Federal Realty Investment Trust

Third Quarter of 2024 Earnings Call

October 30, 2024

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PRESENTATION

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Operator

Good day, and welcome to the Federal Realty Investment Trust Third Quarter of 2024 Earnings Call.

All participants will be in a listen-only mode for the duration of the call. Should you need any assistance today, 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 a question, please press star, then two. On today's call, we ask that you please limit yourself to only one question during Q&A. You may re-prompt if you have additional questions.

Also, please be aware that today's call is being recorded.

I would now like to turn the call over to Leah Brady. Please go ahead.

Leah Brady

Good afternoon. Thank you for joining us today for Federal Realty's third quarter 2024 earnings conference call.

Joining me on the call are Don Wood, Federal's Chief Executive Officer; Jeff Berkes, President and Chief Operating Officer; Dan G., Executive Vice President, Chief Financial Officer, and Treasurer; Jan Sweetnam, Executive Vice President, Chief Investment Officer; and Wendy Seher, Executive Vice President, Eastern Region President, as well as other members of our executive team that are 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 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 packets 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 results of operations.

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

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

Donald Wood

Thank you, Leah, and good afternoon, everyone.

Look, it's a really solid quarter for us with a continuation of incredibly productive leasing, some strong occupancy gains, and an all-time record quarterly FFO per share at $1.71. The leasing productivity continues to outpace even our own elevated goals with 126 leases for comparable space this quarter, totaling 581,000 square feet. That makes 11 of the past 15 quarters since the beginning of 2021 with comparable leasing productivity above a half a million square feet. As a frame of reference, the 15 quarters

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immediately preceding the last 15 averaged 413,000 square feet. There's no better indicator of demand for your product than that, somewhere between 25% and 35% more volume consistently over nearly four years.

This quarter's comparable leases were written on average at $35 a foot in the first year of the new lease, 14% better than the rent paid in the last year of the old lease. By the way, those numbers include 98% of our deals, so they are truly representative of the entire Company's results. But what makes that particularly impressive is that the rent on many of the previous leases has likely been growing at 3% or so over the last five years to 10 years, and that there's still room to increase the new rent to start the next five years to 10-years cycle. It's actually 26% more on a straight-line basis because of those very important contractual bumps.

We're also demonstrating a strong commitment to efficiently managing tenant leasing capital with net effective straight-line rollover after capital of 16%. Again, that's on all leases Company-wide, not a non-representative subset. The weighted average contractual bumps inherent in all the leases done this quarter, small shop and anchors combined, was 2.4%, even better than the weighted average contractual bumps in place in our entire portfolio of 2.25%. Very likely the best portfolio-wide bumps of any large shopping center company and by a considerable margin.

Of course, all that leasing had better translate to higher occupancy, and as you would expect, that continues to be the case. We ended the third quarter with the portfolio 95.9% leased and 94% occupied, up 60 basis points and 90 basis points from the end of last quarter. We still have room to grow on both the anchor and, incredibly, the small shop side where we ended up the quarter at 93.1% lease.

When we look toward the future, the open-air retail market remains supply constrained, and from what we're seeing, our consumer continues to spend. I don't know how many of you saw the October 11 Bloomberg article entitled U.S. Consumer Spending is Increasingly Driven by Richer Households, but it's worth a read. The article chronicles the findings of a Fed study that has found an increasingly divergent spending pattern between the affluent customer, the ones who frequent Federal Realty shopping centers, and the less affluent. There was nothing at all surprising in the findings from our perspective as it's been the thesis of our business plan for decades, but it's particularly relevant as inevitable cracks begin to show in consumer spending patterns.

One of my favorite lines from that article goes like this, "Higher income households are enjoying a wealth effect from gains in housing and stock markets, and also receive more interest and investment income during periods of higher interest rates, all providing a stimulus for a sustained level of spending." Whatever happens with regard to consumer spending out there over the next year or two, it's reasonable to think that Federal will compare favorably.

Separately, but also worth noting, is that our apartment business is particularly strong. About 3,000 units concentrated at the big mixed-use properties in Darien. Year-to-date, our residential operating income on our stabilized resi properties is up 5.5%, versus last year, 8.2% when including the new Darien, Connecticut, product.

The Darien project, by the way, is impressive, with apartments fully leased, with a waiting list to get in, and unusually high initial retention rate. With retailers and restaurants that continue to open. For those of you that live up in that neck of the woods, check out the work we've done with that very successful development.

Transaction activity during the quarter was limited to the previously disclosed $60 million acquisition of Pinole Vista Crossing in Pinole, California. Although after the quarter in October, we're deep into negotiations for a couple of other market-dominant shopping centers. Due diligence is underway, and assuming all goes as expected, we hope to close on one or both of those over the next few months. Stay tuned.

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Also, I know a number of you were able to see Virginia Gateway, the 665,000 square foot regional retail hub on 110 acres in Gainesville, Virginia, on one of the several tours over the past several weeks. But for those who haven't, just a couple of data points. First of all, it's looking like our acquisition timing was excellent, as our going in cap rate of 7.25 likely couldn't be duplicated today for such a dominant asset. It would probably trade 50 basis points to 75 basis points inside of that.

Secondly, it looks like our leasing underwriting assumptions were too conservative and are following in the same vein as our earlier acquisitions. For example, we've done 22 deals at Kingstowne Shopping Center in Alexandria, Virginia, since our 2022 acquisition, at an average 25% higher rent than projected.

Similarly, at Pembroke Gardens in Florida, we've also done 22 deals since our 2022 acquisition, at an average of 16% higher rent than projected.

While it's only been a few months, Virginia Gateway seems to be trending the same way. We believe this pricing power reflects not only a supply-constrained market, but also our reputation with retailers who want to be in our properties because they know we'll make them better places for their businesses to be successful. In any event, these assets will likely generate cash-on-cash returns and IRRs materially greater than approved by our investment committee at the time the deals were done.

In other news, productive activity toward lease-up at Santana West and 915 Meeting Street at Pike & Rose continues, with those buildings expected to be 70% and 90% leased, respectively, by year-end. Construction is well underway, and so far, on time and on budget, at Bala Cynwyd Shopping Center on our 217-unit residential over retail development that we expect to yield 7% once completed and fully leased up.

Also, we're continuing to make progress on some of the residential development opportunities we have at our existing assets through the combination of selective value engineering, more aggressive construction pricing, and higher forecasted rent growth. This Company-wide effort to add apartment product to our best shopping centers is an important arrow in our quiver for sustained growth in the years to come. Stay tuned.

Okay, that's all I wanted to cover in prepared remarks this afternoon, and so I'll turn it over to Dan to provide more granularity before opening it up to your questions, and go Yankees tonight.

Daniel Guglielmone

Thank you, Don, and good afternoon, everyone.

Our reported FFO per share of $1.71 for 3Q came in just above the midpoint of our quarterly guidance range of $166 to $175. The fact that it is our highest quarter of FFO per share ever provides further evidence of the strength in our underlying operating fundamentals across our portfolio. Primary drivers for the strong performance include stronger occupancy, driving rental income higher, and lower G&A costs, which was offset by lower term fees than we forecast and higher property level expenses.

Comparable growth, excluding the impact of COVID-era prior period rent and term fees was 2.9%. That is a GAAP number. On a cash basis, it is 3.4%. Both numbers are essentially in line with our expectations for the period.

Comparable minimum rents were up 3.3% on a GAAP basis and 3.8% on a cash basis. Solid results driven by continued leasing demand and surging occupancy.

Let me jump now to the balance sheet and an update on our capital position. We stand with over $1.4 billion of available liquidity from our undrawn $1.25 billion credit facility, forward equity raised, and net cash on

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hand. This liquidity stands against redevelopment and expansion spend remaining of only $180 million on our significant roughly $850 million in process redevelopment and expansion pipeline. We were active through the ATM program during the quarter, issuing over $145 million of common stock at a blended price of $113.27. These proceeds were utilized to partially fund the $287 million of investments year to date.

In addition, we sold an incremental $82 million on a forward basis at $116 a share roughly, and we stand well positioned to fund a future acquisition pipeline which looks very promising.

As a result, our leverage metrics continue to improve. Third quarter annualized net debt to EBITDA on a consolidated basis pro forma for the forward equity raised is 5.5 times. Essentially at the upper end of our mid five times targeted level. Several quarters earlier than we originally forecast. Fixed charge coverage increased to 3.7 times for the quarter, and that metric should continue to climb given the strong momentum in rental income and occupancy growth. These metrics combined with our significant liquidity leaves us with substantial dry powder to drive growth through external investment for acquisitions and or new development and expansion projects.

Now, let's head to guidance. With three quarters of the year behind us and tenant demand continuing at a stronger pace than expected, we are raising our 2024 FFO guidance at the midpoint to $6.81. With the range tightened and refined upwards to $6.76 to $6.86. This revision implies FFO per share growth for 2024 of 4% at the midpoint. It also assumes FFO per share for the fourth quarter of $1.77 with a range of $1.72 to $1.82 per share. Comparable growth for the fourth quarter should be roughly 4%. This upward revision in guidance is driven by stronger underlying rent growth than forecast as occupancy metrics have outperformed our expectations.

With respect to other assumptions, we've revised our outlook for term fees to $4 million to $5 million down from $4 million to $6 million. While leasing progress continues both at 1 Santana West and 915 Meeting Street, none of this incremental activity is expected to impact our forecast for the balance of 2024. We will see that impact in 2025 and 2026 and more color to come on that outlook overall in February when we introduce formal guidance for 2025.

Our capitalized interest expense forecast for 2024 has been refined to $19 million to $21 million up from $18 million to $21 million. We are maintaining our expected credit reserve for the year at 70 basis points to 90 basis points. Year-to-date through the third quarter, we are at roughly 80 basis points.

All other guidance assumptions are outlined on Page 27 of our 8-K.

Now, before we go to Q&A, let me provide some preliminary color for our 2025 outlook. First, prior period rents from COVID-era deferral agreements will wind down to essentially zero in 2025 from $3 million in 2024.

Second, as tenants are reluctant to give back space in the current environment, term fees should be light for a second consecutive year, essentially flat to 2024. Capitalized interest will fall to the mid-teens as we place more of our significant $850 million development pipeline into service over the year. We expect our credit reserve to be more normalized for 2025, given the expectation of a moderating economy.

We use our historical average of roughly 100 basis points as a placeholder for now, although currently we do not see any significant near-term risks in the watch list as of today. On the positive side of the ledger, as outlined previously in our remarks, occupancy growth should continue upwards, likely towards 95% over the course of the year.

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Additionally, rent growth from sector-leading contractual bumps and strength in rollover should continue, as well as upside from recent acquisitions and contributions from the delivery of space in the redevelopment pipeline.

All of these will more than offset any headwinds and fuel continued momentum in our bottom-line FFO per share growth into 2025.

With that, Operator, you can open 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 a question, please press star, then two. Again, we ask that you please limit yourself to only one question. You may re-queue if you have additional questions.

At this time, we will take our first question, which will come from Andrew Reel with Bank of America. Please go ahead.

Andrew Reale

Hi, good afternoon. Thanks for taking our question. Occupancy and lease rate both took a nice jump sequentially, both on the anchor and shop side. Could you just speak to the drivers of that velocity, any particular tenant categories standing out, commencement happening quicker than expected, anything else that surprised you to the upside?

Donald Wood

Yes, Andrew, let me start, and Wendy, who's in a different office, I want her to add to this to the extent there's something to say. It's a really good time to be in this business, and that comes from a number of things. Obviously, the demand is there, and in many cases, it's more than one or two or three tenants looking for a space, so that there is the ability to push that rent. Importantly, not only the rent, but the other terms in the lease. What's among those things is the things that control—the things that we can control, and the tenant can control, with respect to getting that space open. We have been able to improve the time it takes between the signing of a lease and the day rent starts pretty significantly throughout 2024, which I expect to be able to continue. It's a shortened process that is very helpful.

But in addition to that, from a category perspective, there's no doubt in our minds that whether you're talking about a grocery-anchored shopping center that's well-located, a mixed-use property that's well-located, a larger regional shopping center with some boxes that's positioned in the proper space, there's a very broad coalition of demand, and that's what you're seeing in the returns.

Operator

Our next question will come from Juan Sanabria with BMO Capital Markets. Please go ahead.

Juan Sanabria

Hi. Good afternoon and definitely let's go Yankees.

Donald Wood

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Thanks, Juan.

Juan Sanabria

You made a comment about acquisitions having a couple of opportunities at the end of the year here. Could you just talk to what kind of assets they are, quantum of dollars we're talking about, and if you've already seen some cap rate expansion or contraction, I should say, in some of those opportunities relative to where we were in the summer?

Donald Wood

Juan, I will say a couple of things about it, but I don't want to say too much about it because I want the deals done, if you know what I mean. First of all, we do tend to look for bigger assets, as you know. In the ones I'm referring to, they are larger assets in excess of $100 million apiece, for example. They're things that move the needle for us. There is a little window now. It's an interesting time where we are seeing some good product that is being—that is out there and being talked about a little bit that hopefully we can come down and make the deals on. There's the stuff we like, some of it in the mid-6's, some of it 7% or so, in that type of range, with the growth, most importantly, that we require. I do think that's inside a little bit of where it was early in the year. But we need IRRs, man. We need IRRs that make sense relative to our cost of capital. When you can honestly look at it and be up in the 8's and the upper 8's, even 9%, those deals look very attractive to us.

Operator

Our next question will come from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb

Hey, good afternoon. Don, we'll look for you on TV at the game. Just getting to external investment, when we were down with you guys last month, you were talking about development and how maybe you're coming to the time where you could restart it, like a Pike & Rose or some of the other mixed use, where those incremental developments would be highly accretive, given the critical mass that you've already done. At the same time, acquisitions provide current income, but you have to deal with the existing in-place leases and the amount of time it takes you to go through the property and get it to the way that you want. How do you balance the two and how close do you think you are to announcing a new development versus, in the near term, focusing more on acquisitions?

Donald Wood

Thanks, Alex, for the question, especially for the way you set it up. Because what you're setting up is you're validating for us the notion that having all of those arrows in the quiver, having the ability to develop, to redevelop, to buy at scale and with respect to intensifying the use of a shopping center, those are critical skill sets that we have. The development, the new buildings, if you will, the new stuff that we're looking at, is likely to be largely skewed toward residential. Because adding apartments to a really high-quality shopping center creates that notion of a mix of uses, not necessarily mixed use, because I think that's different, but a mix of uses, which allows you to get better rent generally in those apartments than in a more generic property type.

I think I said this in my remarks, it's the combination of construction costs, which are not generally rising in total any longer and in certain markets are coming down, mostly because of the profit margin that the subs are requiring. Just good old-fashioned strong value engineering inherent in that, and an outlook for rents

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that look to be growing better than I would have thought a year ago or so on these are making these things closer.

Now, I'm not ready to announce the next development that we're going to do yet. You know we're underway on Bala, and the way that one's going is very encouraging. I would hope over the next quarter or two that we'll be able to add another one or two additional projects like that. That's a good piece.

Look, whether it's a development, whether it's a redevelopment, whether it's an acquisition, whatever it is, it's competing for our capital. The notion of that competition for capital is how you balance. That's frankly the judgment that you're paying for when you're investing in us to be able to know from a risk-adjusted basis where that capital should be deployed. The fact that we can deploy it in a number of different ways is a huge advantage in my view.

Operator

Our next question will come from Michael Goldsmith with UBS. Please go ahead.

Michael Goldsmith

Good evening. Thanks a lot for taking my question. Dan, the implied guidance range is pretty wide at $0.10. I think last year at this time, it was more narrow at $0.08. Is there just like a wider range of outcomes where we sit today versus maybe prior years as we head into the fourth quarter? Thanks.

Daniel Guglielmone

Yes, I think we wrestled with that. I don't think there's anything to look into that. Look, there is probably a little bit of variability heading into the final quarter, but nothing more than that. I think we were at $0.18 at the end of the second quarter. Narrowing it to $0.10 kind of felt reasonably appropriate. But things can happen in a quarter. We've left that a little wider, but there's nothing to read into there.

Operator

Our next question will come from Greg Millman with Citi. Please go ahead.

Gregory Millman

Hey, good afternoon. Dan, I know you mentioned there's nothing on the watch list here. We should just assume that 100 basis points for next year. Is that just in the retail portfolio? Is there anything in the office portfolio that we've talked about, bluebird bio, in the past, anything specifically on them to worry about as we head into next year?

Daniel Guglielmone

Yes. Look, they're on our—and when I say near term, near term is fourth quarter and into 2025. bluebird, for example, I think probably has enough runway. We've got enough of a security structure in place that should get us comfortable into 2026. Other than that, our credit quality, except for maybe one or two others, is really strong. Really high-quality household names. We feel really, outside of bluebird bio, very comfortable overall with the balance of the office portfolio.

Look, I don't think that there is—there's probably Buy Buy Baby, which obviously, I think we're hoping to get more than one year out of that. We would expect that we'll get those stores back probably at some point

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over the next few quarters. But they don't pay a lot of rent, and we've already got backfills teed up. I think we're in a good spot.

Operator

Our next question will come from Greg McGinniss with Scotiabank. Please go ahead.

Gregory McGinniss

Hey, good evening. The leasing has obviously gone very well. Occupancy up more than expected. I'm just trying to understand the maintain same-store-NOI guidance, though, and whether there's any offsetting factors we should be considering.

Daniel Guglielmone

Yes. I think that we have a lot of—keep in mind with occupancy, it is a point in time. It's the last day of the quarter. It doesn't necessarily reflect the weighted average occupancy over the period. During the third quarter, a lot of our activity on move-ins and so forth happened, candidly, post-Labor Day. The weighted average occupancy was not close, really, to 94%, which is where we ended up from rent paying. Just to highlight just for the quarter, look, we had, and we expect this to be temporary, but we had some expenses that hit. We are bringing online, but the expenses—actually, for the comparable piece, expenses were up, and I think we want to make sure that these are one-timers. I think we were probably a little bit conservative on the same-store guide. We will have, I think, a pretty strong fourth quarter as a result of the pickup in occupancy, and we'll recognize in the fourth quarter the benefit of being at 94%.

Operator

Our next question will come from Steve Sakwa with Evercore ISI. Please go ahead.

Steve Sakwa

Hi, good afternoon. Don and Wendy, I was just wondering if you could talk a little bit about the pricing environment and how the conversations are going with retailers, both on the small shop side as well as on the big box. Given where your lease percentage sits, I'm just wondering how those conversations might be changing in your favor.

Donald Wood

Wendy, would you mind taking that?

Wendy Seher

Sure. Steve, we continue to see, as everybody has suggested, that the demand is exceeding the supply, no question. I always look at it as it relates to the health (phon) ratio and the amount of sales that a tenant could do and how we can drive that. We're seeing some great advantages in that. For example, when you think about the restaurant category or the QSR category, over our mixed-use properties, we have full-service restaurants doing over $900 a foot on average, $1,100 a foot on average in our QSRs. There's room to grow some healthy rents there. On the rest of our properties, very strong as well, over $900 a foot average on our QSRs and $600 in our full service. We're having the ability to push that.

In addition to the economics and the rent rollover that we're getting, where, as Don has mentioned, we've gotten greater bumps through our contractual—through our contracts, which has been positive. Then also,

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just as importantly, we're able to—we always concentrate on what controls and what's really in that lease. I say that we're having even more success on limiting any controls that a retailer may have gotten in other deals that we no longer see viable for this particular location and limiting the restrictions that we have to live with sometimes for a longer period of time. It's collectively been very positive.

Operator

Our next question will come from Floris van Dijkum with Compass Point. Please go ahead.

Floris van Dijkum

Hey, thanks, guys. Don, I'm rooting with you for the Yanks, but things don't look great, by the way.

Donald Wood

Thanks for the commentary here, Floris.

Floris van Dijkum

Yes. My question is on—you're essentially getting—you sold your forage at $115 a share or just over $115 a share, almost $116 a share, which is in excess of your NAV. You're essentially having a green light to grow externally. You indicate you've got two larger deals in the works, and hopefully we'll get some updates over the next month or two on that. But are you thinking about stepping up your pace or is it difficult finding acquisitions? Maybe you can talk a little bit about the environment out there and then also about your ability to do OPU transactions. What is the appetite from sellers to do those kinds because they tend to, particularly where your stock is today, that could make it be more creative for you as well.

Donald Wood

Thanks, Floris. I'm going to turn this over to Jan Sweetnam and to Jeff to talk about the acquisitions in a minute, but I am going to correct something. I don't accept the premise that we are above our NAV at the price that we issued. I think we are—when we look at the price that we issued those shares, we like very much the trade for that versus what we did with that capital or are doing with that capital, and that is certainly accretive. It makes all the sense in the world. But the basic notion that this Company is trading at NVV…

Floris van Dijkum

NAV.

Donald Wood

…NAV, I just disagree with. Let me just turn that over—then turn it over and answer your questions to Jan and to Jeff.

Jan Sweetnam

Thanks, Don. Hi, Floris. Jan speaking. Yes, the acquisition market feels like it's going to be picking up and our capital has done relatively well in the near term. It feels like we're going to have an opportunity to get a few of these over the next several quarters as they start to roll out, starting with one or two that we've got in the pipeline right now that are both—they're larger. They're impactful. The bidding pool tends to get a little bit smaller at $100 million, $200 million acquisitions. It feels like the acquisitions are going to be accretive from day one and still have pretty good growth prospects for us. We view it as a good vehicle for

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us in the next several quarters, and we'll see how it plays itself out. We have the OP unit structure in place. We're not negotiating on anyone right now, but we certainly have sellers that are interested in tax protection. We'll probably see more of that in the future. We'll see if we get one of those done or not.

Jeffrey Berkes

Yes. Hey, Floris, it's Jeff. I agree, obviously, with everything Jan's saying. I still think we have a lot of people sitting on the fence with the Treasury around 4.25 and with their fingers crossed, hoping the Fed's going to continue to cut rates and the Treasury will come down and they will sell at a better period of time. But we're starting to see some people capitulate and realize that that's probably not going to happen in a meaningful way and bring their properties to market. There's more on the market right now. Our pipeline's fuller than it has been in a while, and we expect it to get better as the clarity on long-term rates improves.

Operator

Our next question will come from Dori Kesten with Wells Fargo. Please go ahead.

Dori Kesten

Thanks. Good evening. Don, you just said you don't believe you're trading near NAV. I know you've said that before. Where do you think your NAV should be? What do you think we on this side are missing?

Donald Wood

Oh, Dori, I'm not going to give you a number for Pete's sake. You should know that. But what I am going to say is when you look at our portfolio, particularly if you look at the big four, that there is an awful lot of development, basically by right, because we've done all the work on the entitlement side historically, to be able to create significant value down the road. Now, can we start on it and make sense of it completely today? Of course not. But the notion of does that stuff have value given what we've done at those places? I don't mean to think that's debatable to any real estate person. That is the primary thing that I'm talking about here, but also in some of the rest of the portfolio. The ability to effectively do intensification on over a dozen of our shopping centers with residential development potentially down there, has value to real estate people that I don't think is being recognized today, and I'm not even sure it necessarily should be in the public market. That's up to the public market to decide. But certainly, with respect to—I can tell you this, if we were ever to sell any of those assets, we certainly would get paid for that opportunity. That's what I was referring to, Dori.

Operator

Our next question will come from Mike Mueller with J.P. Morgan. Please go ahead.

Michael Mueller

Yes, hi. This, I guess, is a similar question to what was just asked. But just thinking about retail driven redevelopment and new development, considering how robust your leasing has been, the rates you're getting in the new leases, I'm just curious, how close are you to pivoting your bias from resi driven developments to the extent that you start to ramp them again back to retail?

Donald Wood

Yes, I don't think it's a pivot, Mike, the way I think about it. It's another potential opportunity that is competing for the capital of the Company. When we look at, you know, what those opportunities are, I suspect you will

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see a number of residential development opportunities. I know you will see a number of acquisition opportunities that would grow. I don't think they're mutually exclusive. I don't think one goes away when another one goes on. They compete for our capital. I will say, and I think I've said this before, I do see us getting closer to being able to make numbers work, frankly, on the residential side for the reasons that I've cited. Because, as you know, over the past number of years, that switch has been turned off, effectively. You know and I know that's not staying off forever, and it will have to compete for capital with the acquisitions.

Daniel Guglielmone

Retail redevelopments, I think, are also—you should see some of those added over the next several quarters. Stay tuned on that perspective. Also keep in mind in our markets, where we have really high barriers to entry, the land values make single-story retail development really difficult to pencil on a risk-adjusted basis. That's why we haven't seen that currently.

Operator

Our next question will come from Linda Tsai with Jefferies. Please go ahead.

Linda Tsai

Yes, hi. How do you think about the contribution of development to earnings next year?

Daniel Guglielmone

Look, I think that we have a number of projects which will be contributing in a reasonable way. Huntington, for example, Darien we're finishing up. We've got some others. We've got 915 Meeting Street. Obviously, we'll be finishing out the leasing hopefully there over the course of the year. We could see some drag just as we begin to deliver spaces and reduce our capitalized interest number, as I highlighted in my guidance assumption. We're going to try and do a good job in matching up the rent commencements. We may not be able to do that perfectly, but as I said, I think that all other systems, whether it be from the comparable pool, will offset any modest drag that we have from that perspective. I think that we will have very solid growth next year, and hope to be sector-leading again.

Operator

Our next question will come from Paulina Rojas with Green Street. Please go ahead.

Paulina Rojas

Good afternoon. Your cash re-leasing spreads were strong this quarter. Given the strength of retailer demand and your targeted consumer, should we expect re-leasing spreads to inch higher in 2025? Related to that, can you share your thoughts on OCR, where they are versus historical patterns, and the degree to which you can push rents even more aggressively going forward?

Donald Wood

Yes, Paulina, let me give you a couple of points of view. First of all, in any one quarter, you're talking about the specifics of the deals that were done in that particular quarter. In the third quarter, there were a number of deals where we had some really strong rollovers at properties that old leases effectively coming up that allowed us to push rent significantly in the quarter. That's a good thing. That resulted in not only great rollover, but an awful lot of volume at that great rollover. I think that's a variable that you will see often in

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the high single digits or low double digits on a cash basis because of the bumps, nearly double that on a regular basis for the straight-line piece, which I think is really important in understanding that. I think that should stay strong based on everything that we see. That doesn't mean every quarter is going to be 14% and 26% on a cash straight line basis, but it does mean that the ability to push rents is really important.

In terms of OCR, there's a couple of things to say about that. First of all, we don't get the sales reporting for as many tenants as I would like throughout the portfolio. The mall business used to be able to get it for almost everybody. We get, gosh, a third or so of those tenants reporting. But having said that, we also have lots of conversations with tenants. We do get—it seems to me that our OCR, if I were to guess, and this is just a guess, is something like 9% or so. When you look at a number like that for most businesses, that suggests that there is room to grow. If you take a look at what we're writing new leases at versus what the overall in-place lease rent is in the portfolio, you'll come to the same conclusion that there is room to go. This been a strong—this is certainly a strong leasing environment. It's been so for a couple of years now. I would hope that that would continue into 2025.

Operator

Our next question will come from Haendel St. Juste with Mizuho. Please go ahead.

Haendel St. Juste

Hey, guys, and yes, go Yanks. Don, a question for you. I was curious on how you're thinking about dispositions versus new equity here as a source of capital. The IRRs and some of the opportunities you're probably looking at may very well exceed the future returns expected from some of your lower tier, lower growth assets. How do you balance the merits of a capital recycling strategy to improve the long-term growth profile versus tapping the equity market? Thanks.

Donald Wood

That's a great question, Haendel. It's a great question. It's why we always, and this is not a once in a while thing for us, we always are evaluating the balance between what the growth of our lower X percent, whatever that is, of the portfolio is at versus what we could get paid for it and the depth of the particular market for that particular shopping center. It's why every year we're doing some. The question is, should we do more, should we do less? That does come down to the overall balance and competition between the uses of capital that we have, where our earnings growth should be, all of that. I would point you to the past to determine the future in terms of capital recycling. It's a really good portfolio, Haendel. Certainly, there are assets in that portfolio, like any portfolio, that are at the lower end from a growth perspective. But it is, in managing it for the long term, we're going to make sure that we're selling a number of assets per year to the extent we can, sometimes more, sometimes less, based on what the market will allow. The same process for acquisitions, the same process for development.

Operator

With that, we will conclude our question-and-answer session. I'd like to turn the conference back over to Leah Brady for any closing remarks.

Leah Brady

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

Operator

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The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines and have a great day.

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