look at it, cash basis rollover this quarter was again positive at 7%. I guess the question is, what may investors be missing when focused on Federal's ABR? How do you view the in-place rents versus market rents at your centers and the opportunity set?

Donald Wood

Yes. This is the perennial question, right, Derek? I mean, no doubt. I want you to focus on something that Dan said in his comments, check this out: a 7% cash-on-cash rollover. If you did the math and considered our—what I believe our superior contractual bumps if it's a 100 basis points if we're growing at 2.5, somebody else has growing at 1.5 typical shopping center business, right? Seven percent bumps equal 16% rollovers, nine more.

That's an amazing thing that we have not, frankly, done a good job educating people about, and look, part of that is we don't know what everybody's bumps are, but you can consider the following things. We have—this portfolio is two-thirds anchors and one-third small shop. The opportunity for bumps is easier in the small shop, obviously, than convincing TJX or Ross to have annual bumps, obvious stuff.

In our small shop, the notion of being able to have those bumps. I would bet more regularly than others, but I don't know that for sure. I do know that ours are very strong. You have to consider that when looking at rollovers also.

Yes, a small shop, not only maybe one-third of the GLA, but it's half of our rent in total. Think about that, number one. Number two, it's—and I made this—it's such an interesting point, I think when you look at the acquisitions, we were—we made—and even before we do any redevelopment or do investing, we were able on 10 deals, not the smallest thing, 10 deals this quarter, get 33% more rent than when somebody else owned it, on the reputation that we're going to make you more productive. At the end of the day, Derek, is the productivity of the retailer, not the ABR—and so put those two things together, and that's why we're confident with respect to how we run our business.

Operator

Thank you. Our next question comes from the line of Steve Sakwa with Evercore ISI. Please proceed with your question.

Steve Sakwa

Yes, thanks. Good morning.

Don, I was hoping you could just spend a little time on the potential Life Science deal up in Boston. Just how are you thinking about pre-leasing and credit underwriting, and tenant underwriting for that project?

Donald Wood

Yes. It's very fair, Steve. There are a couple of things to think about there. The business is not a pre-leasable business in large measure. There's no question that as we underwrite the risk, as we underwrite the dollars, the cost of capital, we will expect a higher return to compensate for the inability to—the likely inability, you never know, but the likely inability to prelease the building.

What we're thinking about with respect to that opportunity is what is pretty demonstrably a pocket of much more than one building. It could be more than one building for Federal in time. We would expect it to be already—as you know, BioMed has begun construction, and Greystar right there has begun the construction. The notion that Assembly is likely to be a cluster of Life Science has grown dramatically over the past year or two. That's a really important component in terms of who's going to wind up there.

Actually, one of the interesting things would be to—when you look at the number of companies that have been developed on the Life Science side over the past few years, it's pretty dramatic, and demand is just—demand is off the charts relative to the supply, even though there's supply coming on in other parts of the Boston market. Together, the short answer to your question, Steve, is the return has to be able to compensate for the spec nature of it, as well as the undeterminable at this point of credit quality of the tenants that have come.

Steve Sakwa

As a follow-up, would you contemplate sort of joint venturing with a more established Life Science player, or ground lease it, or are you pretty much committed to going in alone and keeping it for yourself?

Donald Wood

We've considered all of those opportunities, and we've decided to do it ourselves, and we've decided to do it ourselves in large measure based on the team that we were able to compile in terms of not only the general contractor but the designer, but the operator and all of the individual components of it as well as our team up there. We've created a lot of value at Assembly and—over 15 years in that project. We want that value fully recognized in our incremental investment.

Operator

Thank you. Our next question comes from the line of Connor Mitchell with Piper Sandler. Please proceed with your question.

Connor Mitchell

Hi, thanks for taking my question.

With the depreciation of the strong balance sheet, how can rising rates impact, if at all, the developments going forward?

Daniel Guglielmone

With regard to what? I'm not sure I understand the question. Could you repeat it?

Connor Mitchell

Yes. I think a better way to ask the question might be whether you see rising rates within the development and then also or material cost and inflation as a bigger issue for impacting developments?

Daniel Guglielmone

Look, there's no—we expect, and I think before we go forward, we lock in prices to the extent we can with the GMP before we start. I think what we've seen is because of the strength of the markets that we're in. We benefited from increasing rents, which have got offset kind of costs as it relates to rising TIs, tenant improvement dollars. That's why we've been able to maintain the yields and deliver the yields that we set out to achieve. We won't start something unless we've got those costs locked down to a large extent.

Donald Wood

There's an important follow-up in that. It is, while you kind of globally talk about—we kind of globally talk about our development pipeline, every project has to stand on its own.

If the rents are not—certainly a higher cost of capital, to your question, right—a higher and long-term cost of capital is the way we look at it. There a higher cost of capital has to be supported by cost that work in there and rents that we're confident we can achieve. When you think about the primary markets where we're doing that, Boston, Massachusetts, San Jose, California, Montgomery County, Maryland, you're talking about markets that heretofore—and I don't expect it to change based on job projections and economic projections in those markets—we're able to push the rents to be able to compensate. Does that continue forever? Your guess is as good as mine because we make those decisions on a one-off basis, but right now, everything we see in those markets suggest that rent will compensate for the higher costs.

Connor Mitchell

Alright. That’s helpful. Thank you.

Operator

Our next question comes from the line of Juan Sanabria with BMO Capital Markets. Please proceed with your question.

Juan Sanabria

Hi, thank you.

Just wanted to touch on the funding side of the equation for acquisitions and how you guys are contemplating that given you're at your cost of capital. If you can give us a sense of where debt costs are today relative to—still the strong pricing for acquisitions and how you think about kind of your mixed cost of funding your weighted average cost to capital?

Daniel Guglielmone

Yes. Look, I think in the last—yes, certainly, in the last 90 days, cost of debt capital has kind of gone up. Obviously, that pushes up our weighted average cost of capital. I think with regards to—hold on...

Jeffrey Berkes

Juan, can you repeat the question? We're— struggling with the last part of it there.

Juan Sanabria

Sure. Just curious on how you plan to fund what seems like a still a very active acquisition pipeline, given where leverage is today, and just get a sense of how you're thinking about where you could raise debt out to if we think about match funding?

Daniel Guglielmone

Yes. Look, I don't think debt is a big component of what we're looking to fund growth going forward. We've got $175 million of forward equity still ready to be taken down. We've got in process and under consideration $150 million of dispositions that were sub-five cap and on deck after that, another $100 million to $150 million of dispositions. We are thinking about to take advantage of a strong environment. I think that that, balanced with our higher cost to debt capital currently, is something we will take into consideration.

Jeff, do you want to add.

Jeffrey Berkes

Yes. One other thing to keep in mind here, too, whether it's an acquisition, a redevelopment, or a development, we've never been a spot capital pricer of our investment opportunities. We've always looked at our long-term weighted average cost to capital. When interest rates are really low, we weren't chasing acquisitions, for example, down into the low four-cap range, simply because they were still accretive, and with increasing interest rates and increasing debt costs, we don't really expect that to impact our ability to perform in the market for that reason. We always have maintained a very strong discipline on looking at kind of the long-term cost, not the spot cost.

Juan Sanabria

Then just as a follow-up question, just curious on the small shop side, as you're thinking about merchandising space in the centers but also thinking about maybe, we see a potential recession we'll see. Does your strategy change about the types of tenants may be more national with regards to the small shop space?

Wendy Seher

I would say that the short answer is no. We really take a balanced approach, sort of like what we were talking about before our overall business plan is growth in various areas from our core through developments to redevelopments to acquisitions, and I like to apply that same philosophy to our leasing, where we're talking about growth whether it's through merchandising, whether it's through investing in the properties, whether it's through selecting tenants that also want to invest in themselves. We're seeing a huge amount of investment with tenants and us together, and that creates a better result. We like the balance, again, intertwining with the community of that local flare, mom-and-pop, best-in-class as well as the regional and national as well. I think we'll continue to take that balanced approach.

Jeffrey Berkes

We're sticklers, too, on working through a tenants' business plan and looking at their credit, and also securing the lease in the right way, regardless of what's going on in the economy. We don't relax as our standards when things were good. I wouldn't expect us to do anything any differently, like Wendy just said.

Operator

Thank you. Our next question comes from the line of Haendel St. Juste with Mizuho. Please proceed with your question.

Haendel St. Juste

Hey, good morning.

I have a question on redevelopment here. Don, the enthusiasm in your tone, it's clear, demand is strong, rents rising, and you're adding to the redevelopment pipeline. I guess I'm curious—how close are you to maybe getting back to the pre-COVID game plan of $300 million to $400 million of annual redev debts funded by free cash flow as well as incremental debt and opportunistic sales here? What's the right way to think about redev spending as we move into this higher cost and higher interest rate higher rent backdrop?

Donald Wood

Yes. No, Haendel, I love the question. It's—the answer is driven by opportunities. One of the things that has become pretty clear to us post COVID—and I think Wendy talks about this all the time to me, it's kind of stuck in my head—is the demand and the conversations with tenants has, in our view, what we've seen is they are more important in terms of who the landlord is than ever before. So, to the extent that landlord is investing, not only in the asset alongside that tenant to be able to create a better and place-making is a big part of it. No question. Convenience is a big part of it. No question. To create a better environment that's a here-to-stay.

You know what will stop that, Haendel, if we can't get paid for, but effectively, everywhere we've seen so far where we are laying out an aggressive redevelopment plan, improvements to the property, the impact on the leasing has been very clear. When I say the impact on the leasing, I'm talking if you're interviewing leasing agents and understanding from their point of view, what the deals look like, what those bumps look like?

You know what Dan talked about higher bumps. That's not an accident. That has to happen, commensurate with a tenant conversation that—where they are confident they're going to be able to afford that and continue to pay that, and a key part of that is what are you doing landlords to the shopping center post-COVID.

I don't—the days of kind of milking your—just kind of milking the shopping center and your milking the cash flow from the shopping center without a significant investment. I'm not sure this industry goes back to that. To the extent you do, do that—the differentiation between great properties and not so great properties gets wider and wider.

As you think about the next few years and a return to normalcy from a demand and a supply perspective, ask yourself where you're likely to be able to push rents and get paid if your shopping center is materially better than the competition. That's kind of the way we think about it.

Haendel St. Juste

Okay. Fair enough.

Any desire to perhaps provide some guideposts on how we should think about redev spend here as we move into the next few years? Then can you remind us what estimated value of the assets in your—sorry, in your portfolio that can be sold on a maybe tax-neutral basis to fund acquisition development. I think a few years back, that number was close to $400 million. Obviously, you've sold some—just curious on where you think that is today?

Donald Wood

I think that the last part of your question, it's—that's about the same. I wouldn't see that very differently. Yes. No, that's kind of all I've got to say on it.

Operator

Thank you. Our next question comes from the line of Chris Lucas with Capital One. Please proceed with your question.

Chris Lucas

Hi. Good morning, guys.

Just one quick one from me. Dan, on the percentage rent number for the quarter, it was roughly almost 2x what it was pre-COVID in the first quarter. Just curious as to whether that growth came from more leases running into the—over the breakpoint and generating percentage rent or those that have been in percentage rent continuing to sort of just add to the contribution to percentage rent. Just trying to understand where that increase is coming from?

Daniel Guglielmone

Yes. Look, the increase is partially being driven by just better tenant sales across the portfolio. It's—there's two different parts. We have the leases that were restructured were collecting a percent of rent, and that shows up in the collectability adjustment. The percentage rent that's in that line item that outperformed pretty significantly is really just, I think, a combination of a few more deals that are leases that are percentage rent deals as well as just higher performance from those leases over time. I would expect that first-quarter number not to be—typically, we're around 1% to 1.25%, we're at 1.5% today of revenues. I think that is in that 1% to 1.5% over time.

Operator

Thank you. Our next question comes from the line of Linda Tsai with Jefferies. Please proceed with your question.

Linda Tsai

Hi.

In past presentations, you've shown retail format by the percent of 2019 POI contribution. Just wondering, as this trend line has normalized and demand is higher now, have those contributions changed at all materially?

Daniel Guglielmone

Yes, there's really been no material change to those figures.

Linda Tsai

Got it.

Then you have a few tenants that have chosen your assets, your office assets like NetApp, Splunk, and PUMA as their headquarters. Was this the strategy you had in mind when you developed these office spaces, or was it just more product—byproduct of having new and desirable amenities?

Donald Wood

Yes. Well, I mean, look, we always hope that we have the best credit tenants take the entire building, and we're done in five minutes. That's always the hope of the strategy; the more likely result is what has happened. Now those are great companies, all of those companies, all of them look to the amenitized base, look to the ability to retain the track workers as critical to their decisions. That's not a surprise. That's been in the strategy from the beginning. That will continue to be. I think you'll see that that's where we'll end up with the other stuff that's not leased up yet to date.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now turn the call over to Leah Brady for closing remarks.

Leah Brady

We look forward to seeing many of you at NAREIT. Please reach out with any meeting requests, and thank you for joining us today.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.