



Federal Realty Investment Trust

Fourth Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Leah Brady, *Vice President, Investor Relations*

Donald Wood, *Chief Executive Officer*

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

Jan Sweetnam, *Executive Vice President, Chief Investment Officer*

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

CONFERENCE CALL PARTICIPANTS

Juan Sanabria, *BMO Capital Markets*

Dori Kesten, *Wells Fargo Securities, LLC*

Steve Sakwa, *Evercore*

Jeffrey Spector, *Bank of America*

Alexander Goldfarb, *Piper Sandler Companies*

Gregory Millman, *Citi*

Haendel St. Juste, *Mizuho*

Michael Goldsmith, *UBS Securities, LLC*

Michael Mueller, *J.P. Morgan*

Gregory McGinniss, *Scotiabank*

Ki Bin Kim, *Truist Securities, Inc.*

Floris Van Dijkum, *Compass Point Research & Trading, LLC*

Linda Tsai, *Jefferies*

Omotayo Okusanya, *Deutsche Bank*

PRESENTATION

Operator

Good evening, and welcome to the Federal Realty Investment Trust Fourth Quarter 2024 Earnings Conference Call.

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

Please note, this event is being recorded.

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

Leah Brady

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

Joining me on the call are Don Wood, Federal's Chief Executive 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, and Chief Operating Officer, as well as other members of our Executive team that are available to take your questions at the conclusion of our prepared remarks.

A reminder that certain matters discussed on this call may be deemed to be forward-looking statements 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 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 during the Q&A portion of the 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 fourth quarter results. Don?

Donald Wood

Thank you, Leah, and good afternoon, everyone.

Lots of records were shattered in both the fourth quarter and 2024 that bode well for 2025 and beyond. Let's start with leasing. Hundred comparable deals in the quarter for 649,000 square feet at 10% more cash rent, 21% more straight-line rent than the previous lease. Nearly 2.4 million square feet of comparable space for calendar 2024 at 11% more cash rent, 22% more straight-line rent than the previous lease.

Both the quarter and the full year set all-time records for us and not by a little bit. Volume in the fourth quarter and total year beat the previous high-water mark set in COVID-boasted 2021 by 9% and 14%, respectively.

Occupancy touched 96.2% on a leased basis and 94.1% on an occupied basis at year-end, the strongest in nearly a decade. Dividends per share were raised to \$4.40 per share for the record-setting 57th consecutive year.

Total revenue surpassed \$300 million in the quarter and \$1.2 billion for the year for the first time ever and grew at 7% and 6% over their respective prior periods. FFO per share at \$1.73 in the quarter and \$6.77 for the year set all-time records even with the one-time \$0.04 charge for Jeff Berkes leaving the Company. Without it, FFO per share of \$1.77 in the quarter and \$6.81 for the year grew at 7.9% and 4%, respectively.

Twenty-twenty-four was a very good year. The retail real estate market remains strong, driven by favorable supply-demand dynamics and continued consumer spending. Our diverse portfolio, spanning various property types and anchored by strong, resilient operators, positions us well for sustained success.

The struggling retailers making headlines today have minimal impact on our portfolio. Nowhere is the quality of this portfolio more evident than in the continued improvement in occupancy that you see in the fourth quarter over the third quarter and the expectation for even higher occupancy by the end of next year.

While a new administration in Washington is certainly shaking things up on so many fronts across the broader economy, our outlook remains positive. The bottom line is that we expect to grow faster at both the comparable property level and the bottom-line earnings level in 2025 than we did in 2024.

Our product is very much in demand, and that includes the office component of our mixed-use communities in San Jose, Boston, and Bethesda. After years of uncertainty on the part of employers as to their future office space requirements, the back-to-office movement in the country is real, and it's fully underway. The recognition on the part of many employers that they need more and better space, coupled with our Class A offering of modern and fully amenitized, and I do mean fully amenitized, office environments, it's no surprise that we're seeing a significant uptick in interest in tours, in LOIs, and in executed leases.

We're especially seeing it at Santana West and 915 Meeting Street at Pike & Rose, where nearly 150,000 square feet of deals have been executed or put under heavily negotiated LOIs in the last 90 days. Santana West and 915 Meeting Street are currently 82% and 91% committed under such arrangements at this point, respectively. We're optimistic that both buildings will be nearly fully leased in this calendar year. It's really good news, and while the 2025 P&L won't be the beneficiary since rent hasn't commenced for the majority of those tenants, that's just timing, and should provide a nice bump to '26 and '27.

On the development front, things are picking up, too. Not only is our \$90 million residential over retail project at Bala Cynwyd Shopping Center firing along on budget and a bit ahead of schedule, but we've approved two other developments, as you can see in our Form 8-K this quarter.

The first is the new build of 45 residential units atop 10,000 feet of ground floor retail in Hoboken, New Jersey. 301 Washington Street, Hoboken's main commercial thoroughfare, houses a vacant Capital One bank pad and commensurate service parking. The opportunity to densify this amazing piece of corner real estate works economically to a 6% to 7% unlevered yield on \$45 million and a 9% IRR, thanks to more favorable construction pricing, strong retail rents, and growing residential rents in this densely populated New York City suburb. We expect to break ground in a few months.

Secondly, Andorra Shopping Center in Philadelphia is gearing up for a transformational redevelopment that will include a state-of-the-art giant supermarket, along with a fully renovated LA Fitness Health Club, new

shop space with upgraded service and restaurant tenants, and greatly improved placemaking and parking. This \$32 million investment will kick off this spring and yield an incremental 7% to 8% unlevered yield. More to come on the development front later in this year, too.

We remain very active on the acquisition front, with prospects being studied and negotiated in both our existing markets, along with a few new ones. We expect to close on a great shopping center in Northern California in a few weeks. That \$123.5 million purchase with a very productive Whole Foods anchor and a cadre of lifestyle-oriented tenants will complement our West Coast portfolio beautifully and will be managed from our Santana Row headquarters. We expect to be able to talk more about that one by the end of the month.

I also wanted to use the opportunity to introduce three newly promoted vice presidents to our executive ranks, underscoring our focus on continually developing a deep bench of professionals, all of whom are expected to play a key strategic role in our long-term future. Congratulations to Sarah Ford Rogers as VP of Development working out of our Assembly Row office, to Bob Franz as VP of Acquisitions representing our West Coast and Arizona territories, and to Vanessa Mendoza as VP of Leasing working out of our headquarters in North Bethesda. Congratulations also to Mr. Porter Bellew, who's been promoted to Senior Vice President of our Information Technology Group.

Each of these executives have been highly respected members of our team for years and it brings me great pleasure to be able to recognize their real estate talents with promotions that expand their influence and responsibility within our organization. I love being able to do that.

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 NARED FFO per share of \$6.77 for the year and \$1.73 for the fourth quarter reflect the \$0.04 one-time charge for Jeff's departure. Excluding the charge, our FFO growth was 4% and roughly 8% for the full year and fourth quarter, respectively. POI was up 5.4% for the full year and 6.8% for the fourth quarter.

We finished 2024 with momentum. Primary drivers for the solid performance in '24. First, POI growth in our comparable portfolio with the primary catalyst being occupancy increases from continued strength in tenant demand as both leased and occupied metrics increased 200 basis points and 190 basis points, respectively, over year-end 2023 levels. As well as solid rollover of 11% on a cash basis and sector-leading contractual rent bumps of roughly 2.5% blended anchor and small shop.

Second, contributions from our redevelopment and expansion pipeline with Huntington, Darien Commons, 915 Meeting Street and Lawrence Park approaching stabilization over the year, driving an incremental \$12 million of POI, the upper end of our range.

Strong performance by the \$1.4 billion of gross assets we've acquired since mid-2022, where performance almost across the board has exceeded underwriting, but in particular at the shops at Pembroke Gardens in Florida and Kingstowne Towne Center in Virginia. This was primarily offset by upward pressure on property level expense margins and higher interest expense relative to 2023.

Comparable POI growth excluding prior period rent and term fees came in at 4.2% during the fourth quarter and averaged 3.4% for the year. Comparable min rents grew 4% in the fourth quarter and 3.4% for the year.

Our residential portfolio was a source of strength in 2024. Same-store residential POI growth was 5%, and when including Darien Commons, which continues to outperform, it was 7%. The value proposition of providing a premium residential offering on top of an attractive retail amenity base is driving outperformance across our targeted residential portfolio.

Additionally, in 2024, we opportunistically acquired almost \$300 million in high-quality retail assets during the year at a blended initial yield in the low-to-mid 7s, and unlevered IRRs in the mid-to-high 8s. When you include the asset that we put under contract during the fourth quarter, that's over \$400 million. Hopefully more to discuss as the year progresses. We continue to seek new, undermanaged, and under-capitalized properties to add to the portfolio.

On the development, redevelopment, and expansion front, with the stabilization of a number of redevelopment projects to close out the year, including Darien Commons in Connecticut and Lawrence Park in Philly, our in-process pipeline now stands at approximately \$785 million, with just \$230 million remaining to spend.

With the addition of a residential over retail project in Hoboken and the retail redevelopment at Andorra in Philly, we continue to mine opportunities across our portfolio and deploy capital accretively on an external basis to drive future FFO growth. Additional opportunities are under consideration, which likely will be added to the pipeline over the course of '25 and into '26.

Now, to the balance sheet and an update on our liquidity position. Our financial flexibility continues to expand as improvement in our leverage metrics accelerated over the course of 2024. Leaning on opportunistic equity issuance on our ATM program to fund accretive acquisitions, targeted asset sales, and a growing free cash flow component, which has allowed us to improve our leverage metrics meaningfully.

Fourth quarter annualized adjusted net debt to EBITDA stands at 5.5 times, down from 6 times as reported on this call last year. At that time, we forecasted this metric to hit our targeted level of 5.5 times in 2025, we've been able to get it done in 2024.

Fixed charge coverage now stands at 3.8 times, up from 3.5 times at this time last year. We expect this metric to continue to improve toward our 4 times target over the course of the balance—over the course of '25.

Our liquidity stood north of \$1.4 billion at year-end with an undrawn \$1.25 billion unsecured credit facility and \$178 million combined cash and undrawn forward equity. Plus, we have no material debt maturities this year.

Now on to guidance. For 2025, we are introducing an FFO per share forecast of \$7.10 to \$7.22 per share. This represents about 5.8% growth at the midpoint of \$7.16 and roughly 5% and 7% at the low and high ends of the range. This is driven by comparable POI growth of 3% to 4%, 3.5% at the midpoint, add an additional 40 basis points to that range when you exclude COVID-era prior period rents and term fees. This assumes occupancy levels continue to grow from the current level of 94.1% at 12/31 up towards 95% by year-end 2025. Although, expect a step back in the first quarter due to the typical seasonality pullback post-holidays.

We will have net drag of roughly \$0.10 to \$0.11 for One Santana West as we cease capitalization of interest expense at the property in the second quarter. This is simply a timing delay. The full benefit of \$0.12 to

\$0.14 from this currently 82% committed building is expected to flow directly to the bottom line but not meaningfully until 2026 as we begin to then recognize rents.

Having said that, we do expect \$0.14 to \$0.15 of benefit from revenues earned through new market tax credits associated with our Freedom Plaza shopping center. The combination of these tax credit revenues at plus \$0.14 to \$0.15 with net timing drag in '25 from Santana West of minus \$0.10 to \$0.11 and the wind down of COVID-era prior-period rents of minus \$0.03 to \$0.04 fully offset each other, which normalizes our 2025 NAREIT-defined FFO growth, and we expect positive FFO growth off this pace into 2026.

Other assumptions to our 2025 guidance include, one, incremental POI contributions from our development and expansion pipeline of \$3 million to \$5 million, and capitalized interest for 2025 estimated at \$12 million to \$14 million, down from \$20 million in 2024. Both of these two assumptions reflect the aforementioned timing impact from Santana West.

We forecast \$175 million to \$225 million of spend this year on redevelopment and expansions at our existing properties. G&A is forecast in the \$45 million to \$48 million range for the year. Term fees will be \$4 million to \$5 million, largely in line with 2024. The aforementioned \$3 million of lower prior-period collections as we expect a de minimis amount in 2025.

We have assumed a total credit reserve of roughly 75 basis points to 100 basis points in '25, given limited exposure to bankrupt tenants, but more in line with historical averages and a normalized cycle of tenant risk in the retailing sector. As is our custom, this guidance does not reflect any acquisitions or dispositions in 2025 except \$123.5 million Northern California acquisition under contract, which we expect to close later this month. We will adjust, likely upwards, for all other acquisitions and dispositions as we go. Please see a summary of this detailed guidance in our 8-K on Page 27 of our supplement.

With respect to quarterly FFO cadence for 2025, the first quarter will start with a range of \$1.67 to \$1.70, second quarter \$1.71 to \$1.74, third quarter \$1.90 to \$1.93, and the fourth quarter at \$1.82 to \$1.85. Cadence for comparable growth will start slow in the first quarter, in the mid-2s, and improve sequentially over the course of the year.

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

Operator

Thank you.

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. Please limit yourself to one question. If you have further questions, you may re-enter the question queue. At this time, we will pause momentarily to assemble a roster.

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

Juan Sanabria

Hi, good morning—or good afternoon, sorry. Just hoping you could talk a little bit about the tax credits the first time at least I remember hearing about it. Why include it in FFO? I think the 10-K mentions some offsetting incremental cost of \$1.6 million. Is that being incorporated in the net number you talked about in the guidance page? Just hoping for a little bit more color in general...

Daniel Guglielmone

Yes.

Juan Sanabria

...around that.

Daniel Guglielmone

Yes, that's fine. Yes. No. That reflects the net number. The net number that we report nets out those expenses. The tax credits, historically, the federal government has had programs to incentivize development in "up-and-coming gentrifying communities". Freedom Plaza, formerly known as Jordan Downs, but Freedom Plaza in East LA was one of those developments. That development qualified and we earned those federal tax credits. We monetized those credits through the sale to a bank.

We earned the revenues associated with that project in a series of extremely complex transactions and we expect to fulfill all the required contingencies associated with them and be able to recognize the earned revenues later this year. That's the approach we've taken. More detail on that is on Page F-31. If you want to see it, it's been disclosed previously, but on F-31 in our 10-K.

Operator

The next question comes from Dori Kesten with Wells Fargo. Please go ahead.

Dori Kesten

Thanks. Good evening. You've talked about the acceleration in transaction volume expected for the last few quarters. Are you seeing that uptick in what you're underwriting today? Can you give us some current thoughts on funding for acquisitions near term just outside of the undrawn forward equity?

Donald Wood

Sure. Do me a favor, Dan. Start with how to fund it and let's go to Jan after that with some market conversation.

Daniel Guglielmone

Sure. Sure. Look, we positioned the balance sheet as good as it's been in the last six or seven years pre-COVID with significant financial flexibility and capacity on our balance sheet, the undrawn line of credit, plus access to the whole breadth of capital markets that we've availed ourselves to over our history. I think that we're really, really well positioned to take on the opportunities we're seeing out there. We'll use all the tools in our toolbox and arrows in our quiver in terms of allowing us to opportunistically and accretively finance the opportunities we see in the market.

Donald Wood

Jan, can you pick it up?

Jan Sweetnam

Yeah. You bet. Hi, Dori, Jan. Look, we've never been busier looking at underwriting acquisitions. In fact, as soon as we get off this call, we'll be talking about some other ones. It's been so busy. There's a lot of product on the marketplace at this point—at this time on the one hand.

On the other hand, competition's gotten a little stiffer. There are more people looking at the larger type of assets that we've been pursuing. Again, we try to go after great locations, of course, but larger assets that matter in their markets and matter to us in terms of being sizable enough where we can really create some value with leasing, merchandising, and if applicable, enhancing the sense of place, which we think the asset that Don had mentioned earlier in Northern California is a perfect example of that.

We think there's a lot of activity that we're going to see. We're going to be bidding on all kinds of assets. But obviously, we don't know what price it's going to take and does it match our return hurdles and our ability to grow the earnings on the asset. We'll see. But we would expect it to be a pretty active year.

Operator

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

Steve Sakwa

Yes, thanks. Good afternoon. Don, I guess with the portfolio over 96% leased, I'm just curious how the leasing discussions are changing both internally and externally with the retailers. How are you thinking about pricing space as you move forward?

Donald Wood

No, Steve, it's a good time to be in this business, man. There's no doubt that for the spaces that are very desirable, it's very common to have more than one real opportunity or real tenant in there. We try to get it not only in the rent, which we obviously always do. We try to get it in the bumps, which is really important, and most important is in control. When you come down to those, as we've talked about in the past, it's always that fight for control of the shopping center effectively in terms of redevelopment opportunities, what we're able to do in terms of other uses, in terms of the lack of sales kick-outs, and things like that so that we have more control. We are having more success with that.

You and I have talked about this for years, I guess. Well, I always think that these leases or contracts are among the strongest in the space, and I have no way to determine that for sure. But I know we fight hard for not just the rent, but also those control provisions. We're having more and more success with that because we are at 96% leased.

Now, having said that, I don't believe 100% leased in a portfolio is something that is attainable, nor do I believe it's something that should be attainable because the extent you're doing that, you're probably leaving money on the table and all space is not created equal, some that's better and some that's worse. But I still think, and Dan put it pretty well before, that at 94.1% on the occupied basis, I think it's pretty darn likely that we're going to be able to get up toward 95%. Things can always happen, obviously, but that can continue to go and the same with the 96% for a bit more.

But this Company is about using all those hours in the quiver. As important as that is, so is redevelopment, so is development, so is acquisitions, all parts of, you know, parts of the business. You should see—in short, you should see stronger contracts as we go through this period of the cycle.

Operator

The next question comes from Jeff Spector with Bank of America. Please go ahead.

Jeffrey Spector

Great. Thank you. If I can ask a follow-up on acquisitions, Jan, you talked about seeing more assets. Don, when we saw you in November at NAREIT, you talked about your strategy and I think you said possibly looking at more markets. I'm just curious, is it you're seeing more opportunities because you are looking at more markets? For example, an asset traded in Cleveland, Ohio today, I'm just curious, is that something that you even looked at? Does that fit the new strategy? Thank you.

Donald Wood

Jan, do you want to start? Sorry.

Jan Sweetnam

Yes. Yes. Jeff, I think it's twofold. I think overall, there are simply more assets available on the marketplace today than there were six or nine months ago. I think with debt costs being higher for longer, I think there's just certain sellers have capitulated and just can't wait any longer. Certainly, we're looking at some assets where loans are now due in October or November and people need to transact. Overall, I just think there's simply a lot more available. Then you put on top of that, yes, there are certain assets that we would—certain markets that we haven't gone to before. Therefore, we're looking at assets in those as well. Between the two, it's just been really busy.

To answer your question on Cleveland, yes, we looked at that, and for a set of reasons, it just didn't quite fit what we were looking for. But that would be a market that we wouldn't have looked at going to before, but we would now.

Donald Wood

Yes. I don't have anything to add to that, Jan. That's what I would have said.

Operator

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

Alexander Goldfarb

Hi, good afternoon down there. Don, you mentioned and you were pretty forceful in your comments about the credit quality of the portfolio and a lot of the retail bankruptcies haven't impacted you guys. Just curious, your overall watch list and your confidence that your tenancy is in a good credit position. I know you have that range out there, but I don't know if that range is just a generic range or if there are some problem children, if you will, that that range is there to solve or to be there for this year.

Daniel Guglielmone

Yes, good question, Alex. Look, the near-term concerns that are in the market with the Joanns, the Party Cities, the Big Lots, and so forth, we just don't have much exposure to. We have no Big Lots, one Party City, two Joanns, soon they'll leave. That's reflected in our forecast. Container store, they affirmed every single one of their leases, stayed in place for very little concession. Look, most of the stuff we're concerned about is maybe longer-term, more medium-term. Look, things can get accelerated. I think given the volatility

of the economy and the environment, I think just having a normalized 75 basis point to 100 basis point credit reserve is appropriate.

We have nothing specific there and nothing that I can really use a buildup to get to—with regards to—but I think it's a prudent level for us to have given the volatility that we see in the economy today.

Operator

The next question comes from Greg Millman with Citi. Please go ahead.

Gregory Millman

Hey, everyone. There are some bigger mixed-use deals in the market. Just curious what the appetite or capacity is to do several hundred-million-dollar deal, and is now the right time to potentially look to JV some of the bigger and high-profile assets that you guys own.

Donald Wood

Yes, that's a good question, Greg. Let me do the easy part first. We do have the appetite and we do have the capacity for—it's not necessarily that these are big or bigger mixed-use assets. The question, just like a small asset, comes down to what's the IRR and what can you get to. There's really not a difference from my perspective at least in liking a particular format over and above the other, as long as it's a retail-based asset because it really comes down to how has that previous owner managed it? How has he or she gotten to the rents? How have they—how much capital has been deferred? How much does it need? All the same things you look at in every project.

I like them. You know the couple that are in the market today, they're going for numbers that still have to make sense to us. We run through that underwriting process. If there's a big mixed-use asset out there, you can be sure we're looking at it because we like that property type, but it still comes down to the individual property type—with reserved individual asset rather.

With respect to joint venture partners, yes. On a big one, that could make some sense to be able to do that way. I always like to, as you would expect from us, take a balanced approach to how we manage that balance sheet and there certainly seems to be joint venture money that's available out there to partner up. That's certainly a possibility on the bigger stuff. But the bigger thing is do the numbers work overall on that particular property that we're looking at?

Operator

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

Haendel St. Juste

Hey, guys. Wanted to ask about—just talk about tariffs. I'm just curious how your conversations potentially with some of your tenants might be going, thoughts on your upper-end consumer seemingly a bit more insulated here, but just curious on the comment of tariffs and what you might be hearing from your tenants. Thanks.

Donald Wood

Yes. I'm going to start, and Wendy, I know you and I have talked about it, so maybe add on if I miss anything on this. But the comment—it's really interesting, the biggest thing from a tenant perspective that's different

than necessarily you would think, Haendel, or I would think, is that they are more nonplussed by this generally than the news because they've been dealing with the notion of tariffs, where it's gone, certainly in the first Trump administration, certainly in limited respects during COVID, etc. Lots of retailers have diversified their sources of where they source goods from. It's interesting.

Maybe with respect to tenants that serve the less affluent consumer, buying stuff from China and are unable to pass it on, maybe the dollar concepts, that could possibly be something that it's harder because it always, at the end of the day, it's a tax. When you sit and think about it, who pays the tax? In better real estate, in the better areas, that tax, to the extent it's there, is more likely to be able to be absorbed by the consumer. That's harder to do, just like we've been talking about for the past couple of years with lower income properties and portfolios.

Aside from that, every single business has their own way to operate and to prepare and protect themselves. The conversations we've been having, they certainly seem to be doing that.

Wendy, am I missing anything here?

Wendy Seher

No, I think you've hit all the major points. I would also say that since COVID, the retailers that are savvy have been really working to increase their margins and they've been doing a good job of it. As Don said, tariffs are not new to them and they've figured out how to continue to navigate this. I haven't heard—and I've had several one-on-one conversations, I haven't heard anybody say that it was anything other than another challenge towards their business at times.

Operator

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

Michael Goldsmith

Good afternoon. Thanks a lot for taking my question. Dan, comp POI in 2024 of 3.4%, you're guiding to 2025 of 3% to 4% with a headwind of 40 basis points from the collection of prior-period rents. It points to a fundamental acceleration to—am I thinking about that right? What's driving that acceleration that you're expecting in the upcoming year? Thanks.

Daniel Guglielmone

Yes, I appreciate that. Good question, Michael. Yes. No, the 3% to 4% is after the headwind of prior-period rents. You could think about it as 3.4% to 4.4%. Yes, there is some acceleration, and it's really driven largely by occupancy, the strength of the occupancy we experienced over the past year, in '24. Where we see occupancy, where we see the puck going in 2025, I think that that's really the biggest driver of continued acceleration in our comparable portfolio.

Operator

The next question comes from Mike Mueller with J.P. Morgan. Please go ahead.

Michael Mueller

Yes, hi. With the two new development announcements, should we see this as a bit of a pivot at the margin back toward development compared to where the focus seemed to be last year?

Donald Wood

You know, I don't know if it's time yet to say there's a pivot. I would say that, as I've talked about in past calls, the ability to make numbers work certainly is enhanced in places where we already own the land. The notion of having land that has little or no cost, like the Bala Cynwyd asset that we're under construction with, that helps a ton. Land cost is 15%, 20%, 23% or so of a total project. That's a heck of a head start.

The other thing clearly is, at least at this point in time in the markets we're looking at, most contractors, certainly GCs and subs, are willing to take less of profit margins. That's because there isn't as much business out there. Now, to the extent that changes, that changes. But right now, we're able to make a couple of these projects work. I think we're pretty close to a couple more of them that hopefully we get to later in the year, but it's not yet equilibrium, if you will, acquisitions versus development. But while a year or two ago, it was all acquisitions, if anything, and no development at all, certainly there is a start, if you will, to the potential development cycle.

Operator

The next question comes from Greg McGinniss with Scotiabank. Please go ahead.

Gregory McGinniss

Hey, good afternoon. I just want to clarify the commentary on Santana West. That \$0.12 to \$0.14 contribution is net of the capitalized interest burn-off, correct? It assumes a fully stabilized asset?

Daniel Guglielmone

Yes. Look, it's a little bit of we're taking the hit in 2025 from shutting off capitalized interest and then getting the benefit of all the rent starts. It's a mistiming. Yes, it will be net of the capitalized interest that we see in 2025 having been burned off and then flows right to the bottom line, \$0.12 to \$0.14 that we mentioned, primarily in 2026.

Operator

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

Ki Bin Kim

Thank you. Good afternoon. How far in advance do you try to lock up construction costs, like lumber, steel? Although the tariff situation isn't finalized yet, I was just curious how that might impact development yields and what kind of compression you might see going forward. Thank you.

Donald Wood

Thank you, Bin. As soon as we are able to fully design a project, we certainly start with respect to moving toward a GNP and certainly that takes time. We are basically there on the Hoboken project we just announced. By the way, that's a concrete building. Don't expect any issues with respect to the cost there. We've got some other things coming up that will be more lumber for it as the primary cost. You can't get it locked down until you have a completely designed project. We're not effectively warehousing materials in order to lock down money early.

You're asking one of the questions that's tied to the whole last three weeks, if you will, of the Trump presidency and where that's going to lead. There's a lot of unknowns as to whether that's actually going to be impacting construction costs, deal costs, and be tariff-related as the year goes on, as the years go on. Today, we're taking no risk, if you will, on the projects that we are starting that we've already announced with respect to costs though because they are locked down.

Operator

The next question comes from Floris van Dijkum with Compass Point. Please go ahead.

Floris van Dijkum

Hey, thanks. Good evening. Don, you've built Federal into the preeminent mixed-use owner, developer in the shopping center sector. I think based on our numbers, you own the three most valuable mixed-use projects in the strip sector. I'm curious as to—you talked a little bit about being on the warpath. Capital allocation, would you prefer to buy another Assembly Row, for example, or would you rather buy five Virginia Gateways, which would be a similar kind of NOI contribution? If the returns are the same or how do you think about that? How do you think about portfolio construction in three years' time? How many more of these dominant assets do you expect to have in the portfolio?

Donald Wood

I love the question, actually, Floris, but I don't fall in love with property. At the end of the day, it comes down to the IRR. It comes down with our belief. Now because we've got very good experience with mixed-use, I think we can underwrite them probably better than most because we have, as you say, a lot of experience that way. That does in our view reduce the risk.

It also, though, means there's just a certain amount that we're willing to pay to get it. You're not going to see us—in order to have all the mixed-use big projects in the country, you're not going to see us stepping out of our shoes because the numbers don't work. At the end of the day, we are allocating capital here as best we can to provide the greatest risk-adjusted return.

When you sit and you think about that, the theoretical part of your question is theoretical. If there were five of Virginia Gateways versus one Assembly Row, but there never are, because that's a false choice. It comes down to trying to work on the assets that are on our hit list to be able to get the sellers to transact and then underwrite them with the best knowledge. The biggest advantage I think we have is that we underwrite well on that type of project because of our experience that way.

Then the reputation of being Federal allows us, I think, to outperform on those types of assets because we deal with those tenants, we deal with that type of operation. We're good at it. I hope that helps. It's not an either/or, it is a best risk-adjusted capital allocation strategy that will lead federal wherever Federal is in the next three to five years.

Operator

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

Linda Tsai

Yes, hi. Maybe just a follow-up on the transaction environment. As you look across the different formats, are there certain regions or certain retail format types where you see better opportunities in your underwriting?

Donald Wood

It's not really. Jan, what do you think about that question Linda has?

Jan Sweetnam

Yes, it's a good question and a little hard to answer, Linda. I don't know. Again, we like larger centers, and generally the yields have been pretty good across the board on those centers. I don't know if there's a particular type that is providing a better or worse yield. It really probably is case-by-case on the asset, where it sits in the marketplace and what marketplace it's in. I think that it's hard to answer that one.

Donald Wood

Yes, the answer is really not really, Linda, in terms of preference.

Operator

The next question comes from Omotayo Okusanya with Deutsche Bank. Please go ahead.

Omotayo Okusanya

Yes, good afternoon, everyone. A quick question on your leases. Again, clearly at 96% occupancy, you guys are driving rents pretty nicely, but I wanted to talk a little bit about kind of from a qualitative perspective, other things you're doing with lease terms versus retailers to help you guys build your business. Could you just talk a little bit about some of these initiatives and results from them?

Wendy Seher

Sure. This is Wendy. I'll jump in here. With our leased rate up so high, it really gives us the opportunity to continue to strategically focus on merchandising and growing sales. We've had a good history of if we can grow that quality of merchants together from a sales perspective, we can drive the rents better.

As Don mentioned before, we've always been very diligent, I should say, on our contracts and making sure that we have the amount of opportunities and control that we need in those contracts. I would say we're even more focused on sales volumes where we've had the opportunity to say, "Hey, we're only going to give you so much term, and if we give you an option on top of that, you need to have a certain sales performance before you can even exercise that option." That will give you some examples of how we're able to work and kind of fine-tune the overall production of our shopping centers.

Operator

We have a follow-up question from Juan Sanabria with BMO Capital Markets. Please go ahead.

Juan Sanabria

Hi, thanks for allowing me to follow up. I guess I have a two-parter. One would be just on the guidance page, the \$5 million of disposed properties from 2024 POI. Is that just the residual drag from assets you sold last year?

Donald Wood

Yes.

Juan Sanabria

What would be the offsetting acquisition benefit? I'm just a little confused about how I should interpret or use that information.

Daniel Guglielmone

Okay. That's the POI that's no longer—that we recognized in 2024 that's no longer in our portfolio in 2025. We sold assets last year, Santanna—I mean, Santa Monica, that reflects—that and others reflect the income that we saw in 2024 that's not in our 2025 guidance.

Donald Wood

I think he asked about acquisition spend.

Daniel Guglielmone

What was the second part of the question?

Juan Sanabria

Yes, what would be the offset on the acquisition side just to have both sides of the coin?

Daniel Guglielmone

Well, it's pretty straightforward to be acquired. I don't have that off the top of my head, but Virginia Gateway, it was acquired. Let me follow up with you offline there.

Juan Sanabria

Okay.

Daniel Guglielmone

That's not something I will be—I need to do some calculations. Can't do it in my head right now.

Juan Sanabria

Okay. Sounds good. Thank you.

Operator

We have a follow-up question from Alexander Goldfarb with Piper Sandler. Please go ahead.

Alexander Goldfarb

Hey guys, thanks for taking the follow-up. Just going back to Jeff Spector's question on the Cleveland asset that you guys said that you took a look at and it was sort of a market that you wouldn't have thought about before, but it broadens your view. As you guys consider new markets, just curious if you're rethinking your

traditional type scenarios like high affluent, infill, not infill, but infill suburban, or if the way that communities have changed, there's a new way that you're thinking about it.

The second part of that is everyone wants to have meaningful concentration to allow a platform. I assume that's actually difficult to foresee given the limited deal flow to just see a path to acquiring enough assets, or you can actually see that even in the limited deal flow that we have right now.

Donald Wood

Boy, you got a lot packed in there, buddy. I love the question. It's going to be a little hard to just do that with one or two sentences, but let me try. First of all, a couple of great assumptions in there. The notion of whether Federal will go down quality in those other assets, the answer is no, we won't do that. Now because some of the markets we're talking about are smaller than the big coastal cities, there are, to your other point, fewer great centers. All we're going to be looking at is the best couple of centers in cities that are still large cities, but not as big as the coast. Yes, it does become more difficult, if you will, to own six or seven or five within a particular market. But it is not difficult for us to get our heads around the best center or best two centers in a particular market and run them separately, if you will, with a new organization that's aiming for that.

Your assumptions are generally really good. There are places that we have not looked at historically that we are comfortable that with the best asset or two in those large cities, but not as large as the coast, that we could take what we do for a living, which is merchandise well to the best retailers, retailers that will want to go where we're talking to, and we're spending an awful lot of time with those retailers, making sure we know where they want to go so that we can effect change there. That's the kind of stuff that we'll be going for. They will be the best one or two assets at least in the market. There will be affluence. There will be population density.

Operator

We have a follow-up question from Steve Sakwa with Evercore. Please go ahead.

Steve Sakwa

Yes. Thanks. Dan, could you maybe just provide a little more color? I think when you gave those ranges by quarter, it implies a drop sequentially from 4Q to 1Q, and maybe there's a slower build into 2Q. I realized the tax credit might pop in all in the third quarter, but maybe just help us bridge the weaker first half and obviously the stronger second half.

Daniel Guglielmone

Yes, sure. Sure. Good question. The guidance, \$1.67 to \$1.70, is roughly down 2.5% from the fourth quarter FFO we reported. A big chunk of that is really a number of seasonality-related numbers. One is occupancy. First quarter, typically we see tenant move-outs. We are, and I highlighted this, we will see a step-down in occupancy into the mid-to-upper 93% range by quarter end. We see that typically every year. Expenses like snow are seasonal. It's been a rough first 40-some-odd days in the Northeast from a snow perspective, so we'd expect that to weigh on us. Hotel income, it's small, but it adds a seasonality component. Parking and percentage rent, you've got cold weather impact on customer traffic, as well as tenants hitting breakpoints.

Leah Brady

We dropped off. We dropped off. They can't hear us.

Operator

The speaker line is back on.

Jan Sweetnam

Yes, they're dialing back in now.

Leah Brady

Operator, can you hear us?

Operator

Yes.

Daniel Guglielmone

Are we live on the line?

Operator

Yes, you are.

Daniel Guglielmone

Okay. I ticked through most of the seasonality impact. That's a big impact. COVID-era deferrals, they go away, versus the fourth quarter to the first quarter, about a penny. We did issue shares at the end of the year, and that is a couple of pennies. Those are really the big drivers that offset, obviously, the charge that we have. That's really likely to be the big driver.

Then just ramping back up of occupancy in the second quarter where it shows the improvement of the trend. Similarly, for our comparable growth will show steady improvement from the first quarter through the second, and peak out a bit in the fourth quarter.

Operator

We have a follow-up question from Floris van Dijkum with Compass Point. Please go ahead.

Floris van Dijkum

Hey, Dan. A follow-up for you. I wanted to talk about a different kind of S&O. Your S&O pipeline of 210 basis points, can you quantify the rental impact of that?

Daniel Guglielmone

Yes. Total rent associated with our comparable S&O, which is just what's in the comparable pool, is a little over \$25 million. We also have leases signed in the non-comparable pool that take us up towards \$42 million, \$41 million, \$42 million. We would expect that of the \$41 million, \$42 million, 80% of that will be in 2025, with the balance in 2026, and that will be weighted more heavily towards the second half of the year.

We have 55% of scheduled starts in the second half of the year, and 25 points of the 80 points being in the first half.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Leah Brady for any closing remarks. Please go ahead.

Leah Brady

Look forward to seeing everybody in the next few weeks. Thanks for joining us today.

Operator

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