Federal Realty Investment Trust

Third Quarter 2022 Earnings Conference Call

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PRESENTATION

Operator

Hello. And welcome to the Federal Realty Investment Trust Third Quarter 2022 Earnings Conference call. All participants will be in listen-only mode. Please note this event is being recorded.

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

Leah Brady

Good afternoon. Thank you for joining us today for Federal Realty's third quarter 2022 earnings conference call. Joining me on the call, are Don Wood, Dan G, Jeff Berkes, Wendy Seher, 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 this afternoon, our annual reported 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 that you limit yourself to one question and an appropriate follow-up 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?

Don Wood

Thanks, Leah. And hello everyone.

Well, consumer spending remains very strong in the major submarkets where Federal operates, particularly in our mixed-use properties, and has resulted in another quarter of outperformance in terms both executing long-term leases as well as bottom line earnings. One hundred and twenty-six executed long-term leases for 585,000 square feet of space, an FFO per share of $1.59 were both above external and internal expectations and continue to signal strong demand for high quality retail and mixed-use real estate. The future pipeline appealed not yet executed also remains robust and as such will be raising 2022 guidance again.

Demographics matter, especially in times of economic uncertainty. Past cycles have convinced us that families simply have to have money to spend for retail real estate cash flow to grow. Sixty-eight thousand households with the annual average household incomes of $150,000 sit within three miles of Federal Realty centers. That's $10.2 billion of family income generated within a three-mile radius, and more than half of those people have a four-year college degree or better. I know of no other significantly sized retail portfolio that can say that.

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It's manifesting itself in a myriad of ways, including a wide variety of tenants who are seeing their sales exceed the over trend threshold in the lease. Although not a huge absolute number since we strive for strong fixed rent in our leases, the broad based over trend contribution in the quarter, particularly among our restaurants and soft goods tenants, over and above the fixed rent, is notable and contributed an additional $0.02 per share compared with last year's third quarter.

As I said, strong core leasing remains the engine that drives us. Over the last decade, pre-COVID, that's 2010 to 2019, average third quarter production for comparable properties at Federal meant doing 88 deals for just over 400,000 square feet.

In the 2022 third quarter, we did 119 deals for 563,000 square feet, 40% more than the average. Annual rent bumps of our retail leases average about 2.25% overall and higher when including office leases. That's a powerful advantage over the typical shopping center portfolio. The fact that demand has remained this heated with a deal pipeline that looks to stay strong, speaks volume about our properties and the markets they are in and naturally about future property level operating income growth. It's one of the reasons Dan is again, raising annual earnings guidance $0.12 at the midpoint.

The solid tenant performance also manifests itself in continued occupancy gains as tenant failures remain low. Our current year lease rate is now at 94.3% and occupied rate now at 92.1%. Those leased and occupied rates are 150 and 190 basis points respectively better than a year ago and there's obviously still room to grow there, particularly on the small shop side. At 89.9% leased small shop space is a remarkable 640 basis points higher than the COVID low point with further gains expected by year-end.

I referred earlier to the outsized demand that we see at our mixed-use properties. Note that the retail component of our four large ones Assembly, Pike & Rose, Bethesda and Santana are 98% leased at quarter’s end. In addition, we continue overall to hit or beat targeted delivery dates. One of our key corporate goals for 2022 and a real tribute to our tenant coordination and construction teams, I'm as convinced as I've ever been that we have the right product in the right locations with the right demographics for the inflationary economy that we're in.

And by the way, with a well demonstrated 55-year respect for the dividend component of our total return, a dividend yield of 4.3% for a portfolio of this quality seems awfully compelling to us. And against that backdrop, we've also been able to sell a couple of non-core assets at good pricing and refinance and upsize our term loan and line of credit to be sure that we have plenty of balance sheet flexibility and dry powder for whatever the economic environment feels like in 2023.

In terms of capital needed for our large development projects, we have less than an incremental $225 million to go; about $100 million to complete the Choice Hotel headquarters building at Pike & Rose, $100 million largely for tenant build out commissions at Santana West and $20 million to complete Darien Commons. By the way, after the quarter, just last week, we just signed a 52,000 square foot lease with a credit tenant bringing that building at Pike & Rose to over 60% pre-leased.

Those products alone will be contributing an incremental $40 million in operating income in years to come. Investing in these and other projects, both large and small with fixed rate debt and equity before the recent rising rates will serve us well in the coming years as these state-of-the-art buildings begin cash flowing. Similar to development, our pro rata share of the acquisitions that we've made since the beginning of COVID through today totaled $850 million. Those acquisitions from Grossmont to Camelback Colonnade, the Pembroke Gardens and so forth, are performing well ahead of our expectations in the aggregate and are expected to yield in the mid-6s in 2023.

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In that same time period, we generated over $400 million in proceeds from non-core asset sales at a sub-five cap. That capital recycling was not only immediately accretive, but the medium and long-term growth rates of our acquisitions, net of dispositions, are clearly superior.

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

In our view, the recent run-up in interest rates was inevitable, but not necessarily at the pace we're seeing, while sure to pressure everybody's earnings to some extent in the years ahead, how much so and for how long remains to be seen. So the real question is, will property level operating income more than compensate? These are the times when well-leased, well-located dominant retail and mixed-use centers in supply-constrained affluent, densely populated markets and submarkets shine.

We're in a cyclical business, no news to anyone, and it's why our business plan has always included multiple ways to counter the rise in money costs and the effects of inflation. The combination of best-in-class shopping centers along with acquisition and development property level income contributions financed with money from an earlier time, along with the potential sale of certain assets, including discrete residential buildings within our portfolio, gives us more flexibility and more tools with which to handle cyclical pressures than most.

We look forward to the challenge. Dan?

Dan Guglielmone

Thank you, Don, and hello, everyone.

For another quarter, strength and resilience of our portfolio has exceeded expectations. With FFO per share of $1.59, we beat a strong comparable from third quarter of 2021 by over 5% and beat consensus by $0.06. And once again, we saw broad strength across all aspects of our business driving this performance.

Continued gains and small shop occupancy, strong tenant sales driving higher percentage rent, continued increases in customer traffic resulting in another uptick in parking revenues, strengthen our residential assets and better collections than forecast, although offset by higher property level expenses and higher interest.

Let me add some color to these items. Small shop leased occupancy basically hit 90%, up 60 basis points over 2Q, up 380 basis points year-over-year and up to a level not achieved since 2017, but still not back to targeted levels.

Parking revenues, a strong indicator of consumer traffic at our mixed-use assets continued higher up 8% sequentially over 2Q and 33% year-over-year.

Percentage rent, an indicator of tenant sales strength was up over 31% sequentially and almost double third quarter 2021 level.

Same-store residential POI was up over 10% year-over-year.
On the other side, we did start to see some inflationary impact on operating expenses in the quarter as Opex grew by 10% over 3Q 2021. However, we estimate that roughly a third of that increase is non-recurring and it is all predominantly recoverable from tenants.

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Despite coming off a strong comp in 2021, our comparable growth metric for 3Q was a solid 3.7% well above forecast. Comparable growth excluding prior period rent and term fees was 6.3%. On a cash basis, our same-store metric is 5%, excluding prior period rent and term fees, our same-store metric is up to 8%. Year-to-date comparable POI growth is a sector leading 8.8% and almost 10% on a cash based same-store metric.

For those of you that track it, term fees this quarter were $1.3 million, up from $0.5 million in ’21, but down significantly from the second quarter’s $5.6 million. Prior period rent was $2 million, decreasing $4 million relative to the third quarter’s $6 million level. Again, this is adjusted to reflect only negotiated prior period rent payments relating to COVID-19.

We did another exceptional quarter of leasing a record for any third quarter, giving us nine consecutive quarters of above average leasing activity and not by a little bit, by over 25% on average over this nine-quarter period and 40% this quarter. Furthermore, our pipeline remains as robust as we’ve seen it. Currently exceeding both second quarter of 2022, third quarter of 2021 levels at this juncture in the quarter.

Our rent rollover metric was 3% for the quarter with rollover gains for deals in our pipeline, indicating a much more robust outlook in future quarters. We also had another solid quarter achieving sector leading rent bumps, as we continue to drive average annual contractual increases of 2.25% for retail leases only for banker and small shop-lended and as a result our rollover on a straight line basis is 13%.

I know, I’m repeating myself, but for every 100 basis points higher in annual rent bumps, the ending rent will be 9% to 10% higher at the end of a 10-year lease. Hence, a portfolio with 2.25% rent bumps and 3% rollover is the equivalent of a portfolio with only 1.25% rent bumps and 12% rollover, plus the 2.25% rent bump portfolio collects more along the way.

With respect to our balance sheet, we made significant progress during the quarter in enhancing our liquidity and financial flexibility. Just after quarter end, we closed in a comprehensive refinancing which increased our unsecured bank capacity by over $0.5 billion, from $1.3 billion previously to $1.85 billion today, and a combined revolving credit facility and term-loan, both of which we expanded. We increased our previous $1 billion revolving credit facility to $1.25 billion, extending the term to April of 2027 with two six months options out to 2028 and transitioned the base rate from LIBOR to SOFR and we doubled the size of our existing term loan from $300 million to $600 million. This term loan has an April 2024 maturity with two additional one-year extension options, which take us out to 2026 at our options. The interest rate here also transitioned from LIBOR to SOFR.

As a result at closing of the facilities we had $1.4 billion of total liquidity including the $1.25 billion available on our undrawn credit facility. With respect to leverage metrics at quarter end, our net debt EBITDA ratio is roughly six times annualized for the quarter and adjusted for asset activity. Comfortably within the range of our ratings and we continue to target a ratio in the low-to-mid 5 times over time. Our fixed charge coverage ratio rests at 4 times and additionally we sold two assets, one retail center and one residential asset during the quarter for a total of $67 million at a blended five-and-a-quarter cap rate. We're in process on an additional asset sale totaling over $350 million in potential proceeds at a blended cap rate that is sub 5%. Having non-core assets, including residential, that we can sell at extremely attractive valuations even in this environment there is an arrow in our quiver that most retail companies do not have.

Onto the remainder of 2022. Given another quarter of our performance and a strong outlook for 4Q, we are increasing our guidance from $6.10 to $6.25 to a tightened range of $6.27 to $6.32 per share, an increase of $0.12 to the midpoint or 2%. This is on top of two other guidance increases earlier this year in the first half, which brings our year-to-date total increases and guidance to $0.45. Current 2022 guidance

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implies 13% growth over ‘21 at the midpoint despite over 200 basis points of headwinds from prior period rent.

We are also bumping up our forecast for comparable POI growth to 7% to 8% from the prior range of 5.5% to 7%. Excluding prior period rents and term fees our comparable POI forecast increases to 9% to 10% from the prior range of 7.5% to 9%. We continue to expect our occupied rate decline from 92.1% today, up to around 92.5% by year end, and please note that our recent third quarter acquisitions weighed on our occupancy growth during the quarter. This guidance assumes a range of a $1.53 to a $1.58 of FFO per share for the fourth quarter.

With respect to 2023 we will be giving formal guidance on our call in February but let me provide some commentary for you to consider. Our $600 million term loan is floating rate. We have consciously decided not to hedge the rate to maximize our financial flexibility to be opportunistic in the timing of refinancing on a longer-term fixed rate basis. Its interest rate is set; the term SOFR is adjusted plus an 85-basis point spread which is 4.7% today.

Also note while our only debt maturity in 2023 is $275 million of unsecured notes with a June maturity, it does have a 2.75% interest rate. We again expect prior period rents and term fees not to contribute in 2023 to the level they did this year while the impact will not be as material as it was this year. G&A which is running at $13 million per quarter currently is expected to increase in 2023–use $14 million, per quarter is a good placeholder for now.

As a counter to these trends, our core business continues to show significant strength given over two years of above average leasing volumes with relatively little impact from failing retailers over the last year. We expect to see POI in 2023 continue to show strong momentum driven by solid comparable growth continuing in 2023 in the existing portfolio driven by 220 basis points of signs not occupied upside in a robust current portfolio of new leasing.

As well as growth in the non-comparable portfolio, particularly at the recently stabilized Assembly Row Phase 3, 100% leased 909 Rose at Pike & Rose and the 100% leased CocoWalk. Despite uncertainty in the economic outlook for 2023, POI growth will be robust and should provide momentum to counter inflationary pressures and higher interest rates.

With that Operator you can open up a line for questions.

Operator

Thank you. The first question today comes from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb

Hey good afternoon. So Dan, just want to go back to the rent spreads because this is something you guys have talked about over time and certainly looking at your spreads in the quarter, they're low but the FFO growth is high and would rather have FFO growth than rent spreads. So, can you just sort of give an overview of how we should think about the interaction between rent spreads and FFO? And then I think you said that you're every year the embedded annual bumps are 2.5%, but one, I just wanted to validate that number; and two, is that just small shop or is that also in like the junior anchors and some of the bigger format retailers?

Dan Guglielmone

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Yes. Now we'll go to rent spreads and FFO first. The rent spreads we announce are for deals that are signed during the quarter. They will not start for the next year or two, so there's obviously, and that's just one component of how our company grows, which is what the rent spreads are. As we said we also grow rents from contractual rent bumps, which we'll hit here. It is two-and-a-quarter percent retail leases only both anchor and small shop blended that we see in our portfolio, a little bit higher, if you include the office leases where we get a little bit higher bumps.

Alexander Goldfarb

The second question goes back to the guidance that you gave a few quarters ago on '23 and '24. Obviously this year has really outperformed and it's hard to believe that the metrics for '23 and '24 sort of stuck in the ground and that this year has come up but it's just going to flatten growth. So, is that really the case? Like we should think about it flattening growth versus the goal posts that you guys laid out a few quarters ago, or can we think about '23 and '24 those goal posts moving up as well?

Dan Guglielmone

Look, we provided goal posts or guideposts that got us to 2023, and we've hit that here in 2022. We're going to provide guidance in 2023 on our February call, but one thing I will tell you is we will see really, really good and strong robust property operating income at the property level in 2023, and we'll continue to see growth coming from our non-comparable portfolio, coming online as well contributing. That obviously in this environment we'll have to counter inflation on operating expenses, and we'll look to counter the impact of interest expense.

Don Wood

I would just add Alex to the implication of your question, which I understand and let me just say there are two things when we gave those goal posts back there, it was obviously based on the timing of the recovery. As you said the timing of the recovery has clearly been faster and that's great news, but also to your point not only the timing of the recovery, it's been the strength of the recovery. So I would expect that POI growth and the property level to be even more robust than when we set those guideposts back in whenever we set them in '21 or '20 effectively. So at the POI level, you're darn right this business is performing as good or better than it ever has and a lot of that's post COVID.

Obviously we got to deal with the current macroeconomic situation in terms of interest rates and all, but overall your point is a good one that not only did we get there faster, we got there in '22 verse '23, but if you were to reset today and look at those POI goals that those goals are effectively even better with respect to the core portfolio because of the strength and the leasing over this period of time.

Operator

The next question comes from Craig Schmidt with Bank of America. Please go ahead.

Craig Schmidt

Thank you. We have definitely witnessed your properties and your trader performing well in an inflationary environment. I'm wondering how do you think it might perform in a recessionary environment?

Don Wood

Well, yes. I don't think there's a lot of wondering about that. If you take a look at history, obviously this isn't the same as the great financial crisis. It's not the same as the dotcom crisis of 2000, 2002 Craig. But

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it is clearly a period or going into a period of reduced economic activity, call it what you will. It's why we own the properties we own. It's why the demographics we believe are incredibly important going forward. So what those exact numbers will be and what the future holds in terms of both inflation and reduced economic activity, I firmly believe we'll outperform.

I believe that just as we have in past cycles, because the affluence , the density and the barriers to entry of where we are, I go back to those numbers because they're so important. When you've got $10 billion of income power within three miles of a shopping center, it's very hard to imagine that that's not going to be a significant advantage in both an inflationary environment and a lower economic activity environment. So I like this on a relative basis very much.

Craig Schmidt

I agree with you. There's definitely a tale of two cities when you look at different income cohorts and how they're spending. But I'm wondering if your centers have also benefited from what we're seeing is people are more actively pursuing experiences, travel it's held up well. People paying very high rates for vacation at hotels. Just frankly the socialization and the experience at your shopping centers may also be benefiting from just the consumers wanting to get back to that aspect of their life.

Don Wood

Craig, it's hard to imagine that's not the case. We're taking this call today from Santana Row out in the middle of Silicon Valley. There's always confusion, is Silicon Valley, the Bay Area and the stuff that you hear about San Francisco, it couldn't be—40 miles is 1,000 miles away in terms of markets. I'm looking out on this street right here, if you saw the activity, if you saw the restaurant numbers in particular, that are generated here, it goes to validate your point critically. We're seeing the same type of thing in those restaurant numbers at Assembly Row and at Pike and Rose, and so the notion of the combination of those type of properties along with a very substantial grocery anchored shopping center portfolio together, I think makes your point crystal clear.

Operator

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

Steve Sakwa

Yes. Thanks. Good afternoon. I guess, Dan or Don or Wendy, just as you talk about the leasing pipeline, I was just wondering if you could add a little bit of color on the types of tenants that you're seeing, if there's any regional variation. I guess, as you think about the upside in the portfolio, where do you think the lease percentage can ultimately get back to and when does the, I guess the gap between leased and occupy close more significantly?

Wendy Seher

So I guess Steve, I'll take the first part of that question, and as you've heard in our remarks, the pipeline that I'm seeing is really strong. What we've just accomplished in the quarter and frankly the last 12 months by taking our small shop and increasing it by 380 basis points over a 12-month period is remarkable and proud of the team, of course, and just speaks to the real estate.

As I look at what we've been doing, I mean, we've had everything from Athleta to Nike to Dave's Hot Chicken seems to be the big one to Petco to very broad based as it has been, frankly, in the last several quarters. So again, seeing it—and the other piece of this that is really positive is the activity that we're

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seeing and the challenges that we're having, both on the retail side and on the landlord side is costs of construction with the relationships that we have and the amount of tenants that we're dealing with over a period of time and the credibility that we have in the market to do what we say we're going to doWe've kind of been able to put our heads together and figure out how to move forward on a lease, even though some costs can be challenging. With this transparent approach, we've been not only being able to get the rents that we need to have it make economic sense, but we've been able to grow the annual embedded increases in the leases that make sense for us. So again, speaks to the strength of the real estate and that buying power within those markets.

Don Wood

I guess, Steve, with respect to the second part of your question, I would very much expect this portfolio to be a 95% plus leased portfolio. Now, the notion of the timing of getting there is dependent on the number of things. First of all, we're not solely driven by occupancy. We're driven by economics and value creation, and I'll give you a perfect example. What happens with the Bed Bath & Beyond's as we go forward? If I had my way, we would get them back as soon as we can and we'd lease them to more productive tenants at higher rents. That's what we'd like to be able to do.

Now, that doesn't mean we won't extend one for a year, another year, whatever, but I guess occupancy per se, my point is here is only one consideration in trying to reach a goal. It's not trying to get to 95% no matter who and no matter when, that's an important thing to understand, and I do think that that's something that we put a lot of weight on the balance necessary to be able to get there.

The second thing is obviously the leaks in the bottom of the bucket. What are we going to see over the next couple of years in terms of tenant failures, et cetera? Obviously, we've gotten into this period of time of post-COVID in a better position, the industry has because of the loss of weak tenants at the beginning of COVID. At this point it's still looking really strong, and I don't see a lot of leaks at the bottom of the bucket beyond the Bed Baths and always a few small shops, et cetera. But what the extent that's going to be is going to determine the timing of the question that you're asking. I would hope to be there within a couple years.

Jeff Berkes

Hey Steve, it's Jeff, just backing cleanup here. We've probably got another a 100 basis points to go to get to where we want to be on our signed not occupied percentage. We're sitting at 220 basis points today, and historically that's been a 100 to 125 basis points, and like Wendy said, we are doing everything we can, working our relationships with not only the tenants but also the people that do the work both inside the company and outside the company to build out space as fast as possible and get runs started. That's really been going well for us the last six, eight quarters. We hope to get that shrunk down in short order exactly when it'll happen, like Don just said, we can't tell you, but that is a primary objective there.

Dan Guglielmone

Yes, we've made good progress on that. It used to be north of 300 basis points spread. We've got it down to 200 on our way to that targeted, 100 to 125 basis points.

Jeff Berkes

I guess the fourth batter really is the cleanup batter.

Steve Sakwa

Thanks. Sorry for long question. Second, just on capital deployment, I guess, Don, how are you thinking or how have you changed kind of your hurdles for either new development, redevelopments ground up or

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acquisitions? It sounds like you have a pretty robust disposition pipeline at 5%. But just how are you thinking about unlevered yields for new investments?

Don Wood
Yes, well, obviously that's all in that state of flux as the capital markets are in that state of flux. So within the context of that, Steve, the bottom line is we always through periods want to make sure that the company continues to view capital on long-term weighted average cost basis, not just yield for a particular project at any one time because it's as uncertain in terms of where it's going to end up at this point. We have clearly put the brakes on some of that capital deployment for new projects, unless the project that we're working on is very clearly not only needed for the asset, but very accretive. That puts it up in those 8%, 9%, 10% ranges to be able to do right now.

That won't stay like that forever. We just want more visibility in terms of where that overall cost of capital will end up, and I think you would probably agree somewhere by the middle of next year, we'll have an awful lot more visibility than we do today.

Steve Sakwa

Great. That's it for me. Thanks.

Operator

The next question comes from Derek Johnston with Deutsche Bank. Please go ahead.

Derek Johnston

Hi everybody. Good afternoon. We view renewed office demand as a real potential, positive catalyst for Federal, and especially when it comes to investor sentiment. I think I'd say what we learned exiting the pandemic era is office location, newness, quality operators, they have all seen and should continue to see outsized demand. So, I guess, how are tours progressing and interest progressing, specifically at Santana West, and perhaps touch on some other assets. Are you more confident on your office component, given what you're seeing on the ground than maybe a few quarters ago or a year ago?

Don Wood

Derek, it's a great question. I really appreciate that. Let me start by saying, and I've said it a million times, but I couldn't believe it more, all office is not created equal. The notion of having the type of office product that we do, which is solely at our big mixed-use development, so therefore solely driven by the retail environment effectively, that is the differentiator here along with new buildings. If there is any demand for office space, how can that not be, knowing the economy, knowing the proclivities of CEOs and hiring managers, et cetera, How can that not be the best product available? We remain as confident as we've ever been. As I said, we just signed a lease. I can't disclose who it is at this point, until I tell their employees, et cetera, over at 915 meeting at Pike & Rose.

In terms of Santana West, we're not there on anybody yet, but we remain as positive as we ever have with respect to the product. The reason I'm out here at Santana Row and why we held our Board meeting out here over the last couple of days was to make sure our Board saw what we see in terms of the product that we are delivering here and heard from Jeff, who you will hear from here in a second, in terms of this environment. You got to be bullish about this over the middle term.

Jeff Berkes

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Yes, I mean, setting 915 and One Santana West aside our office portfolio is 97%, 98% leased. And the reason why it is, is because all of our office locations are amenitized, and we've been saying this for a long time, that is the new standard for having office space. If you can't offer your employees amenities, you can't keep your buildings leased, and we have amenities and space at our properties, that's why we're 97%, 98% leased.

Big change out here in Silicon Valley. We talked a little bit about this last quarter. But three, six months ago, the big question here was when are we going to get people back to the office? I think I said on last quarter's call that Apple, Google and others had made the decision to get people back right after Labor Day and that has in fact happened. If you live or work out here, you notice it when you turn on the TV in the morning and see the traffic stacked up to get over the Bay Bridge, or you drive down 280 past Apple's headquarters, there is a line of people that get off 280 at the Apple headquarters exit.

So the conversation has changed from when to what and the what is all about what do we need in the way of space to right size our requirement and provide our employees what they're demanding, which is state-of-the-art space with state-of-the-art systems and amenities. So the confidence that Don just mentioned is because of that. If you look around Silicon Valley, there is really only one building that's state-of-the-art with state-of-the-art amenities, and that One Santana West.

So, I wish we could say when, we can't, but we remain positive on our prospects to lease that building.

Derek Johnston

All right, thank you. Well, we will stay tuned. I guess, secondly, you mentioned Bed Bath & Beyond, can you talk about the watch list, and specifically for your portfolio, right?, and how your centers and tenant exposures may differ from peers, so that it's well understood out there? Thanks guys.

Dan Guglielmone
Hey, thanks Derek. Yes. No, look with the exception of Bed Bath & Beyond that's probably at the top of our list. We only have about 83 basis points of exposure to them. About 60 basis points of that is to the Bed Bath name. Other than them, nobody else is anywhere close to material in terms of folks were focused on. They're all single digit basis points of revenue and so there is really not anything that's on the near-term concern list for us.

Don Wood

Wendy anything you want to add?

Wendy Seher

I would say, when I think about Bed Bath & Beyond, look at what we've done over the last three, four years or so, which is we've kind of reduced our exposure in that with them as a company, probably about four or five locations, so material. As I look at what's left, we have three buy buy BABYs that are in good, healthy condition in terms of their productivity from the shopping centers, and we have six Bed Bath & Beyonds and one Harmon. I couldn't agree more with Don that although there would be some short-term pain, I would be very comfortable controlling all of that real estate.

Jeff Berkes
On average those are low rents. They are $15 or so, which given our centers, again on average, is fairly low.

Operator

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

Michael Goldsmith

Good evening. Thanks a lot for taking my questions. Dan, your commentary about 2023 was really helpful. I was wondering if you could provide a little bit more color about the puts and takes. It looks like G&A is going to be about $4 million higher, refinancing this 2023 bond it looks like it could be about a $5 million headwind. There's also the capitalize interest for Santana West and that's offsetting some of these factors of the growth of the portfolio.

So can you just provide a little bit more detail on some of the puts and takes of 2023, so that we know kind of like where the starting point is in our model before we start to kind like model the growth upon it?

Dan Guglielmone

Yes, look, I think, you highlighted some of the color I've provided on 2023, we are going to provide more detailed, comprehensive with underlying assumptions on our February call. We're in the middle of our budgeting process. We're not done with that, that we need more visibility, and we'll have more visibility hopefully in three months, and that's when we'll give you that detailed information. So stay tuned.

Don Wood

It's funny. I had a laugh because when we were preparing comments on what Dan was going to say for 2023, I thought he was given too much at that point. But it’s a heck of try to get more out of it at this at this point, stay tuned.

Michael Goldsmith

I appreciate that. Are you able to at least provide kind of where prior period rents collected are, just so that we can kind of quantify around that?

Dan Guglielmone

Yes. I think that prior period rent, what we think about and how we're thinking about it currently is what's prior period rent that we expect to collect that's related to COVID modifications that to previous deals with tenants. That's about $8 million to $10 million this year, it's probably going to be probably in and around $5 million plus or minus. Use that as a placeholder for now. We'll have more guidance there. Certainly, a lot less impactful than it was last year in 2021 to ’22.

Operator

The next question comes from Greg Mcginniss from Scotiabank. Please go ahead.

Greg Mcginniss

Hey good afternoon, I guess. Just looking at residential, comparable occupancy saw a 50-basis point decline year-over-year. Is there any point to there? Then also what level of spreads are you seeing in the residential assets?

Don Wood

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Yes, it's a great question. So you know what that's about, Greg, is about pushing rents hard, particularly up at Assembly. We leased that up so fast that as the turns happened, we wanted to push rents to find the equilibrium lost a point or two of occupancy, which is just fine. It's funny and going back even to Steve Sakwa's question earlier, what should this portfolio be leased at?

I always say 95% or so because it's not just about leasing it up and getting the building filled. It's about making the most money with it. And so the notion of testing where the rates are, where they can be, where they should be relative to occupancy, always makes me more comfortable in the 95% to 95.5% range, 97%, 98%, it feels like we're leaving money on the table.

So there's nothing more to look into it than that. Extremely strong growth, I don't have those numbers actually at either Santana or at Assembly, but they're strong.

Jeff Berkes

Yes. The year-over-year revenue growth at our stabilized property at Assembly Montage and our stabilized buildings here at Santana Row, it's kind of low to mid double-digits, Greg. We do have one hand tied behind that are back a bit in Montgomery County because of the rent restrictions there that were just recently lifted and we're starting to work through the worm hole in the Montgomery County assets. But where we haven't been restricted, the lease trade-outs have been incredible, and the year-over-year revenue growth has been incredible. Also doing a good job managing expenses over the past 12 months so residential has been a great contributor in the company.

Greg McGinniss

Okay. Thank you. Then just thinking about tenant retention and the potential for increasing occupancy, looking at this quarter, new leases represented 90 basis points of occupancy, leased rate was only up 20 basis points, though. So 70 basis points to move out during Q3, how is the tenant retention comparing to prior years? As we look towards potentially more challenged economic environment, thinking in that context, what's driving move-outs today?

Don Wood

There's a bunch to unload in that question, and I heard something that you said that I'm not sure the premise is right. Part of the reason that you don't see occupancy going up as fast as the overall lease volume that we have is because often, we lease space for which there is already a tenant still there, and the way we think you should show it is if it was occupied before, yes, you're showing it in your lease rollover, but it's still occupied. So it's not going to change that occupancy number. That's a much bigger component than any move outs, if you will, that are diluting the occupancy number. So I kind of got caught when you said that, that got stuck in my head. It's the part of your question that I wanted to argue about. I'm not sure there was anything else in there for me to answer to.

Operator

The next question comes from Craig Mailman of Citi. Please go ahead.

Seth

Hi, this is Seth on for Craig. I just wanted to go back to your 2022 guidance and the $0.12 increase. Where are kind of the moving pieces in that guidance, and is there any type of onetime pieces to that?

Dan Guglielmone

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Yes. We kind of feel as though our 2022 guidance for—it was just a stronger outlook for the fourth quarter, significant outperformance in the third quarter. I don't think there's necessarily onetime items in there, except for prior period rent and term fees, which really third quarter over third quarter, were roughly modest and I don't see that.

It's a stronger continued expectation that the trends that occurred and our outperformance in the third quarter will continue into the fourth quarter with regards to continued strong percentage rent, continued strength in occupancy buildup, asset in our pipeline, tenants taking possession of space and then, obviously, with some offset to a higher interest rate environment.

Seth

Thanks for the color. Then just another quick question on page 25, and this is up on the comparable new lease summary. It looked like the cash rent spreads were 0%, but the straight line was 10%. Is that due to like the type of tenants you're leasing to? Or is there anything specific driving that?

Dan Guglielmone

Well, the difference between zero on a cash basis and 10% on a straight line are the rent bumps we're getting. And that's an important component to consider when you think about rollover is not only what is the rent you're getting at least maturity to the new market rent. But what are you collecting along the way? So the rent bumps that you get are reflected in that straight line rent rollover number and we think that's as important the rent bumps you get as the rollover you get at lease end.

Operator

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

Hong Zhang

Yes, hey, I think you talked about how your typical lease-to-occupied spread is around 100 to 125 basis points. As we think about commencements next year, I was wondering where you think that spread could trend to by year-end.

Dan Guglielmone

That's a tough one to guide because one, it's hard to really predict where the lease rate will go. I mean, we can get a sense of when leases will commence, and tenants will take possession. So we think our occupied rate should get up towards—up into the 93%, up towards into the mid-93% range.

Jeff Berkes

By the end of the year.

Dan Guglielmone

How much leasing we can continue to do from a leased percentage and what is the holes at the bottom of the bucket where that goes is a little bit more difficult for us to forecast. But we should get back to a more normalized level over time, and I think our goal is to have both components, the metrics, the occupied and the lease metric continue upwards, but narrowing it over time into 2024 and 2025, probably in that time frame.

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Don Wood

I do want to make another point and make sure you're getting the specific—what this is all about. The difference between signing a lease and getting rent started is all based on the tenant construction and the tenants, the permitting process, tenant coordination process. That's been one of the things that has really dogged this industry for the past three years since COVID, supply constrained environment, the logistical problems, et cetera.

So really, what you want is to get that tight because what that means is the time between a signed lease and the time that a rent starts is the most important thing. Yes, over COVID, that was going to be exaggerated because you were doing leases in such volume that it took time to get that rent started. But the objective should be to get that number lower and lower, not necessarily to have it as wide as it can be because that to me suggests that we're not getting tenants open and that's really important.

So Dan, answer is absolutely correctly, but I just want to make sure that you kind of get what that metric means on an overall basis and why it's so important for us to get it down to 100 to 125 basis points.

Hong Zhang

Yes, agreed. It looks like you have an option to purchase the remaining interest at Escondido. I was kind of curious if you could talk about the decision to get that option and what cap rate you would think you could purchase it at right now?

Jeff Berkes

Yes, it's Jeff. We've had a partner in that asset for a very long time approaching 30 years that needed some flexibility on their exit from the asset. So we structured a deal that gave us the option should we decide to exercise it next year to go ahead and take them out. I think the cap rate that we used to value the asset was in the upper 5s. Escondido has been a great property for us over the years, one of the stronger growers in our West Coast portfolio so little bit of a win-win for everybody there.

Operator

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

Juan Sanabria

Hi, thanks for the time. Just curious on the guidance for same-store NOI and what has been delivered year-to-date and kind of what the exit implied is for the ex any term fees noise that's caused there. I know you raised the guidance, but just curious on what the fourth quarter implied expectation is with the upward limit of raised guidance you think about 2023.

Dan Guglielmone

Yes. The number that we report, includes the headwinds from term fees and prior period rents. In the fourth quarter, should be about, call it, 3% to 5%, in line with what we did this quarter at 3.7%. Our year-to-date number is 8.8%, which I mentioned, and we provided 7% to 8% for the year. So the 3% to 5% is what is implied in the fourth quarter is what is implied with the overall guidance, and obviously, that will be higher, we expect, because of prior period rent continuing to be higher last year than we expect it to be this year. Should be higher in the fourth quarter than that 3% to 5% range, probably more in something of around 5% to 6%.

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Juan Sanabria

Great. Thank you. This has been asked a couple of different ways, I guess. But for the small shop tenant space, you're basically at 90%. So could you just remind us what the prior peak was, how high that could go. And like out of that small shop tenant space, what is kind of local versus national or regional tenant, and any color on that more local tenant kind of confidence in the credit behind that?

Dan Guglielmone

Look, I think we've taken advantage of the opportunity on that note. We've taken advantage of the opportunity to improve the credit of our small shop tenant base and so forth. I'll let Wendy answer that in a second but let me answer the first part of your question. The peak, which was back pre-financial crisis was up around 94%, I think that 92% is kind of a reasonable targeted level that we'll try and achieve over time on the small shop side.

Wendy Seher

When I think about the small shops, we certainly had, like everyone did failures throughout the pandemic. What the result is, post-pandemic is a pretty savvy and experienced small shop that knows how to get through a difficult time. So I think our small shops are pretty on stable ground. Many of them have better balance sheets than they've had before. They are quite active in making sure that they're maintaining their locations with us and growing, and certainly we've always felt that that local tenant really brings the color and the vibrancy to the community that we need. So I'm bullish on the small shops.

Don Wood

Hey, Juan, I got to add something to this. As I said, the notion of the question means that there's a premise here that local tenants are poorer credits than regional tenants. I have a problem with the premise because what we have found is local tenants by and large do whatever they have to do to not lose their space. They'd borrow money from families, they borrow money from other places that they have to do and they keep it going.

So if history is any indication here, we would expect, to Wendy's point as to why the small shop, including and maybe especially the local tenant should outperform here is because of those reasons. They're in places that they don't want to lose those shops. So they do whatever they can to not lose that spot. Particularly coming out of COVID where there has been a complete influx in new money, in new tenancy and effectively a robust and solidified small shop basin total.

Operator

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

Haendel St. Juste

Hi, good evening. Don, I wanted to go back to some of the earlier comments you made on capital allocation. I understand you're being somewhat opportunistic selling some assets here, which looks like they'll effectively fund your active redev. But looking ahead and I know the macros uncertainty, you have a future pipeline you alluded to, and probably in there with some pretty good return potential. Can you talk a bit about some of those key signals you're looking for before you start on some of those, and should we expect disposition to be the source of funding? Thanks.

Don Wood

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Yes, and it's a great question. Yes, I do, expect dispositions to be a key funding source of it. One of the things we're talking about in looking now and it's premature is it's pretty incredible the value that we've created on some of the residential product that we have, and it is such a unique funding source. Again, that's at our big mixed-use properties that such a critical part to getting these places established and moving them along, and now they're established we'll look hard at—does harvesting that make any sense? So that'll be a component that's in the consideration of how to fund.

Secondly, when it gets to where to deploy the capital, that deploying of capital is very much dependent on a very localized look at demand. And making the case for the Assembly, life science development building, obviously, we want to see venture capital funding in a better place than it is today. Obviously, we want to understand what the cost requirements of building that are. So building-by-building, redevelopment-by-redevelopment very localized in terms of that decision making process. But again, the sale of particular assets, I just think we have more flexibility and more arrows in our quiver, if you will, to decide how to get that done then most.

Haendel St. Juste

Okay. Great, appreciate that. Follow-up on redevs with the focus on Assembly Row where you pause the life sciences projects. Any update to share there? See you have some additional entitlements for more resi. Could we see you or perhaps would you consider prioritizing that over life sciences or anything or office there given the growth and supply in the life sciences market in Boston? Thanks.

Don Wood

No update to talk about there at this point. I can tell you it's very important to us that the entitlement process not just for that one building, but for the adjacencies to that is completed. We're working hard on that during this pause period that could give us a whole kind of leg up if you will when we are ready to move forward again. I also very much want to see what happens next to us with the Blackstone financed life science project to the extent who they land is obviously very important to what's happening there.

So the one thing I know that you can get comfortable with us is that we're not formulaic in terms of those decisions. They're very, very much revenue-based, based on what's happening around us at that particular time. So bit more time to go to see what and when there, if you will.

Operator

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

Linda Tsai

Hi. How much leasing is completed for…

Dan Guglielmone

You cut out there, Linda.

Linda Tsai

Sorry. I said how much leasing is completed for 2023 and what's that usually like this time of the year?

Don Wood

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She's simply saying, of the $1.6 million or so, $1.7 million that we've done this year, much of that will start in 2023. I'm not sure how to give an estimate effectively of that.

Dan Guglielmone

As of today, we've got about 881,000 still expiring and anchor $1.6 million or $1.7 million in total, and obviously we've got the leasing that we've got done. I don't have specifically that number. Probably makes sense, we could follow back up with you with regard to specifically how much of that specifically has been leased.

Linda Tsai

Got it. Then how much growth should we expect in property operating expenses like insurance, maintenance costs, utilities and repairs for next year?

Dan Guglielmone

Yes. I think we need to kind of spend some time getting through the budgeting process, fine tuning that. That's a tough question today for us to assess. We'll have that ready and done in January, and hopefully we'll provide some of that guidance when we provide more formal guidance on the February call.

Jeff Berkes
Keep in mind, most of it is passed through to the tenants.

Operator

The next question comes from Omotayo Okusanya with Credit Suisse. Please go ahead.

Omotayo Okusanya

Hi. Yes, good afternoon, everyone. Just kind of given the overall concern of moving into a slower economic cycle, wondering if you could give us any color in regard to what you are seeing in regard to how your customer base is behaving specifically like office. Are they asking for shorter leases? Are they asking for more flexibility in the leases? Are you starting to see more price sensitivity on the apartment side? Just kind of curious, if you could just kind of give us some color about tenant behavior at this point versus say, 6 to 12 months ago.

Don Wood

Yes, I'd say it's all good stuff that you're asking about. And let me go for a few things that that I've noticed along the way. On the retail side, very little difference in behavior in terms of getting those leases—the desirability of getting the space, and that's why the pipeline looks as strong as it does. The question there is, it always comes down to what's the construction of the space going to cost? And because that's uncertain now in a period of inflation, that flows down the process a little bit, and so, from a behavioral perspective, will it take longer to get leases done? That's a potential effect of trying to underwrite construction costs primarily but got nothing to do with demand. It's got everything to do with the math of getting that done.

In terms of the apartment side, you're in a period of time here in the markets we're at where interest rates and home mortgage is going to where they are, make apartments look awfully, awfully attractive. It's why you're seeing the demand that we're seeing. I just went to the numbers here at Santana Row. It's

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incredible in terms of the strength of the consumer here as it relates to apartment spending and again, the same thing over in Boston with respect to the product that we're offering there.

So, for me it always comes down to does that consumer have the means to consume? I can tell you; we've got a couple of shopping centers where the demographics are below $75,000 of household income. There is no doubt in our mind that those shopping centers struggle more than the ones that have $150,000 and $160,000 of household income. So from our standpoint, this is a portfolio that's very high quality. We certainly have a couple of shopping centers, a few shopping centers at the lower end, and there's a demonstrable difference. So that's how I kind of look at the consumer.

Omotayo Okusanya

Anything on the apartment side?

Don Wood

Yes, the whole last six minutes of the conversation. No, no, very strong demand.

Omotayo Okusanya

Okay. All right. Thank you.

Don Wood

Yes. Thanks.

Operator

This concludes our question-and-answer session.

I would like to turn the conference back over to Leah Brady for closing remarks.

Leah Brady

We look forward to seeing many of you at NAREIT. Please reach out to me with any meeting request. Thanks for joining us today.

Operator

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

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