Federal Realty Investment Trust

First Quarter 2024 Earnings Call

May 2, 2024

CORPORATE PARTICIPANTS

Leah Brady, *Vice President, Investor Relations*

Donald C. Wood, *Chief Executive Officer*

Daniel Guglielmone, *Executive Vice President, Chief Financial Officer and Treasurer*

Jeffrey Berkes, *President and Chief Operating Officer*

Wendy Seher, *Executive Vice President, Eastern Region President*

CONFERENCE CALL PARTICIPANTS

Juan Sanabria, *BMO Capital Markets*

Dori Kesten, *Wells Fargo*

Samir Khanal, *Evercore ISI*

Michael Goldsmith, *UBS*

Viktor Fediv, *Scotiabank*

Alexander Goldfarb, *Piper Sandler*

Craig Mailman, *Citi*

Ki Bin Kim, *Truist Securities*

Michael Mueller, *JPMorgan*

Ravi Vaidya, *Mizuho Securities*

Floris van Dijkum, *Compass Point*

Elizabeth Doykan, *Bank of America*

Omotayo Okusanya, *Deutsche Bank*

Linda Tsai, *Jefferies*

PRESENTATION

Operator

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

(Operator Instructions) Please note, this conference is being recorded.

I would now like to turn the conference over to Leah Brady. Please go ahead, ma'am.

Leah Brady

Good afternoon. Thank you for joining us today for Federal Realty's first 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 package that we issued tonight, our annual report filed on Form 10-K and 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 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 the discussion of our first quarter results. Don?

Donald C. Wood

Thanks, Leah, and good afternoon, everyone.

Well, it's a new year and Federal continues to charge forward with a very solid $1.64 recorded in the first quarter, along with 3.8% same-center growth when excluding term fees and COVID repayments. At an all-time first quarter record 567,000 square feet of retail leased at 9% higher rents, the answer to the often-asked question of do demographics matter post-pandemic become quite evident. They sure do.

The level of leasing activity in the quarter is particularly notable. Our record retail leasing was impressive, but maybe more so with the 190,000 square feet of office space leased at our mixed-use properties. Supplementing the long awaited 141,000 square foot lease to accounting consulting firm PWC at One Santana West, bringing that building to nearly half leased was an additional nearly 50,000 feet leased elsewhere in the mixed-use portfolio, including two deals at 915 Meeting Street at Pike & Rose, bringing that building to nearly 80% leased. The remaining vacancy at 915 Meeting Street at Pike & Rose and One

Santana West represents considerably less than 2% of the value of the Company. Tenant interest in the remaining space at both buildings remained solid.

All in all, for the quarter, we signed 117 commercial leases, retail plus mixed-use office for over 775,000 square feet of space with strong economics, not including our residential portfolio, which itself generated record first quarter property operating income of over $17 million. Make no mistake, our product, primarily retail, but also including complementary office and residential is very desirable in the marketplace and a huge positive differentiator.

Now, obviously higher interest rates take away some of that operating positivity when you get down to the FFO line, but we still grew at over 3% in the quarter and at $1.64 at the higher end of our guidance range.

We did 104 comparable retail deals in the quarter that cumulatively were written at 9% higher cash basis rent than the final year of the previous tenant or 20% on a straight line basis. Just to pound the point home one more time, those cash-based rollover increases come on top of leases that have had what we believe to be the highest contractual rent bumps throughout their term in the sector, making that rollover all the more impressive.

Contractual rent bumps for the deals done in the first quarter were roughly 2.3% blended, anchor and small-shop. The weighted average contractual rent bumps for the entire retail portfolio, not just one or two or three quarters worth, approximates 2.25% and higher when considering the office business, best in the business as far as we can tell. The sustained leasing volume and related economics bode well for the future, especially the contractual rent bumps.

Now, I spoke last quarter about the upside in our occupancy, especially with respect to shop space and felt that another 100 basis points over the 90.7% that we reported at year-end was doable. In the first quarter of 2024, we picked up 70 of those 100 basis points, bringing our small shop lease percentage to 91.4%. There's more to come here. Our anchored lease percentage is 95.8%, there's another 200 basis points to come there too.

Those two components combined at 94.3% leased overall, pretty strong, but as we're demonstrating room to grow. We take a very proactive approach to leasing and often lease space well in advance of an existing lease expiration or vacancy, all in the name of improved tenant health and merchandising mix and as an insurance policy towards potential gaps in future cash flow. We've got some impactful anchor renewals coming up later this year and early next that should continue the positive trajectory.

In terms of a tenant watchlist or other indications of a shift in demand, there is nothing out of the ordinary that we can point to. We have little exposure to those tenants that are most talked about these days Express, Big Lots, Jo-Ann's, Family Dollar and 99 Cents Only as they tend to cater to a lower income demographic. Our tenants have been largely been able to pass on cost of goods and labor increases to their customers. Those customers may grumble at the higher prices, but thus far, they've been both able and more importantly willing to pay them.

In addition, our retail tenant base is very well diversified both in terms of tenant concentration as well as property type. While we'll always have one-off tenant failures as just part of the business, portfolio-wide collectability issues haven't been and are not expected to be outside our historical experience or specific 2024 guidance. Business looks good.

The last topic I want to address before turning it over to Dan relates to external growth. While we've turned down the dial a bit on immediate development projects, the residential development at Bala Cynwyd Shopping Center notwithstanding, we turned up the dial and level of intensity on sourcing acquisitions. It's an interesting and unique time in the acquisition marketplace right now. While there is a limited supply of

Federal Realty type opportunities out there, there's also less viable competition for those centers than there has been historically.

We look for shopping centers that are generally larger in size than the average center with opportunities for remerchandising, redevelopment, higher rents and yup, have potential site intensification. We look for shopping centers in markets that have strengthened significantly over the past 15 years and especially post-pandemic. Markets like Phoenix, Central and South Florida and Northern Virginia among others.

We look for shopping centers that are immediately accretive to earnings based on our cost of capital advantage, but even more importantly, produce returns meaningfully above our long-term cost of capital. We look for shopping centers that will be immediately financed through combination of other asset sales and our largely undrawn $1.25 billion credit facility and then refinance for the long-term subsequently.

We've begun our due diligence process on one such large asset currently and have a growing pipeline on others. Obviously, it remains to be seen if and how much success we'll have in this buy versus build cycle, but using both our operating strength and reputation as well as our balance sheet strength and flexibility is a specific focus of ours for the balance of this year and next.

That's all I wanted to cover in prepared remarks this afternoon. I'll turn it over to Dan to provide more granularity before opening it up to your questions.

Daniel Guglielmone

Thank you, Don, and hello, everyone.

Our reported FFO per share of $1.64 for the first quarter was up 3.1% versus a year ago, and came in at the upper end of our quarterly guidance range of $1.60 to $1.65, which we provided on our earnings call back in February.

Property operating income was up 5.6%, also above our expectations, highlighting the overall strength of our real estate. Primary drivers for the strong start to 2024, POI growth in our comparable portfolio, up almost 4% excluding prior period rents and term fees, driven by resiliency in our occupancy levels, continued strength in our residential portfolio and stronger contributions from specialty and temp leasing. This was primarily offset by lighter term fees than forecast and some timing noise with respect to collections. We have an expectation of reversing that over the balance of the year.

Comparable POI growth, excluding the impact of prior period rent and term fees was 3.8%. Comparable minimum rents grew 3.6% and comparable total property revenues were up 4.1%. Portfolio occupancy levels showed greater resiliency than we forecast, as our leased rate increased up to 94.3% and our occupancy rate staying at the 92% level, both metrics better than expected, as retail leasing volumes hit record levels with our leasing and tenant coordination teams, getting tenants open sooner and keeping tenants in place longer. Testament to our ability to grind down revenue growth at the property level while curating best-in-class tenant lines.

Given the tremendous start to the year from a leasing perspective, coupled with a strong pipeline of lease deals in process, which are some of the highest levels we've seen post-COVID, we are extremely well-positioned to drive our occupancy metrics over the coming quarters. It's too soon to increase our targeted year-end occupancy levels, but we are in a good spot at this point in the year.

Another part of our business worthy of note is our residential portfolio, which continues to be a source of strength. Same store residential POI growth was 6% in the first quarter on the heels of a similarly strong fourth quarter. This was driven by 5% plus revenue growth against 3% expense growth, leading to results well ahead of forecast.

While we are dialing down new development starts, our still substantial in-process development pipeline continues to make meaningful contributions as lease-up continues at these projects. Darien Residential continues to exceed expectations and is 99% leased. Darien Retail is over 90% leased with several store openings set over the coming quarters.

Huntington Shopping Center is 94% leased with Whole Foods and others set to open by third quarter. As Don mentioned, 915 Meeting Street and One Santana West continue to view solid progress at almost 80% and 50% leased, respectively. Note that global food service giant Sodexo moved into its new North American headquarters at Pike & Rose during the quarter.

Now on to the balance sheet and an update for our liquidity position. All of our refinancing requirements for 2024 were handled at the very start of the quarter with our $485 million, 3.25% exchangeable notes offering. This leaves us with no material maturities until 2026. We stand with over $1.33 billion of available liquidity of our $1.25 billion credit facility and cash on hand. Have redevelopment and expansions spend remaining of only $100 million for the balance of 2024.

Additional funding sources this year approach almost $0.5 billion and include expanding leverage neutral debt capacity as EBITDA comes online in the $150 million to $175 million range, free cash flow of $50 million to $75 million as we approach pre-COVID levels and a sizable asset sale pipeline under consideration.

Our leverage metrics continue to be solid as first quarter annualized net debt to EBITDA stands just inside 6 times. That metric is targeted to improve over the course of 2024 to 5.7 times by year-end and to 5.5 times in 2025. Fixed charge coverage was 3.5 times at quarter-end, and that metric should also improve as incremental EBITDA comes online over the balance of 2024.

Now with respect to guidance. With a first—solid first quarter behind us and leasing demand continuing at a stronger pace than expected, we are tightening and raising our 2024 FFO guidance from $6.76 per share in the midpoint to $6.77, with a range refined upwards to $6.67 to $6.87. This represents 3.4% bottom-line FFO growth at the midpoint and almost 5% at the upper end of the range. Keep in mind, this is being done with the realization that interest rates will likely remain higher for longer and provide roughly $0.02 to $0.03 of greater headwinds in 2024 than we originally forecast 90 days ago.

This upward revision and guidance is driven by stronger underlying portfolio performance than expected as leasing and occupancy metrics outperform expectations, as well as a more optimistic outlook for such difficult to forecast items such as parking, specialty leasing and percentage rent. Add to that, some of our first quarter headwinds are expected to be timing issues that should reverse themselves in the coming quarters. As a result, we are also revising our comparable growth outlook upward. Comparable growth is now forecast at 2.25% to 3.5%, up from 2% to 3.5%, and our comparable growth excluding prior period rents and term fees is now forecast at 2.75% to 4%, up from 2.5% to 4%.

While we made significant leasing progress at One Santana West and 915 Meeting Street in the first quarter, none of those leases are expected to impact our forecast in 2024. We'll see the impact in 2025. More to come on that outlook as the year progresses and additional leases get signed.

All other guidance assumptions as outlined on Page 27; our 8-K remain unchanged. Although please note, we do not include prospective acquisitions and dispositions activity in our guidance. We will update our forecast for that activity as it gets completed.

Now before we go to Q&A, I'd like you to please listen up for this is important. With the first quarter in the books at $1.64 per share, our quarterly FFO outlook for the second quarter is $1.63 to $1.69, again, $1.63 to $1.69 for the second quarter. Consistent with the cadence presented on our call in February, the third and fourth quarters should increase sequentially from there, reflecting the continued momentum we are seeing across our business.

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

Operator

Thank you, sir. (Operator Instructions) Our first question comes from Juan Sanabria of BMO Capital Markets. Please go ahead.

Juan Sanabria

Hi. Good afternoon. Thank you for the time. Just wanted to ask a little bit more about the acquisitions and the funding. I think Dan, you said that there was a fair amount of product that you're looking to maybe monetize. Hoping you could give a little more color on the dispositions and what values you could get there, cap rates and the spread in terms of what you're thinking some of these assets that you're looking at in some of these Sunbelt and Southwest markets?

Daniel Guglielmone

Yes. Look, as I've mentioned throughout the beginning of the year, we've got upwards of $300 million to $400 million of assets that we currently have under consideration for sale. The initial cap rates or yields on those assets are in the low 6s. If we include maybe a couple more assets there, it probably dips below 6% on an initial yield basis. Attractive and more importantly, in our view, the long-term IRRs are very attractive, relative to where we feel we can deploy capital in the acquisition market. A very attractive source of capital. We'll see whether or not all of that pool under consideration will get executed, but we broaden the pool and we'll use that effectively as a source of capital.

Operator

Our next question comes from Dori Kesten of Wells Fargo. Please go ahead.

Dori Kesten

Thanks. Good evening. You had a strong quarter in small shop leasing. Can you give us a sense if this was more driven by national or local tenant demand and then what the blended rent escalators were on that?

Donald C. Wood

Want to take that, Wendy?

Wendy Seher

Yes. We did have a very strong quarter on small shop leasing and we were able to move the needle 70 basis points. I'm fairly pleased with that with what the team has been able to pull together. It's really broad-based when you look at the deals that we're making for the quarter in the small shops in terms of national, regional and local. The categories that we're seeing, as you may guess, our restaurants in nature, we have both full service restaurants, less of the fast food because it's typically not the demographic that we're attracting in some of our centers, but certainly fast casual and the specialty restaurants have been very active. Apparel has been active both in value-based apparel and in full-priced apparel. Where we also have a tremendous amount of activity is when you talk about health and wellness and you talk about beauty and anything in that wide category is very active today. A lot of good categories that are really helping us boost the overall sales and production of our small shops.

Donald C. Wood

Yes, Dori, the only thing I would add to that and really just to make the point that Wendy made, it's broad-based. As you know, we own all different kinds of open-air shopping centers and really across the board and certainly including the mixed use stuff, we've had very good strong broad-based demand on shop space.

Daniel Guglielmone

Yes. Just to add further, the rent bumps on the small shop right in the 3% range on average. More importantly, we've done exceptionally well on anchors where it's across the board. That's a differentiator that's not appreciated. Add into that, which Don alluded to, we get 3% or better on the office, which brought our blended up into the mid-2s across the almost 800,000 square feet of leasing that we did in the quarter. Really, really pleased with that.

Operator

Thank you. The next question comes from Samir Khanal of Evercore ISI. Please go ahead.

Samir Khanal

Hi. Good afternoon, everybody. Hey, Dan, can you talk more about your guidance same store? You're certainly tracking at the higher end, close to the top end. Everything you talked about and Don has talked about, it feels like you're probably tracking even above budget in many segments of the business. There's a lot of tailwinds. Help us understand what's dragging that growth lower as we think about the midpoint of your same store or even the lower end? Thanks.

Daniel Guglielmone

Yes, look, our credit reserve, we kept it where it is this quarter. We're hopeful that that's something that we can do better on and so forth. Look, it's early in the year. It's one quarter behind us. Typically, we don't move guidance up even when we beat in a quarter. Look, we'll look to be—see how the rest of the year unfolds and hopefully we can go be up towards that upper end and we'll see how second and third quarter does.

Operator

Thank you. Our next question comes from Michael Goldsmith of UBS. Please go ahead.

Michael Goldsmith

Good afternoon. Thanks a lot for taking my question. We heard from the industrial REITs that retailers are deferring large capital investments in large warehouses. Have you seen any of that pressure of the capital investment required for retail stores in your shopping centers? Have you seen any of that pressure leak into your space recently? Thanks.

Donald C. Wood

Yes, Michael, this is Don. From my perspective, there is capital pressure from retailers to build out stores, but that's something frankly we've been talking about for 10 years. I don't see a difference over the past couple of years with respect to that. In fact, frankly we've been pretty successful in eliminating capital necessary. So no, as a result of the industrial space that you're talking about or frankly other characteristics, the demand supply characteristics in retail right now are such that we've been able to keep capital under control.

Operator

Our next question comes from Greg McGinniss of Scotiabank. Please go ahead.

Viktor Fediv

Hello. This is Viktor Fediv on with Greg McGinniss. Cisco appears to have replaced Splunk as one of your top office tenants. I know Splunk had a couple of years of term left. Can you talk about what happened there?

Donald C. Wood

Yes, you know that Cisco bought Splunk. I say they just closed within a month or two ago. What they've assumed the lease of—so immediately our credit, which I thought was pretty good with Splunk is a whole lot better with Cisco for the remainder term of that lease. They have not given us any indication at all in terms of what their long-term plans are, other than in their visits of Santana Row, it wouldn't surprise you to know that they love the place. Frankly have made that comment while they were there touring their new space. What happens after 2027, effectively is when we're in, will remain to be seen, but I view that acquisition as a real positive for us.

Operator

Our next question comes from Alexander Goldfarb of Piper Sandler. Please go ahead.

Alexander Goldfarb

Hey, thank you. Good afternoon. Don, a question for you as you look at acquisitions. I know you guys are pretty rigorous in the way you approach acquisitions. But curious, because of what's going on now in the retail environment, dwindling availability, all the good stuff that we talk about. As you look at assets, your team underwrites assets on a, let's say, next three year period, are they coming out at higher returns than what you would have seen pre-pandemic or because of natural issues like existing lease roll and time for entitlements and all that stuff that when you're underwriting today, you're not really seeing the benefit of the tighter environment as you underwrite it stuff that comes more once you take hold of an asset that occurs over time versus, hey, because of what's going on right now in the next three years, we're able to outperform 50 bps, let's say, versus what we would have been pre-pandemic?

Jeffrey Berkes

Hey, Alex, it's Jeff, the acquisitions market is interesting right now. There's probably a lot of people that would like to sell or have to sell, but wish the Fed would provide some clarity on where rates are going and would hop off the sidelines. That said, we've really leaned into the acquisitions market over the last six months or so. As Don indicated in his opening remarks, we've had some great success over the last few months. We're seeing quite frankly a fairly good range of deals, where we think we can apply all the things that we're good at, most of which Don mentioned.

But, just to reiterate our leasing and merchandising skills, our redevelopment skills, the fact that we don't look at real estate shopping centers super specifically, we're agnostic as to format and we're concerned about the strength of location and all of that. Right now, with our cost of capital advantage, there's just not as much competition out there to buy and with our cost of capital advantage, we're seeing some really good opportunities. Yes, they do produce higher returns because not everybody has that advantage. There are fewer buyers out there today. We're pretty happy with what we're seeing. We're pretty happy with what we're finding as we're underwriting in terms of our ability to get into a property and work the rent roll and really move the NOI up going forward. All good so far.

Donald C. Wood

Alex, you ask a very interesting question in there about how we underwrite and what the actual results will be once that underwriting effectively happens. It's been something that I can tell you, I personally look at very hard because over the past several years, we have very much exceeded the leasing underwriting that we've done in the acquisitions that we've made. I would expect frankly that to happen, that to continue to happen. There is an inherent conservatism, if you will, in looking at a new property, even within your existing markets, etc., that is different once this Company gets out there and does what it does.

I do think the combination of our contacts, frankly, our reputation and our understanding of what it is that we can do with an asset often results in actual results that are above the underwriting. I would expect that to continue to happen. I'm not sure it's anything about—specifically about the marketplace today as it is more about the specific shopping center that we would be acquiring and our optimism with respect to what we do with it.

Operator

Thank you. Our next question comes from Craig Mailman of Citi. Please go ahead.

Craig Mailman

Hey, everyone. Not to beat a dead horse here with acquisitions. But another question I have is just as you guys are looking at what's out there today. Is it all just operating assets that you guys could, over the next three to five years, remerchandise or densify and that's the play? Or are there opportunities out there like you guys have done at Assembly or Santana that are that decade to two decade play for the Company long term to harvest value? Are any of those available? Or, is this just going to be some near-term stuff that you see some opportunities, but maybe the upside isn't as long-tailed and big as some of the other bigger mixed use projects you guys have done in your history?

Donald C. Wood

Yes, Craig, that's a great question. The answer is in the middle. No, you should not be thinking about our acquisitions turning into the next Assembly Row or Santana Row or Pike & Rose. Frankly, having those assets are in each of our major markets that we do business in is really important to this Company and each of those assets has a whole bunch more to go and do. Having said that, what we've learned in terms of being able to—and I don't want to call us residential experts, but we're pretty darn good on the residential side and even specifically on a specified narrow band of office, I think we're pretty darn good.

When we sit and look at the reason we want a bigger piece of property is, yes, to do all those things you said, which you're implying are easy and boring, my words not yours, in terms of improving the merchandising of growing those rents, which is fundamentally critical. I also want a plus to those assets. The plus to those assets could be incremental residential entitlements. It could be intensified retail plays on other parcels within it that the thing I love about this Company is all arrows in the quiver. We're not a one-trick pony. The ability for that lands and that shopping center to be enhanced not only with remerchandising and higher rents, which is critical to it, but with other ways is something we always look at even if we can't underwrite it on day one.

Operator

Our next question comes from Ki Bin Kim of Truist Securities. Please go ahead.

Ki Bin Kim

Thank you. Don, as perhaps new development starts to take a little bit of a less prominent role in the near-term versus acquisitions. I'm just curious, some of these projects maybe you make some choices on leasing, shorter term deals or maybe give up a couple of dollars in rent for control because eventually you want to do something bigger with it. I was just curious if how often is that the case? If some projects take longer to start, are there some near-term opportunities that maybe you held off on that we can expect in near term?

Donald C. Wood

Ki Bin, let me make sure I've got what you're really asking. I can tell you that, first of all, and I wanted to make this point on the development side of our business, there will be a development cycle again. The notion of us not—while, yes, we're turning down the dial on construction starts, effectively we are as active and even more active in terms of entitling and in terms of design of future development projects on our existing properties. Now, if you're asking, if on our existing properties, that means we give up rent and we do things so that we can entitle in there so that we can construct in the future? The answer is very rarely, very rarely do we do that.

Now occasionally, we will when we see an opportunity at an existing shopping center, negotiate within a lease the ability to effectively get out of that lease in exchange for paying back the unamortized TI or something and something like that or the money that they would I would say get. But, that happens very rarely. No, I don't think you should think of us on the development side as giving up to money today, if you will for the future.

Wendy is looking at me. Go Wendy.

Wendy Seher

I just wanted to add a little bit of color to that. We've always been very strict about how we want to be able to control the property from a merchandising standpoint, from a redevelopment standpoint. We've always highlighted that with our negotiation in this marketplace now with really demand exceeding supply. We can lean in on that a little bit further in terms of getting some of those controls that we absolutely need. Believe it or not, the discussions that we're having are easier to have with national and regional tenants because they know us, they know how we execute, they know how we invest and how we ultimately improve the property. All of that is happening concurrently at the same time.

Donald C. Wood

Ki Bin, if I'm not answering your question or we're not answering your question, please give us a call afterwards. I'd love to—I'd be happy to go through it more.

Operator

Our next question comes from Mike Mueller of J.P. Morgan. Please go ahead.

Michael Mueller

Yes, hi. Dan, given the traction on office and development leasing that you're having and how the focus seems to be more on acquisitions as opposed to development starts, can you give us some high-level color on how you see capitalized interest trending, say, through year-end '25?

Daniel Guglielmone

Yes, look, we've given guidance on 2024 and I think that we're keeping that constant. All the leasing that we're doing is not going to impact anything in 2024, some of the recent leasing. We need to see how additional leasing gets done and really how the timing of possession, timing of build out and so forth before we can give any color with regards to 2025. More to come on that later in the year.

Donald C. Wood

The only thing I would say to you, Mike, on that is the Orioles just took three out of four from the Yankees. Congratulations you're in first place on May 2. More to come, just like '25.

Operator

Our next question comes from Haendel St. Juste of Mizuho. Please go ahead.

Ravi Vaidya

Hi, there. This is Ravi Vaidya on the line for Haendel. Hope you guys are doing well here. I just wanted to ask about the TIs. I noticed that for the new leases, there were about $10 higher a foot this quarter than last. Is there anything in particular with regarding any of the recent bankruptcy backfills or any other activity with leasing that may have driven that?

Daniel Guglielmone

Yes, look, it is a little bit of a volatile number with the number of new leases that get signed per quarter. Generally, it's somewhat in line with—it's not maybe not the last four quarters, but certainly the last six or eight. I wouldn't read anything into that except just the general mix. I don't think that is a trend actually. Our view is that it's probably even coming down more so than heading the other direction. This quarter notwithstanding.

Operator

Our next question comes from Floris van Dijkum of Compass Point. Please go ahead.

Floris van Dijkum

Good evening, guys. Don, I heard you talk so eloquently about some of the leasing dynamics and about your portfolio and how it's positioned in the market and why you think you have a competitive advantage. Can you maybe—obviously, vacancy rates are trending lower, rents are trending higher. Could you maybe talk a little bit about some of the ancillary benefits of the leases that you're signing today? I'm looking forward at your lease expiration, for example. I see that next year approximately 80% of your shop leases has no option, but there's 20% that does. If I look at your anchor leases about—it looks like about 60% of your anchor leases have options. As leases get to the end of your life, are you now agreeing no options on your new transactions? Maybe talk about the bumps that you're getting, not just on your shop space, but also on your anchors, obviously, besides the fact that rents are going higher.

Donald C. Wood

Gosh, Floris, you've got so much there to unpack. I'm going to give you a few things that I thought of what you said that and then I'm going to ask Wendy to jump in here.

The reason I speak eloquently about our ability to lease is it really does come down to in a period of time where everything, Floris, everything costs 25% to 30% more than it did in 2019. The notion of when a tenant is underwriting for themselves, their sales and their profitability, they've got to be confident that they can push those higher costs through to the customer base. They're obviously more likely and able to be able to do that in places with more affluence and with effectively—the customer base that it is willing to pay additionally.

All of those dynamics impact what happens in the negotiation of a lease and certainly small shop, but anchor too. When you think about what that does for us, if we had our way, we would never give an option, because an option is one way. An option is for a tenant to say yes or no, not for the landlord. If we had our ways, we wouldn't give any, that's just not practical. There has to be a balance here and we do balance by looking at the credit of the tenant, the desirability of that tenant in the space, how important they are to the merchandising mix of the entire shopping center. When we look at all that, that's how we determine what it is on an individual basis, what we're trying to do with terms of the contract that we're getting with them. Nearly all the cases from a small shop perspective, we get very good bumps, 3%, 4%, maybe 2.5%, maybe something a little modified from that, but very good bumps.

On the anchor side, as Dan alluded to on his call, are you going to be able to see in this industry broadly defined 3% bumps with anchors generally? No, no, it's not market, it hasn't been market, but the difference is the ability to get 15% after five years versus 7.5% is huge when you look at the math and go through it. We've been able to improve and that's what Dan was referring to over the anchor leases at a rate that has been—I've been very happy with, relative to what's been able to be done before COVID. I hope that answers most of it.

I don't know if there's anything more to add to that, Wendy, but feel free if there's something there.

Wendy Seher

No, I would echo what you just said. The only thing that I will say that I get excited about is when I hear someone say, you've got X amount of small shops coming up near-term because what we found from a historic standpoint is if we can just get to the real estate, we do better. It's a very positive thing that we're getting to it sooner.

Operator

Thank you. Our next question comes from Lizzy Doykan of Bank of America. Please go ahead.

Elizabeth Doykan

Hi, thanks. I was just hoping to hear a bit more about the acquisition of the remaining joint venture interest in CocoWalk done in April. Are there more near-term JV buyout opportunities for you guys on the horizon? Or, was this more of a one-off opportunity?

Daniel Guglielmone

Yes. Look, this was a joint venture that started back in 2015, 2016. It was to redevelop CocoWalk. It was hugely, hugely successful in terms of what we accomplished there, in terms of transforming that asset into what it is today and the returns that we achieved. We had mechanisms in the joint venture to buy out our partner or they buy us out and we bought them out. We think a very attractive yield for us. I think that there's probably a one-off, I don't see additional opportunities. We don't have a lot of joint ventures like that, but we'll be opportunistic when the opportunity arises. We just felt like it was important for us to take 100% of the ownership of CocoWalk and to be able to operate it and run it and maximize the cash flows that we would achieve without having a partner in there getting fees.

Operator

Our next question comes from Tayo Okusanya of Deutsche Bank. Please go ahead.

Omotayo Okusanya

Yes, good afternoon. In terms of the mixed use development projects, I recall at a certain point there was some interest in having a life sciences component to some of the assets. Is there still a thought around that at this point?

Donald C. Wood

Tayo, we'd love to add life sciences to Assembly Row or maybe even Pike & Rose. The math doesn't work today. It just doesn't work today. You certainly know what's happening in that industry. You certainly know what's happening in terms of supply in Somerville, Massachusetts, for example, and even here in Montgomery County. There is some real valuable land that we're sitting with here, but whether it is life sciences eventually or whether it's more retail eventually or whether it's more residential, more likely, going forward, and that land and our ability to move entitlements and get what we need is very strong. I wouldn't think about life sciences in the near future that way because there'll be higher and better use most likely

Operator

Our next question comes from Linda Tsai of Jefferies. Please go ahead.

Linda Tsai

Hi. You provided guidance for 2Q in the midpoint of 166 implies a smaller sequential increase in FFO than usual. Is there anything driving that?

Daniel Guglielmone

Yes. The previous question with regards to comparables, probably alluded to it. When we think about it. We have a tough comp in the second quarter of 2023. In the second quarter of 2023, we had all of our Bed Bath in possession, rent paying, except for one, plus obviously, we had the headwinds. We had a really a more optimal balance sheet. We refinanced our debt in the second quarter last year, $275 million at 2% and 3.25% (phon). Some of those headwinds are really what's driving the more moderate growth year-over-year in the second quarter. We're really seeing the acceleration in FFO per share and probably incomparable as well, Samir, and I know I'm talking to Linda, I'm addressing Samir in his previous question. We see a greater acceleration in the third and fourth quarters and a little bit of a flatter second quarter because of that more difficult comp.

Operator

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

Leah Brady

Looking forward to seeing many of you in the next few weeks. Thanks for joining us today.

Operator

Thank you. Ladies and gentlemen, that concludes today's event. Thank you for attending and you may now disconnect your lines.