



Federal Realty Investment Trust

Federal Realty Investment Trust 2Q 2025 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Jill Sawyer, *Senior Vice President, Investor Relations*

Don Wood, *Chief Executive Officer*

Wendy Seher, *Eastern Region President and Chief Operating Officer*

Daniel Guglielmo, *Chief Financial Officer*

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Greg McGinniss, *Scotiabank*

Alexander Goldfarb, *Piper Sandler*

Michael Griffin, *Evercore ISI*

Juan Sanabria, *BMO Capital Markets*

Craig Mailman, *Citi*

Rich Hightower, *Barclays*

Michael Goldsmith, *UBS*

Samir Khanal, *Bank of America*

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Cooper Clark, *Wells Fargo*

Mike Mueller, *JPMorgan*

Ravi Vaidya, *Mizuho*

Ki Bin Kim, *Truist*

Paulina Rojas, *Green Street*

Tayo Okusanya, *Deutsche Bank*

P R E S E N T A T I O N

Operator

Good afternoon, and welcome to the Federal Realty Investment Trust Second Quarter 2025 Earnings Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Jill Sawyer

Thanks, Gary.

Good afternoon. Thank you for joining us today for Federal Realty's Second Quarter 2025 Earnings Conference Call.

Joining me on the call are Don Wood, Federal's Chief Executive Officer, Dan Guglielmono, Chief Financial Officer, Wendy Seher, Eastern Region President and Chief Operating Officer, and Jan Sweetnam, Chief Investment Officer, as well as other members of our executive team that are available to take your questions at the conclusion of our prepared remarks.

A reminder that certain matters discussed on this call may be deemed to be forward-looking statements. Forward-looking statements include any annualized or projected information as well as statements referring to expected or anticipated events or results, including guidance.

Although Federal Realty believes the expectations reflected in such forward-looking statements are based on reasonable assumptions, Federal Realty's future operations and its actual performance may differ materially from the information in our forward-looking statements, and we can give no assurance that these expectations can be attained.

The earnings release and supplemental reporting package that we issued tonight, 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 operational results. Given the number of participants on

the call, we kindly ask that you limit yourself to one question during Q&A portion of our call. If you have additional questions, please requeue.

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

Don Wood

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

It was a really active quarter led by beat and raise results, near-record leasing, a big and important acquisition, a couple of fully priced dispositions and some innovative and value-enhancing dealmaking. First, the quarter. Reported FFO per share of \$1.91 includes \$0.15 associated with our development of Freedom Plaza shopping center in Los Angeles, as all the conditions necessary to recognize the new market tax credit income that we previously discussed have been satisfied.

Whether or not you include or exclude the income in your modeling, please understand that this heavily negotiated deal derisked the development significantly and went a long way to assuring its profitability to a return that was enhanced by over 20%. Excluding the tax credit impact, FFO of \$1.76 per share exceeded consensus and prior year FFO, resulting in the beat and raise that Dan will discuss in a few minutes.

Comparable property-level operating income grew roughly 5% in the second quarter excluding tax credit, by the way, while comparable retail leasing of 644,000 square feet was very near an all-time quarterly record. TI dollars remained under control and continue to benefit from the favorable supply-demand dynamics for high-quality retail real estate.

This was a really good quarter, strong quarter with good visibility of that strength continuing through the rest of the year.

Now, Wendy is going to speak about our Leawood, Kansas acquisitions in a few minutes, but let me first make some clarifying comments about our strategy: our acquisition strategy, our disposition strategy and our development strategy.

First, acquisitions. Our acquisition criteria leans into all of our core strengths developed over the last couple of decades. Big, dominant and I do mean dominant, retail properties of the highest quality that sit on large parcels and affluent submarkets where our tenant relationships and redevelopment skills can make a significant difference in the property's growth rate. Every property we acquire has to be in a bull's-eye location measured by income demos, trade area reach, retailer desirability and economic constraints that assure it retains its best location status protected from new supply.

The only change we're making to this criteria relates to geography, not quality. The playing field that we're exploring is wider, similar to the way we expanded into Arizona a few years back. Believe that we've been needlessly limiting our acquisition purview since COVID. Our tenants have told us that. Our core competencies of improved tenant selection, smart placemaking, selective redevelopment and site intensification are really needed and valued in places like Leawood, and retailers are ready to join us as space becomes available.

It turns out that the Leawood, Kansas shopper is simply not very different from the Pike & Rose Maryland shopper, except that they don't have nearly the retailer choices that the high-quality coastal properties do. We intend to change that. Since publicizing our interest in an expanded playing field, our inbound inquiries from sellers and brokers in markets and submarkets with characteristics similar to Leawood has increased substantially. We hope to have two more acquisitions of size completed by year-end.

There will be no diminution in the quality of Federal's portfolio as a result of the wider playing field. In fact, it will be enhanced with a laser-like focus on greater growth prospects and greater geographic diversity.

The position of privilege to be selective in this environment, and we're able to do that because of the reputation and quality of our platform.

Next is our disposition strategy, candidates for which fall into two camps. First, a pruning of assets that we simply see as limiting our long-term growth potential. It's why we sold our Hollywood Boulevard retail portfolio in June for \$69 million and are sheltering the gain through a 1031 exchange with the Del Monte Shopping Center acquisition made earlier in the year. It's why we sold our Santa Monica assets late last year. That sale evaluation process will continue with a specific goal of improving our growth profile.

Also considered for disposition are certain assets that are a unique byproduct to Federal's business plan. Those are buildings, either residential or office generally, that are peripheral to our shopping centers and mixed-use communities, but that have top-of-the-market valuations because of the adjacent retail environment that we've created over many years.

Now, I want to pause here and clarify what we mean by peripheral or stand-alone residential and office assets. They are assets that, while part of our broader shopping center and mixed-use communities, are not integrated into the core retail amenity base, which drive our mixed-use strategy. We, therefore, believe that the sale of carefully selected locationally peripheral assets does not hurt the value of the larger shopping center or mixed-use community. We've included a couple of simple site plan visuals linked to the earnings release and available on our IR site that illustrate what it is that we mean here.

It's why we sold Levare at Santana Row, a high-quality stand-alone residential asset that sits a block off the row on the periphery of the neighborhood. Levare has no retail beneath it and was sold for \$74 million in June at a sub-5 cap. Across from it, you'll see the larger residential building that we call Misora.

Similar situation, and we plan to market it for sale in the coming months. At Pike & Rose, that can mean Pallas, the stand-alone luxury residential building, one block behind the main shopping street and a Congressional Plaza shopping center, where we have The Stories apartments that sit behind it, we could also sell those. These are all high-quality assets that we've built over the last 25 years that are ripe for monetization without disrupting the productivity or the valuation of the core mixed-use environments we've created.

The same logic applies to select office assets, where widespread return-to-office mandates are rewarding the most highly amenitized product, probably not ripe yet, but we're open to recycling that capital here with the right buyer and valuation when the time comes. The luxury of having this optionality is a unique ace in the hole of ours, and it's a testament to our high-quality and differentiated portfolio.

And finally, our development strategy. Development remains an important core competency of our Company and a way to extract maximum value from our larger shopping centers and mixed-use properties. Now of course, opportunities are not as robust as they were in a lower interest rate environment, hence the pivot to acquisitions, but they will be again. In the meantime, we're still finding opportunities to add accretion and value largely with residential development as their historically lower exit cap rates make the economics work.

We are very willing to opportunistically monetize peripheral residential assets that we develop once they're stabilized in order to redeploy that low-cost capital into new retail raw material. Expect to see our residential project in Bala Cynwyd, Pennsylvania start leasing up next year in 2026 and Hoboken, New Jersey in 2027. We just broke ground on 258 apartments on Lot 12 in Santana Row and the first new residential project there in a decade, for which leasing will start in 2028. These projects represent just a part of our future growth pipeline with thousands more residential entitlements already banked or moving through the process.

We've heard investor concerns loud and clear, and I hope that my prepared remarks today are a start to clarifying the communication of our strategy. We couldn't be more excited to further execute on it through the power of Federal Realty's stellar reputation with all sorts of retailers as well as potential sellers and their

representatives of some powerful and dominant shopping centers. Our goal is to deliver enhanced growth through the inevitable economic cycles we'll all face in what I continue to believe is the highest-quality, retail-centric portfolio in the business.

I think I'll stop there. With that, I turn it over to Wendy and then Dan for the on-the-ground detail.

Wendy Seher

Thank you, Don.

Exceptional operating results were achieved on all fronts in the second quarter. As I mentioned on my last call, I anticipated leasing to be strong heading into 2Q, but the volume outpaced even my own expectations. A hundred and nineteen comparable deals totaling 644,000 square feet, second highest volume of leasing ever recorded just shy of our highest record in the fourth quarter of '24. Rent spreads were a solid 10% over in-place rents at 21% on a straight-line basis. We have been able to increase both our leased and occupied rates year-over-year as a result of limited exposure to recent bankruptcy headlines.

Our embedded mark-to-market on the limited bankruptcy exposure we do have is roughly 30% to 35% on a handful of spaces. We have pending deals on all of these spaces and should be executing leases over the next few quarters. I continue to be bullish on the leasing demand as I look at our pipeline, which is roughly a robust 1.5 million square feet at rent spreads in the mid-teens.

Retailers remain very focused on best-in-class locations with high disposable income and proven sales performance, which is why I'm particularly excited about the addition of Town Center Plaza and Town Center Crossing in Kansas City. These centers meet all of our disciplined real estate criteria: critical mass totaling 550,000 square feet, number one dominant retail intersection located in affluent Leawood, Kansas.

The demographics speak volumes with median household income of \$180,000 in Leawood, placing this market on par with the strongest markets we operate in currently. Annual foot traffic puts this acquisition in the top 15th percentile of our portfolio and the top 2% of all shopping centers in the U.S. for Placer.ai. The centers are already boasting a strong tenant lineup: Trader Joe's, Apple, Lululemon, Aritzia, RH, among others. But what gives me the most confidence in this acquisition is the surge in interest from our high-quality retail partners, both existing and new, that we've built decade-long relationships with, who are expressing interest in Kansas City because Federal is the landlord.

It's about rebalancing the mix, phasing out underperforming tenants and bringing in stronger brands, while at the same time, capturing rent growth. If we look at our history of results applying the same strategy, it's not really about what market rents are today, it's about what market rents could be with a strategic marketing strategy that is applied. With that application, we'll get increased traffic and sales. Strong sales equals rent growth. I really can't say that enough.

While recent acquisitions are exciting, our regional decentralized approach continues to drive value throughout our existing portfolio, whether it's a new Giant grocer under construction with small shops at Andorra; 217 residential units and 19,000 square feet of new retail space in Bala Cynwyd; new pads, for example, Starbucks and Chase; or opening a World Market in an outdoor former Kmart Garden Center, we continue to turn over new opportunities within our existing portfolio.

As I look towards the second half of the year, our manageable watch list, disciplined approach to cost and aggressive approach to getting tenants open and paying rent is yielding positive results. With executed in-place deals already in the third quarter, combined with a healthy pipeline of new leases that are in process, we are setting up 2026 for continued momentum to drive internal growth.

And with that, I'll turn it over to Dan.

Daniel Guglielmono

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Thank you, Wendy, and hello, everyone.

Our reported NAREIT FFO per share for the second quarter of \$1.91 includes the recognition of the new market tax credit income a quarter earlier than we had guided. Backing out the \$0.15, the resulting \$1.76 per share is \$0.02 above the top of our effective 2Q guidance range of \$1.70 to \$1.74. As a result of this outperformance, we raised guidance for 2025 by \$0.04 at the midpoint from \$7.17 to \$7.21 per share, or from \$7.02 previously to \$7.06 per share when excluding the tax credit income. More details on that a bit later in my remarks.

Comparable POI growth, excluding prior period rents and term fees, was 4.9% for the quarter, which is better than we had forecasted, driven by comparable base rents, which were up 4% on a year-over-year basis. Please note that the free rent period for our 11-year lease extension with Cisco Systems at 500 Santana Row ended during the quarter on May 31. Cash basis comparable growth, excluding prior period rents as a result and term fees, was 4% for the quarter and 5.2% after adding back the Cisco free rent.

A quick update on office leasing for the quarter as we finalized the lease-up of the portfolio. One hundred and forty one thousand square feet of total office leases signed for the quarter, with new signed deals at Santana West, bringing the building to almost 90% leased with solid activity on the partial floor that remains available as well as leases that bring 915 Meeting Street at Pike & Rose to 96% leased.

This brings our total amenitized mixed-use portfolio inclusive of Santana West and 915 Meeting Street to 96% leased in total, with a weighted average remaining lease term of eight years. Amenitized mixed-use and affluent first-ring suburbs of major metros is in high demand, and we continue to see it across our portfolio.

Now to the balance sheet and an update on our liquidity position. We improved our liquidity at quarter end to \$1.55 billion, with over \$1.23 billion available on our unsecured credit facility, \$177 million of cash and \$150 million available to draw down under the recently extended and expanded \$750 million term loan. Given strong growth in EBITDA over the quarter and the last 12 months, combined with asset sales completed during the 2Q, we're able to meaningfully enhance our credit metrics.

In particular, our second quarter annualized net debt-to-EBITDA now stands at 5.4x, excluding the new income tax credit income, down from 5.7x as reported last quarter and is now within our leverage target metric target for that metric. As mentioned, we successfully completed the sale of two assets in 2Q for \$143 million at a blended yield in the mid- to upper 5s on a next 12-month basis.

We are currently marketing an additional \$200-plus million and are considering another \$200 million after that to start marketing later in the year. This \$400-plus million in total is part of the broader pool we previously identified for potential sale, which is comprised of a mix of both stabilized lower-growth retail and peripherally located residential and office with blended yields targeted in the mid-5s.

From a flexibility perspective, with leverage metrics better than our targets, almost \$1.6 billion of dry powder, plus the aforementioned asset sales in process, we are very well positioned to continue to be on offense with respect to capital deployment, whether it's for additional acquisitions, redevelopments or even buying back our common stock.

Now on to guidance. As mentioned earlier, with a second consecutive beat and raise, the second quarter coming in \$0.02 above the top of our range and effectively \$0.03 above consensus at \$1.91 per share, we are raising our forecast for NAREIT-defined FFO per share to \$7.16 to \$7.26 per share. This represents about 6.5% growth at the increased midpoint of \$7.21. Backing out the onetime new market tax credit income from the figures, the range of \$7.01 to \$7.11 per share, with our revised midpoint climbing \$0.04 from \$7.02 to \$7.06 per share, which represents over 4% versus 2024.

This increase is driven by \$0.02 of operating outperformance that we can lock in for the year and \$0.02 accretion from the Leawood acquisition over the second half of the year, or \$0.04 on an annualized basis. Given the strong 2Q results, we are increasing our forecast for 2025 comparable POI growth to 3.25% to 4% from the previous range of 3% to 4%. We expect occupancy levels to climb from the current 93.6% level over the second half of the year into the low 94s by year-end. Given deals signed to date and the continued robust pipeline of leasing activity, which is as strong as we have seen in years in terms of volumes, other growth metrics and particularly, rollover.

Given limited exposure to bankrupt tenants and a better-than-forecasted first half of the year in terms of our utilization of our credit reserve, we are tightening our range of 75 to 100 basis points to a new range of 75 to 90 basis points. A quick reminder, an outline of our 2025 guidance assumptions is on Page 26 in our 8-K financial supplement. With respect to quarterly FFO cadence for the balance of 2025, our estimates stand at \$1.72 to \$1.77 for the third quarter and \$1.83 to \$1.88 for the fourth quarter.

Now an update on our dividend. As it has done every year since 1967, Federal Realty's Board of Directors has declared an increase in its quarterly common dividend this year by \$0.03 per share per quarter to \$1.13 or \$4.52 per share on an annualized basis. This approximately 3% increase represents the 58th consecutive annual increase of the dividend, a REIT industry record. We stand as the only REIT with the status as a Dividend King, which signifies 50 or more consecutive years of annual dividend increases.

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

Operator

We will now begin the question-and-answer session.

To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two.

Our first question is from Greg McGinniss with Scotiabank. Please go ahead.

Greg McGinniss

Hey, good evening. I just want to touch on the potential acquisitions in the pipeline and whether we should be assuming that those are going to be in line with the strategy discussed at the beginning of the call, so market dominant, but maybe in geographies we're not as familiar with Federal operating in. Then what types of cap rates you tend to achieve on those and where you think you can drive them to with that leasing expertise driving sales and rents that you talked about as well?

Don Wood

Thanks, Greg.

I have to be a little bit vague because the ones I'm talking about are not fully wrapped up yet, and I need to get that done. But, I can tell you that one of them is in a market that we've historically been in, and one of them is in a new market that we've been talking about in conjunction with how I led off the call. Cap rates would be going in immediately accretively. High 6s, low 7s is the general guidance I would give you. I hope that that's helpful, and I hope we can get those over the transom by the end of the year. We think we can.

Operator

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

Alexander Goldfarb

Hey, good evening down there and congrats on 58 years on the dividend.

Pretty solid record. Don, just big picture, and you spoke a little bit about this at NAREIT, but you guys are making a transition in Kansas City, presumably some other new markets. For a long time, like there's been a lot of growth in other areas away from the coast, but you guys have been sticking to your knitting. Is it really a function that just the big developments no longer work and hence, you need to go expand elsewhere? Or was your nervousness about going to other markets finally placated and you're now realizing that these markets truly have the same dynamics, qualities that your traditional markets do?

Don Wood

Really good question, Alex.

Let me make a couple of points to that. First of all, post COVID, I do believe both from a retailer perspective and from a landlord perspective, the understanding and the openness to other areas became more proficient. I think people thought about it more differently. For us, what this is really about, Alex, is a retailer-led set of questions post COVID that led us to consider some other things. You saw it first with places like Pembroke Pines. You saw it first with places like Virginia Gateway, things that were not in the first-ring suburbs but effectively had retailer demand that was greater than it would have been pre COVID.

And the more we spoke to these retailers, there's a pretty good list of the ones I'm talking about here. We were drawn and our own team said, let's open up the top of that funnel. If we can find the best and most dominant center in markets that we heretofore haven't looked at, we think we can take what it is that we do and create outsized growth relative to what those properties would do in other people's hands.

That's what we found in the first couple that I talked about. That's what I am confident we'll find in Leawood. We've got a couple of other places that we're looking at that way, too. I tried to get as much as I could with respect to the real estate characteristics that we need. But it's really the retailer characteristics that combination and partnership is really what has caused the ability of us to kind of look more broadly.

Operator

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

Michael Griffin

Great. Maybe just shifting gears to leasing. Wendy, I appreciate your comments, particularly around the re-leasing of some of those bankrupt tenants that you might have. When we think about kind of time for a, when those leases are going to get executed; and b, when they'll be commenced, I mean, are we talking executed in the third quarter, fourth quarter? And then what's going to be the lag time between executed and then commenced to realize that 35% mark-to-market you talked about? Thank you.

Wendy Seher

Sure, Michael. Thank you for the question.

I think that what you'll see is the execution of the deals will come in over the next three quarters, really. It will probably be the third, the fourth and the first quarter of next year. Then typically on box space, you're going to have some openings in the fall and then that spring '27 because it's typically about a 12-month time period to get one producing after a vacancy goes out with all the work that needs to be done. That's the best guidance I can provide right now.

Operator

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

Juan Sanabria

Hi, good afternoon. Just hoping you could talk a little bit about the environment in Washington, D.C., there's been some press articles around local restaurant closures, etc. Just hoping you could give us the latest pulse on foot traffic sales trends, and in particular, how the restaurants are doing.

Wendy Seher

Sure. The restaurants continue to be really resilient in the markets that we're in. I think what we're seeing is there's always some winners and losers in the restaurant category. But the areas in which we're operating and the incomes that are within this area has been very sustainable to the restaurant community. We have a combination of the fast casuals and the sit-down restaurants, which are in total doing well. In terms of traffic, April and May were up, traffic was up and June was down for whatever reason. But overall, traffic has been up the first part of the quarter and July remained solid.

Operator

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

Craig Mailman

Hey guys, just want to go back to the kind of acquisitions and what you guys potentially in the hopper with on the buy side versus the \$400 million that Dan talked about on the sell side. It sounds like, Don, as you said, there's accretion kind of immediately. I'm just kind of trying to get at what the IRR accretion that you guys are playing at over time and how long that takes to play out and how much capital ultimately that is going to need to foster as you guys re-merchandise some of these assets that you're looking to buy?

Don Wood

Yes, Craig, that's the name of the game, is to make sure we understand that we can create IRRs and the stuff that we're looking at suggests that we can create IRRs unlevered at roughly 9%, some a little bit less, some a little bit more. I can tell you with what we have been able to do on acquisitions, we have been able to exceed those numbers on the type of assets that we have done. I would expect to continue to exceed those numbers.

Now, in terms of timing, there are situations where we think we can get to it quickly. There are others that will take longer, a number of years to get to. But overall, what we are buying, Craig, has a higher IRR clearly than what it is that we are selling. That doesn't even include the difference in cap rates between what we're doing there. From a real estate perspective, this is, in our view, a very solid use of capital, net of what it takes to get to those numbers. Consider around 9% from an IRR perspective.

Operator

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

Rich Hightower

Hey, good evening, everybody. Thanks for taking the question here. Dan, maybe for you, just to dig in a little more to the guidance just to make sure I understand it. So, \$0.02 increase on it sounded like 2Q outperformance operationally and then \$0.02 on the Leawood acquisition. Are there any other moving parts that would kind of help us understand maybe first half versus second half? And, did you guys put in the release anywhere the comparable POI number for the first half so that we can sort of back into the second

half and kind of understand maybe how the movements and comparable numbers are shaping out over the course of the year? Thank you.

Daniel Guglielmono

Yes. Just on the comparable number, I mean, the first half of the year was kind of on average, the first half was kind of in the mid- to upper 3s. We expect the second half of the year to be roughly in the mid-3s. We had a strong first quarter, a little bit weaker first quarter, a very strong second quarter, and we expect to be kind of right in the fairway of our 3.25% to 4% guidance that we provided.

With regards to the second half of the year, we would expect some of the outperformance in the second quarter was a little bit timing related. Some of it was permanent. That's why we locked it in the way we did. I think that there'll be some one-timers and some of the pull forward from later in the year into the second quarter. We'll have the third quarter a little bit having growth that is somewhat consistent and in line with the second quarter in terms of FFO per share, and that's reflected in the \$1.72 to \$1.77 guidance for the third quarter.

We'll see some real pickup in the fourth quarter as we'll really see some more meaningful gains in occupancy and just lease starts and rent commencements driving in early 4Q and in late 3Q that will really weight more into the fourth quarter percentage rent, rent commencements and recognizing rent at Santana West, in particular, PwC. We should see some additional parking ramp as well as expected benefits potentially from interest rates, with the really only offset being kind of potentially from a seasonal perspective, maybe some SNO expense higher than you would see in the third quarter. But see a good cadence in the second half of the year relative to the first half, with it really being somewhat driven by real momentum in the fourth quarter.

Operator

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

Michael Goldsmith

Good afternoon. Thanks a lot for taking my question. Don, I appreciate that you outlined the characteristics of the new markets that you're looking at and recognize that you don't want to disclose the property. But are there examples of specific cities or markets that you would be interested in and cities or markets that you wouldn't be interested in just to give us a better sense of what the portfolio could look for? And is there any incremental G&A or expense associated with moving into some of these new markets? Thanks.

Don Wood

Thanks, Michael. Yes, there are, and none that I will tell you. Not to be a wise guy about that, but we are in the middle of evaluating. We are being shown properties in other places. As I said, we're trying to get tied up on a couple more. While I would like to, I don't want to do that. I need you to stick with me on the characteristics here of the assets a bit more.

In terms of incremental G&A in the Company, no, not at this point. And that is because there will be local management teams that are running them at the same percentages effectively that our existing properties get run on, and we're using existing expertise at the corporate level, frankly, the highest level, the highest levels at corporate to make sure that the leasing merchandising changes to the properties that will create that growth are done by, frankly, our best and most talented people. That's where we are. That's what we're doing. I'll give you more as time goes on. That's for sure.

Operator

The next question is from Samir Khanal with Bank of America. Please go ahead.

Samir Khanal

Hi, good afternoon, everybody. I guess Wendy, I mean, you gave some highlights on the leasing front. Maybe talk about the mix of tenants looking for space. The 640,000 square feet, I mean, that's an impressive number. Then you talked about another 1.5 million square feet behind that. Help us understand as you're talking to these tenants, I mean, at this point, does anybody even bring up tariffs and expenses or costs at this point? But, I'm just trying to get the mix of tenants and kind of what conversations are like. Thanks.

Wendy Seher

Thank you, Samir.

In terms of the tariff discussion, we continue to talk to the retailers, of course. I think that, that shock in April has settled down a bit and that the outside goalposts of where it's going to settle in have been established, and there's been some small steps on getting some clarity on the subject. But we still have a long way to go. But remember that when retailers are talking to us, they're making long-term real estate decisions, and they're looking for the best real estate.

So, in many ways, the different headwinds that they face, whether it's tariffs or others, these long-term decisions become more and more critical that they get the best real estate, they have the best production and that way, they will be able to withstand whatever cyclical things happen in the market with being kind of housed in the best real estate. That's been productive and still remains kind of full steam ahead with the retailers.

On the second quarter leasing, it was really all over the place in terms of a fair amount of renewals, a lot of anchor activity, and I think you'll see that again in the third quarter. A lot of great names that we're talking about, whether it's Free People, very broad-based, Burlington, Club Pilates, sweetgreen. We've done our first or second Wonder deal, so very, very robust.

Don Wood

The only thing I want to add to that, Wendy, is the proactive nature of the leasing. We don't obviously wait until a tenant leases up to try to secure that income stream for years and many years forward. The notion of what we call blend and extends, things that effectively allow us to go in and renew leases sooner rather than that last period of time to do it is something that we always focus on. That's for the steadiness of the cash flow stream, which is why we do that, obviously.

Retailers are very open to that because today, they don't want to lose their spot. They don't want to be in that position where from a market perspective, they're not represented. They need to expand. The supply-demand issue has been well chronicled, and that still exists. A lot of that leasing that you see for us is very proactive based to assure that cash flow stream stays in place.

Operator

The next question is from Cooper Clark with Wells Fargo. Please go ahead.

Cooper Clark

Great. Thanks for taking the question. I wanted to touch on development. Curious if you could provide color on where some of your future development pipeline sits today in terms of expected yields versus where they would need to be to start construction from an underwriting perspective. Just wondering how much development could ramp up under the right environment as we think about a competitive transaction market?

Don Wood

That's a great question, Cooper. If you were in our Board meeting yesterday, I could have handed you the schedule. But again, I'm not going to do that. What effectively it does do, what you can count on is two parts of development for us. One, very significant retail redevelopment plays that Wendy described in Andorra, for example, and other places throughout the portfolio that still is the best use, if you will, of capital from an initial return perspective and what it does to the overall shopping center.

But we are real estate people, and so in development today on the residential side, because of the exit cap rates that are significantly lower than they would be on retail or other uses, on shopping centers, we have developed the ability to develop and to build residential projects that add very nicely. In the future years, that will continue to be able to add to our overall accretion, and by the way, can be used to monetize once they're stable to provide more fuel.

So, it's a balance of those two pieces from a development perspective. Obviously, as interest rates come down, should they, that part of this business is likely to ramp up. It will make numbers work a bunch better. But they can still work today when we've got an advantage on the land basis, no land basis in a couple of places and a retail destination that's already provided a wonderful place to derisk, if you will, that incremental residential development.

Daniel Guglielmono

Yeah. I think those opportunities are all across our existing portfolio. That also furthers the derisking. From a residential perspective, we're targeting 7%. We're getting close to 7% or better depending upon the market and the retail redevelopments and so forth, high single digits and ideally into the low double digits if we can achieve them.

Operator

The next question is from Mike Mueller with JPMorgan. Please go ahead.

Mike Mueller

Don, I appreciate you don't want to say too much on the topic. But I guess, how broad are the opportunities that you're looking at in the new markets? If we're looking at a map of the major cities between the coasts, is it generally more like you can find a few centers in most cities? Or, is it going to be a lot more targeted than that in terms of cities?

Don Wood

I want Jan to answer this, Jan Sweetnam, to answer this, Mike, because what we have seen is a more than a flurry of activity in markets coast-to-coast that now think Federal is a potential buyer. We're seeing a whole bunch of stuff that we haven't seen before. The critical thing for us, Mike, as I'll say over and over again, is quality. There's no way we're going down quality to be able to create income, if you will. This is simply about broadening that base.

Jan, I don't know if you can add with respect to markets, and I understand the questions and I'd like to get them a bit more. What can you say?

Jan Sweetnam

Yes. No, I mean there are several handfuls of markets that we think that there is an opportunity for an acquisition of a dominant shopping center where we can add the value that we've been talking about in

terms of merchandising and working the asset and using our leverage along the way. There's still plenty of room that we're seeing.

As Don said, there's a couple that we're working on right now. Behind that, there's a couple of other ones that we're underwriting. They may or may not work for us. We'll see. I would expect in the fourth quarter, there will be a couple more that we'll be looking at. It seems like there's some real legs to the supply out there.

Don Wood

And I guess, Mike, the only other thing to say is they are largely larger assets. To the extent we can do four or five per year, that's what we'd like to do. Now with respect to Kansas City, for example, we would follow up just as we have in Phoenix and in other markets with other potential assets there, even if they're grocery anchored or smaller ones to the extent they are the great things that are there that can supplement this big dominant asset. There's a combination of a few of these things that are happening right now. Again, there'll be more to say in the next quarter and the one after that.

Operator

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

Ravi Vaidya

Hi there. This is Ravi Vaidya on the line for Haendel. Hope you guys are doing well. Can you offer an update on the signed versus occupied pipeline? What's the total rent that's embedded in this pipeline? And when can we start to see the commencement and recognition of that rent? Thank you.

Daniel Guglielmono

Sure, sure. Yes, we have two components of our SNO in the comparable portfolio. You've got about \$20 million. You've got another \$19 million coming from the to be delivered or non-comp portfolio for a total of about \$39 million of total rent. Largely, that should be coming on combined. About 50% of it should come on the balance of this year, another 40% starting in '26 and the balance in '27. We can get into more detail if you want to take it offline with regards to kind of some more of the detail between the comparable and the noncomparable components of that.

Operator

The next question is from Ki Bin Kim with Truist. Please go ahead.

Ki Bin Kim

Hi, good afternoon. Sorry if I missed this, but is the Town Center acquisition in that 7% cap rate range that you're talking about? Anything unique about that pricing given that WPG sold it? Thank you.

Don Wood

Yes, Ki Bin, that's about right. That's what you should be considering. I guess all I would say about that, the asset is since WPG, for example, has been in liquidation mode and has not been investing in that asset. There is a backlog, if you will, of good deals, great deals to do there to the extent the retailer believes the landlord will invest in the property and create the environment necessary for them to do well. That's why what Wendy was talking about was effectively creating the market there that should increase rents pretty darn significantly over time.

We're going to get people out there in October. Not sure how many yet or how we're going to do it, but we're going to get people out there. You're going to see it is crystal clear, the dominant retail location on the Kansas side of the Kansas City market, not even close.

Operator

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

Paulina Rojas

Good afternoon. My question is, how competitive is the bidding process for properties in these new geographies that you're evaluating? And while the demographics are strong, some of these markets, probably including Leawood, Kansas have traditionally been less actively targeted by institutional investors. I wonder if you're seeing lighter competition or if interest has already picked up more broadly.

Jan Sweetnam

Yes. I don't know that we've seen the interest pick up more broadly. It tends to be that we're competing with fewer people on these larger assets in these markets than we would be if you were competing for a grocery-anchored shopping center in Orange County, California, by way of example. That dynamic seems like it's still in place. It's not that it's easy. It's not that it's not competitive at all, but we are not competing with a deep list of a bid sheet of 15 or 20 bidders on the property, Paulina.

Operator

The next question is from Tayo Okusanya with Deutsche Bank. Please go ahead.

Tayo Okusanya

Yes, good afternoon everyone. Just curious how large you think multifamily can get in your overall portfolio, especially as you kind of think about going into these new markets. I mean, a lot of new markets don't have mixed use, but just kind of curious as we kind of think going forward, how large multi can be?

Don Wood

Yes. Tayo, look, as I told you, and as I think you'd really understand, we are primarily a retail company through and through, no question about it. But we do have the skill set to be able to add additional uses.

Now, with respect to multifamily, if you've done the retail well, you should be able and you've paid for the land effectively because you bought a bigger place, you should be able to add multifamily in markets that where demand exceeds supply, obviously, that can later be monetized and reduce the cost of capital of the entire project that you have there. That's where we are now.

So, I wouldn't expect the percentage of residential income to grow very much, if you will, overall for the company. It's about 11% now. I would expect it to stay there or come down a little bit depending on the timing of monetization of some of these assets. It will always be an important part of the integration of the mixed-use properties. But, to the extent it is peripheral, it should be able to be monetized. Keep it in your modeling, keep it somewhere around 10% or 11% of the income stream for now.

Operator

Again, if you have a question, please press star, then one. The next question is a follow-up from Greg McGinniss with Scotiabank. Please go ahead. Mr. McGinnis, your line is open on our end. Perhaps it's muted on yours.

Greg McGinniss

Sure, it's muted on my end. My apologies. Thanks for taking the follow up. I just want to talk on the occupancy real quick, the economic occupancy where you're now targeting this kind of low 94% range by year-end. That's come down over the last couple of quarters, mid-94%, low 95% before that.

Given the limited exposure to the bankrupt tenants that some of your peers have been dealing with, I'm just curious kind of what are you seeing that is driving maybe that occupancy a little bit down versus initial expectations? And whether there's any other kind of tenants that you're looking at in the back half of the year or vacancies that are expected in the back half of the year?

Daniel Guglielmono

Yes. No, good question, Greg. Why we've come down is, honestly, we did acquire Del Monte which is in the low 80% leased. It's a big asset. Obviously, that impacted kind of the overall portfolio occupancy. Then it's really just kind of a little bit of slipping of kind of rent commencements with regards to kind of some stuff slipping into 2026 in terms of rent commencement dates, but nothing material there.

We see some good momentum. We've got a really, really robust pipeline. We're targeting to get to up towards 95% over time. It may be over the next 12 to 18 months, but we still see some runway in our economic occupancy up from the current level and even beyond the 94% we're targeting at year-end.

Operator

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

Alexander Goldfarb

Don, I don't think you spoke about the Mercedes deal. Just want to get a bit more color and see, is this one of these sort of feel-good, like ESG green things that companies do? Or, is there like legit economics? Just want to understand if this is a real moneymaker versus just something that is unfortunately, sorry to say, like for the annual report.

Don Wood

Alex, I love that question. I can't believe I actually didn't mention this because I'm so proud of this deal. Doing EV deals over the last 10 years in the industry has largely been a kind of one-off exercise property by property. It has been something where the property management department would cut a deal. It would take forever to get any economics from it, and it didn't make any money for most people over that period of time, I believe. We put a stop to that.

And, what we said was we've got a valuable brand in Federal Realty and valuable assets that in exchange for a payment, we will give you Mercedes an exclusive right to look at this portfolio and determine where you would like to be and then re-lease those properties that you're not interested in. That's what makes this different. I can't talk about the amount, I can't talk about the structure effectively of the deal, but the economics hit now. That's what's so important about the difference in the way these things are put together.

We hope to do that again with the properties that are not included in the Mercedes deal. There's a structural way to do these things that are economically beneficial, way better than they've been over the past 10 years.

Operator

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

Jill Sawyer

Thanks for joining us today. Enjoy the rest of your summer, and we look forward to seeing many of you at upcoming conferences.

Operator

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