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Alexandria Real Estate Equities, Inc. (ARE) Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.6182 beats by $0.42 | Revenue of $390.48M (14.24% Y/Y) beats by $0.49M

Earning Call Audio

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Alexandria Real Estate Equities, Inc. (NYSE:ARE) Q3 2019 Earnings Conference Call October 29, 2019 3:30 PM ET

CompanyParticipants

Paula Schwartz - Investor Relations

Joel Marcus - Executive Chairman & Founder

Steve Richardson - Co-Chief Executive Officer

Peter Moglia - Co-Chief Executive Officer & Co-Chief Investment Officer

Dean Shigenaga - Co-President & Chief Financial Officer

Conference Call Participants

Manny Korchman - Citi

Sheila McGrath - Evercore ISI

Jamie Feldman - Bank of America Merrill Lynch

Michael Carroll - RBC Capital Markets

Richard Anderson - SMBC

Operator

Good day, and welcome to the Alexandria Real Estate Equities Third Quarter 2019 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Paula Schwartz with Investor Relations. Please go ahead.

Paula Schwartz

Thank you and good afternoon. This conference call contains forward-looking statements within the meaning of the Federal Securities laws. The company's actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the company's periodic reports filed with the Securities and Exchange Commission.

And now I would like to turn the call over to Joel Marcus, Executive Chairman and Founder. Please go ahead, Joel.

Joel Marcus

Thank you, Paula. And welcome everybody to our third quarter call. And with me are Dean Shigenaga; Steve Richardson; Peter Moglia; and Dan Ryan. I'd like to start out by highlighting Alexandria's cluster markets remaining strong and vibrant and our first mover advantage is a huge competitive advantage to all the aspects of our business. Our high-quality cash flows are really based on best locations, best assets, best tenants in by far and away the best teams.

When it comes to external growth, our disciplined allocation of capital to a visible highly leased value creation pipeline is highlighted pretty -- in pretty great detail in our supplement, you'll be able to see the pipeline we placed in service. But this quarter and recently the near-term growth of our annual net operating income and Dean will have a little bit of detail, it confuses a couple of people, but we didn't miss NOI -- any NOI numbers this quarter. We commenced development and redevelopment of a pretty significant pipeline, which is also detailed and we were successful on our leasing of development and redevelopment space. And Steve, and Peter and Dean will highlight all of that, when it comes to the Mercer Mega Block, which I think the team will highlight, I just want to say, we won that really irreplaceable development opportunity because there is no other group with 20 years or more experience on the ground with the expertise and the experience, we really have in South Lake Union and I think it's pretty obvious that our team completely understands the integration of that kind of the development with the community today. There is no longer opportunities just to simply build a great asset, you have to be able to build with not only your tenants in mind, but really a great impact and integration with the communities in which we work and live in play. And Steve will talk in some detail about 88 Bluxome and again we won that because, and we've gotten approvals, because we're a trusted partner with the city of San Francisco.

It's important to remember, we have an industry-leading high quality tenant roster 53% of our annual revenues are investment grade and our average lease term today is over eight years. A couple of comments about industry fundamentals, which continue to maintain themselves a strong and vibrant. The biggest cost driver of the healthcare system today is chronic disease and there are a bunch of them. And patients in the categories of chronic disease account for a whopping 85% to 90% of all healthcare spending and collectively those diseases are the leading cause of death and disability in the United States. So this industry the biopharma industry as a huge opportunity to impact and make great cost savings, when it comes to chronic disease.

When it comes to diagnose -- diagnosis studies in high-income countries show that treatment costs for early diagnosis of patients generally are two times to four times less expensive than treating those diagnosed with advanced stage cancer is a good example. So again another great opportunity for this industry to impact with the cost of healthcare.

The industry itself; venture capital continues to be robust with over $19 billion raised in the first three quarters and over two thirds of those flowing into Alexandria cluster markets. Public markets on the other hand are becoming more selective and risk adverse, making it more difficult for both life science and tech companies to go public. Despite these five life science companies and seven tech companies were able to go public. This past quarter raising $0.5 billion and $3.5 billion respectively. Obviously, part of that is due to some of the Unicorn challenges that we've seen trying to go IPO.

The third quarter was an active quarter at the FDA with 13 new drug approvals, five of which were received by Alexandria tenants. There was an interesting quote in the Atlantic which did -- a good article featured a good article on is this tech world today in any way, shape or form like the tech bubble of the 2000, 2001 era and I thought I'd just leave or give you a quote. The problem with tech today in so much software will beat the world, bet that most of the celebrated unicorns weren't actually software companies. What we're seeing today is in the.com bubble if anything, it's a non.com bubble. A period have inflated expectations for companies that had no real business being valued like pure tech companies in the first place. And then finally on market fundamentals, they continue to remain strong and vibrant the team will talk about that and it's comforting to know that virtually almost 80% of our annual rental revenue is from Class A assets and our AAA campuses in our best cluster locations. So tenant demand and our leasing continues to be very solid.

And with that kind of opening let me ask Steve to comment on the quarter.

Steve Richardson

Thank you, Joel. Steve Richardson here. Alexandria's best-in-class franchise and fully integrated high performance team has put a number of truly noteworthy accomplishments on the board during the past quarter and I'll highlight just a couple.

As Joel had mentioned, -- the City of Seattle selected Alexandria as its partner of choice to develop approximately 800,000 Square feet at one of the highest-profile sites in the entire city, the Mercer Mega Block. This was undoubtedly a highly competitive process and speaks volume to the national recognition Alexandria has achieved for its distinctive urban science and technology campus platform. Stanford University also selected

Alexandria at its partner of choice to redevelop approximately 92,0000 square feet in the life science district of the Stanford Research Park, establishing a flagship destination to accelerate and really invigorate Stanford's life science cluster.

And finally, as Joel had referenced as well. We are very pleased to receive our entire Prop M allocation at 88 Bluxome anchored there with a very exciting company Pinterest. Our team is really not only able to identify and execute upon the high quality growth opportunities and its clusters on the open market. But importantly able to bring our strong brand and multifaceted resources to bear in partnership with generational institutions like Stanford University, City governments like Seattle and others to advance mutually desirable and purposeful economic and societal goals.

I'll just hit on a couple of broad companywide metrics. to really highlight the strong core results in our operating Urban campuses with really a theme and an emphasis on the continued positive momentum in the market. We had 1.2 million square feet of leasing this quarter and 3.3 million square feet year to date, which places us on track near the 10-year average at the Q3 mark. Q3, at 11.2% cash and 27.9% GAAP increases, and importantly here the drivers were across a number of regions; San Francisco, Greater Boston, Seattle, San Diego and Maryland. Year-to-date 16.2% cash and 30.6% GAAP increases. I think it's important to take a step back. When you look at these type of increases, we've averaged 25.4% GAAP and 13% cash over the past five years since 2015, a truly remarkable stat.

A sense of urgency continues with our year-to-date Q3 2019 leasing, comprising 69% in early renewals. Our guidance for GAAP increases initially at 26.5% at Investor Day during late 2018 is now at 29.5%. We've increased this each quarter. Our guidance on same property was 2% at Investor Day. We've now increased to 2.5% this quarter, which is a big impact on the revenue base, we have today and being driven by rental rate increases not occupancy gains. The mark-to-market is now at 20.1% on a GAAP basis, the highest level in recent quarters. And finally, we're extremely well positioned moving forward into the future with the lease expirations of just 1.1% for the balance of the year, 6.6% in 2020 and 5.8% in 2021.

In conclusion, a big shout out to the Alexandria team for a great quarter. And with that, I'll hand it off to Peter.

Peter Moglia

Thank you. Steve. I'm going to spend the next few minutes updating you on our near-term pipeline. Our acquisition of the Mega Block in Seattle, briefly touch on our partial interest sales and a highlight of material move in our NAV per a new methodology rolled out by Green Street. So by reading the press release, I'm sure you are immediately informed about how busy we have been and the delivery of development and redevelopment projects is no exception. During the third quarter, we placed a noteworthy 1,261,419 Square feet into service from six different projects in six different submarkets.

And year-to-date we have leased 1.2 million square feet of development and redevelopment space highlighting the strong demand present in all of our markets. At 399 Binney Street the commercial space is now 100% leased. And our final cash stabilized yield of 7.3% is 10 basis points higher than what we reported last quarter, and significantly above our acquisition underwriting which demonstrates our disciplined approach to underwriting and managing complex projects.

We also completed 279 East Grand in South San Francisco delivering the last 35,797 square feet in this project anchored by Alphabet's Life Science subsidiary Verily. We delivered another 39,372 square feet at 188 East Blaine, our new flagship property on Lake Union in Seattle and we made significant leasing progress at that project during this quarter. 30,900 square feet was delivered at Phase 1 of the Alexandria Center for AgTech, our class A highly differentiated multi-tenant project in the Research Triangle market and rounding out the high -- the highly active quarter was the delivery of two significant San Francisco Bay developments held an unconsolidated joint ventures 593,765 square feet at 1655 and 1725 Third Street Mission Bay, delivered under long-term lease to Uber and 520,988 square feet was delivered under long-term lease to Facebook in the Greater Stanford market.

Before I move on, I'd be remiss and updating you on our development, so that congratulating the real estate development team and all the business units here at Alexandria that support it for being named NAIOP's 2019 Developer of the Year. Through its prestigious National Awards program NAIOP annually honors the development company that best exemplifies leadership and innovation. Alexandria was chosen from an impressive slate of nominees and was evaluated by a team of seasoned developers on the following criteria. The outstanding quality of projects and services, financial consistency and stability, ability to adapt to market conditions, active support of the industry through NAIOP and support for the local community.

Now Joel and Steve have already mentioned the award that we got for the Mega Block and why I'll just give you a few details about it. Our planned approximately 800,000 square foot commercial project will be a premier multi-use campus located at the intersection of Dexter Avenue North and Mercer Street in South Lake Union. The purchase price of $143 million fully allocated to the commercial space results in our price per FAR foot of approximately $179, which is in line with the most recent land trade in South Lake Union and reflects the current market rental rates in the area. At closing, the project will combine with current development pipeline asset 601 and 701 Dexter to form the nucleus of an unparalleled assemblage of $1.2 million developable square feet in the heart of the Lake Union submarket.

Moving on to asset sales, we concluded our partial interest sales program for the year by selling a 49% interest in the alumina Campus in the UTC submarket of San Diego to a new high-quality institutional partner and by selling a 90% interest in 500 Forbes Boulevard in South Francisco to one of our existing high quality institutional partners. The cap rate for the alumina campus of 4.7% reflects current NOI, which does include free rent. But the buyer was given credit for all remaining free rent against the purchase price. The cap rate for 500 Forbes was 4% and reflects the high desirability of the South San Francisco market at this time.

I'm going to wrap up my commentary by noting that Green Street published a REIT valuation report on October 15 titled, A big change in our pricing model where they discuss the replacement of NAV with Intrinsic NAV as the most important determinant of warrants and share price. The report noted that there is support for our NAV being 31% higher under that methodology and we encourage all of our investors to read it.

With that I'll pass it on to Dean.

Dean Shigenaga

Thanks Peter, Dean Shigenaga here. Good afternoon, everyone. I'll cover four key topics today, including the third quarter results and continued strong cash flows from internal and external growth, continued execution of long-term capital to fund strategic growth initiatives and further improvement in our already solid balance sheet and an update on our corporate responsibility business vertical. And lastly, an update on our 2019 guidance.

Total revenues for the third quarter were $380.5 million or $1.6 billion annualized and really was up significantly about 14.2% over the third quarter of 2018, reflecting continued and outstanding execution by our best-in-class team. We continue to generate solid cash flows from a high-quality tenant roster, with 53% of annual rental revenue from investment grade rated or publicly traded large cap companies. Core operating metrics remain very strong. NOI was on track with our expectations. As a reminder, 88% of the 1.3 million rentable square feet of value creation deliveries in the third quarter related to unconsolidated joint ventures. The related earnings from these JVs is classified in equity in earnings of unconsolidated real estate joint ventures.

NOI from the unconsolidated JVs for the third quarter was $5.7 million, up $3.2 million over the second quarter of '19 and please refer to page 44 of our supplemental package for additional information. Our adjusted EBITDA margin continues to remain near the top of margins in the REIT industry at approximately 68% for the third quarter. The margin should increase to 69% next quarter and the temporary decline in the current quarter was driven primarily by seasonality with higher utility expenses, related to both higher rates and consumption due to the warmer summer weather. This resulted in higher recoverable expenses, but also a larger pool of operating expenses, which results in a minor decline in adjusted EBITDA margins. Same property NOI growth for the nine months ended the third quarter of '19 was solid and up 3.3% and 8.1% on a cash basis as compared to the nine months ended the third quarter of '18.

And our same property NOI growth outlook for the full year of 2019 remains very solid. Our outlook for year-end occupancy also remained solid at 97% at the midpoint of our range of guidance. Occupancy as of September 30 of 96.6% reflects slightly -- temporary decline in occupancy. As we have been reporting for many quarters now, 117,000 rentable square feet square foot lease expired in the third quarter at 3545 Cray Court in San Diego. Our team commence renovations and we have 55% of the space already leased. Additionally, some of our operating properties that we acquired this year has vacancy representing lease-up opportunities that will drive growth in occupancy and cash flows. G&A expenses remained consistent and solid as a percentage of net operating income, third quarter of '19 was approximately 10% of NOI, which is consistent with our five year average and really solid relative to other office REITs.

Turning to our venture investments in the third quarter, we recognized realized gains and losses. Really, we had realized gains of $14.1 million impairments of $7.1 million net into a net realized gain of about $7 million for the quarter. The write downs is really related to three privately held investments. We also recognized $70 million of unrealized losses. Now importantly through Friday, October 25 unrealized gains were up just in the 25 days, $27.1 million related to our publicly traded non-real estate investments.

Now as a reminder; Warren Buffett has stated in his two most recent annual shareholder letters that he expects unrealized gains from investments to generate over $10 billion in swings in earnings every quarter and sometimes more than $2 billion in a single day. We have invested in companies that we believe will generate solid return on our investment. And while we hold these investments, we will have volatility in earnings from unrealized gains.

Moving onto our balance sheet; our team just continue to execute on long-term capital to fund strategic growth. As you've noted, our weighted average remaining term of debt's now 10.7 years and this is up significantly from 5.9 years at the beginning of this year and it now exceeds the solid weighted average remaining term of our leases of 8.3 years. Our term loan was repaid in full in the quarter. We now have no interest rate swaps outstanding and we have no consolidated debt maturities until 2023. We have about $3.5 billion of liquidity, including about $1 billion in related to forward equity sales contracts that we expect to settle later this year. It's important to highlight how we have utilized our line of credit; we use our line of credit for funding really between execution of long-term capital and strategically and each year with very limited balances outstanding. On average our outstanding balance at the end of every year going back a few years now under our line of credit has been approximately $95 million.

I want to touch on key highlights from our two bond deals in the third quarter which is disclosed on the Page 3 of our press release, it was really quick and opportunistic execution as interest rates declined. Our aggregate issuance of $1.85 billion was done at a weighted average effective rate of 3.51% and an amazing term of almost 19 years, this truly awesome execution by our team here and thank you, guys. This included the reopening in September of our 30-year bond that priced at a yield to investors of an amazing 3.5%. We repaid $1.65 billion of debt at a weighted average rate of 3.73% and a term of 2.9 years, which was through a tender of our 2020 and 2022 bonds and repayment of our unsecured term loan.

Now, it's important to recognize that while the weighted average interest rate was lower for the new debt issuance. We raised $190 million of additional debt for the future, resulting in a slight increase in recurring annual interest of approximately $3 million. Now, in connection with both the tender and the repayment of our term loan we recognize a loss on early extinguishment of debt of about $40.2 million and a loss on the termination of interest rate swap agreements of $1.7 million. In October, we exercised our right to convert, the remaining outstanding Series D Convertible Preferred Stock with a book value of $57.5 million in the common. And in September we added a $750 million commercial paper program, which is backstopped by our line of credit and this will replace a portion of our short-term borrowings available under our line of credit. And we began first using this program in October.

So in summary, our balance sheet is even stronger. We continue to focus on long-term capital to fund growth. Short-term borrowings on our line of credit and our commercial paper program will be used in a disciplined manner as we strategically focus on long-term capital to fund our business and minimize short-term debt outstanding at the end of each year. As a mission-driven urban office REIT focused on making a positive and lasting impact on the communities in which we work and live in the world, we are honored to highlight our team's achievement of the highest rating from GRESB our five-star rating. Our team also continue to focus on other important ESG initiatives including progress towards our 2025 goals. So, really focused on how we manage energy consumption, water usage, waste diversion, and carbon emissions.

Turning to our guidance; we updated our guidance for 2019 EPS to a range of $1.83 to $1.85 and FFO per share diluted as adjusted to a range from $6.95 to $6.97 with no change in the midpoint of FFO per share as adjusted at $6.96.

Please refer to Page 6 of our supplemental package for further details on our guidance assumptions for 2019. I just want to highlight a few very important key items. The guidance for rental rate increases, was really up 1% this quarter, up 3% in aggregate since our initial guidance on November 28 of 2018. These cumulative adjustments resulted in upward pressure on the midpoints of our guidance for same property net operating income and straight-line rent revenue resulting in increases to both midpoints by 0.5% and $4 million respectively this quarter.

Additionally, since our initial 2019 guidance on November 28 the midpoint of our guidance for FFO per share as adjusted increased by $0.01. The upside of core operations generated in the current quarter was only a portion of the changes in our guidance and was offset by the slight increase in interest expense from our strategic and opportunistic bond offerings in the third quarter, again, with an average term of 18.5 years and included $190 million of extra debt capital. As a reminder, we unable to respond to detailed questions about 2020 guidance, until we issue our guidance along with the usual detailed underlying assumptions.

With that let me turn it back to Joel.

Joel Marcus

Operator, we can go to questions-and-answer, please.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question today will come from Manny Korchman with Citi. Please go ahead.

Manny Korchman

Hey, everyone, how are you? On the earnings call; Joel, you talked about Stripe moving to their new construction project was wondering where your conversations have been with Stripe's and say seeming will be coming out of your asset?

Steve Richardson

Manny. Hi, it's Steve here. As you might imagine, we have ongoing discussions with all of our tenants and it was just the decision that they made they were looking at expansion opportunities in the near term. So decided to expand down in the South San Francisco market, and I think it's still TBD on what they'll do with 510 Townsend but it is truly one of the more iconic and probably highest quality buildings in San Francisco now. So either way we're in very good shape there.

Joel Marcus

Yes. And I think the move is unique to that company. And so I think just keep that in mind.

Manny Korchman

Joel, does that mean that you don't think that other companies will approach it from the same perspective that they're having a tough time growing and sort of San Francisco proper, and might have to look after their especially they want to keep one facility rather than have satellite offices?

Joel Marcus

Yes, I think it's a more complicated issue we're under confidentiality and not able to share. But I think it's a one company situation that is just unique and the Collins and Brothers. Yes just made a decision, but that's all we could say about it. So I wouldn't take it as a trend suddenly that everybody in the City of San Francisco's heading to South City.

Manny Korchman

Thanks for that. And then on the Mercer Mega Block. You guys several times refer to it as a win. I guess what was the city looking for in finding the right developer for that project or is there anything that you either have to be cognizant of or sort of target as you think about building and tenants in that project?

Joel Marcus

Yes. So I think the, as I said, and I'll let Peter come in as well. I think one of the most important things and this is true of major urban cities today, certainly cities on the West Coast, that have a variety of impacts from, whether it'd be homelessness or other issues, I think cities today, we're looking more than a developer -- developing an iconic building for tenants. I think they are looking for and integration with the strategic desires of the city, when it comes to economic and social issues, and I think they're also looking for an integration with the community around as well. Peter, you can comment as well.

Peter Moglia

Yes. Manny, it's Peter. They certainly did like our track record of creating ecosystems in New York, for example, the fact that we have the life science expertise, which is something, the city is interested in expanding. So all of the examples we've been able to point to as far as being able to build. Thriving cluster with amenities and other types of attractive features let them to choose us and move forward. So we're really proud of it.

Manny Korchman

Thank you.

Joel Marcus

And also, I want to promise that Peter would not go back and manage this Seattle region.

Steve Richardson

There is a deed restriction.

Operator

Our next question will come from Sheila McGrath with Evercore ISI. Please go ahead.

Sheila McGrath

I guess, you have grown the cluster on the Stanford campus with some recent acquisitions this year and one this quarter. Just wondered if you could talk a little bit about your plans for building out that opportunity and is Stanford still a tenant in the building?

Joel Marcus

Sheila, this is Joel. I'll let Steve comment on the particulars. But I think it's important to remember, Stanford has been the leader in that part of the world with iconic tech companies spinning out and certainly the old HP garage kind of model, and I think over the years there have been a number of major life science presences in that submarket that have actually departed and tech companies took over those spaces. So I'd say over the past number of years, maybe the last 10 years, there has been a net decrease of life science companies in that particular submarket and I think Stanford's desire is to maybe reignite and re-energize the life science industry there and I think that was one of their motivations, specifically on the property itself, we're not ready to kind of get into all the details of what we're doing but Steve could give you a high-level comment.

Steve Richardson

Yes. Hi Sheila, it's Steve. No, we're really enthusiastic to be engaged with Stanford. We've been in the Research Park for 20 years. So, to continue to build out this life science district and then really when you look at the Greater Stanford area. There has been no new Class A product delivered there in 20 years. So, as Peter highlighted, we're making very good progress on the pipeline there and uniquely with the intersection of science and technology with Stanford's engineering background, it's just a wonderful cluster very vibrant and we look forward to working closely with them.

Sheila McGrath

Okay, great. And then as a follow-up on the dispositions in San Diego in South San Francisco. Can you talk about the thought process on which assets you choose to monetize the interest level in that -- in those assets, and was the greater disposition number in guidance as a result of achieving better than expected pricing?

Peter Moglia

Sheila, this is Peter. I'll let Dean finish the question on the amount, but the, what we look forward to when we're selling a property is where have we fully realized value for a great period of time and what is -- maybe more one-off, although we don't really have a lot of one-off things anymore, but what is not necessarily part of an integrated campus in these two assets kind of illustrate that, the alumina campuses well leased for another 12 years. There's really nothing else we can do outside of developing the last Building 7 which is an important thing that we're looking to do down the road, but we were able to raise quite of a -- lot of capital from that one transaction and the percentage of upside to the amount of proceeds we got that we gave away it was minor. For 500 Forbes, it is in a great market that it has a lot of investor interest, but it is not necessarily close to a number of our assets along East Grand or other -- here [ph] addresses that we hold their Gateway, for example, a number of buildings that we hold there. So we looked at that and said, great location, but not necessarily integrated into our two campuses there. So it was a good one for us to do a partial interest sale. And of course we the word partial is. is important. We still own big, big chunk of the alumina campus and a minor position in 500 Forbes, and we'll continue to manage those assets and hold on to them for the long term.

Dean Shigenaga

Sheila, it's Dean here. I believe our initial guidance for dispositions this year started out fairly meaningful is probably close to $750 million, at least looking back to the end of '18. So we did end up with a little bit more capital on that front. I think we're getting close to a little over $900 million by the time we finish this year. So that additional capital discipline to funding broadly our needs this year. Most of that, as you know is going into construction, but we did have a fairly robust acquisition deal flow this year as well.

Sheila McGrath

Okay, thank you.

Operator

Our next question will come from Jamie Feldman with Bank of America Merrill Lynch, please go ahead.

Jamie Feldman

Great, thank you. I guess just sticking with the investment market. Can you talk more about the appetite from buyers across all the markets? And then what do you think in terms of cap rates or cap rate compression?

Peter Moglia

Jamie, it's Peter. Yes, it's obvious if it is open up a story in any of the markets that we're in and it's headlining with life science is being something people are interested in or raising money to invest in. So there is a very robust market for acquisitions and not a lot of things have traded, but for example, there was a portfolio of B assets that came to the market in Research Triangle Park in that set it pretty good GAAP rate comp for that market and it up in sub-6, which was well below or anyone had anticipated but illustrates the appetite for the asset class. So what was the other part of that question? [Indiscernible] cap rate sorry, yes...

Jamie Feldman

Yes, cap rates.

Peter Moglia

I just said, cap rates just nationally on the office side, have not moved in a number of quarters. If you read the different publications from Real Capital Analytics and others that track these things in detail. Even with interest rates going down recently, but also going up last year fairly remain the same. And I'd say there is really no difference in the cap rates for lab, they also have been very stable over the last two years to three years.

Jamie Feldman

Okay. And then I guess just maybe just to take a step back. The legislative environment, anything that you guys are watching or investors need to be watching that's either more or less risk than the last time we discussed it. The device I mean, you brought it up or it was discussed on the last conference call, just what do you kind of watching out the, what are you watching on the road ahead that is most concerning to you?

Joel Marcus

So, Jamie. Well, everybody is watching Washington for almost everything that happens and there is generally nothing happening, it's all talk and no do, but it's pretty clear that both the Democrats and Republicans would like to have going into election year some win in the area of broadly they call it drug pricing. But my own view is, it's more like healthcare costs because drug pricing is 10% -- 12% of the pie. And so you can't really impact healthcare cost by trying to impact 10% to 12% only you've really got to have a much bigger stroke. And as you know, it's a complicated chain you've got manufactures, you've got middleman, you've got the insurance companies. You've got users, -- why drugs have or therapies better said get more notice is when you go to a hospital you have surgery you come out $100,000 bill and you don't look at it, because everything is covered assuming you have insurance, but you may get a bill for $1,000, $2,000 somewhat dollars for pharmaceuticals that you took and you wonder why the heck am I my paying so much when you spent 100 times more than that on or the insurance covered it.

So, somehow, they're trying to figure it out. I don't think anybody has an easy fix, there's things that are being talked about it tweak Medicare and I've talked about those on past calls, but at the moment I would say, we don't see anything dramatic happening on the horizon at the moment, but clearly watching carefully.

Jamie Feldman

Okay. And then finally, given your commentary on unicorns and what's going on in the private equity market and IPO markets, what's your appetite to put fresh capital to work in your investment portfolio. Have you slowed that at all or do you expect to?

Joel Marcus

Well, we don't have any target investment amounts, we're opportunistic. Day-to-day, week-to-week, month to month, quarter to quarter. So, and we certainly are trying to harvest gains and recycle capital where we see it. I think to some extent we've been pretty cautious for a good part of the year because of valuations. I was in one meeting personally being pinched by an Investor actually SoftBank was a lead investor in this deal and the valuation was approaching $1 billion and we thank them for the meeting and passed on. So we've been very disciplined and very careful about what we do and how we do it. I think if the market declines. Actually that's a better time to invest and that a peak. So you kind of have to be agile, disciplined. I think that's the word. I think we always try to use both on the real estate side and on the investment side we try to maintain great discipline in what we do.

Jamie Feldman

Okay, thank you.

Operator

Our next question will come from Michael Carroll with RBC Capital Markets. Please go ahead.

Michael Carroll

Yes, thanks. The company has done a pretty good job I guess sourcing future development projects and it looks like there is three sizable projects currently in the pipeline to be acquired in San Diego, San Francisco and Seattle. Can you discuss how management thinks about the timeline of these types of deals and is there a limit to how big you want to have the land bank?

Joel Marcus

I think we would not want to comment on deals in process, either what they are and the timing on that, but I will ask Dean to comment on the land bank because that's clearly an issue that we hold near and dear to our hearts and having been through the 2008-2009 really market crash. It's certainly important that where we try to be and there, we held a lot of land way more than we do today, but we were disciplined about not disposing of it in Mission Bay and then in Cambridge. But Dean can comment on kind of how we think about targets.

Dean Shigenaga

So, Michael. What we've done on Page 2 of the press release, given a bit of, bit of a breakdown of our land holdings as a percentage of gross real estate. So what is committed and under construction plus Bluxome which will be under construction hopefully soon represents about 7% of gross real estate and it's important to keep in mind, most all of that is vertical under construction, except for Bluxome, but we've made a lease commitment there and it's 64%, leased today, and then we also have land beyond that which I think is really where investors are probably focus because this is stuff that we haven't made a commitment to but represents the future growth opportunities and that's about 5% of gross investment in real estate. And so I think that's a modest number that we're carrying. And keep in mind much of what we're, we've talked about in the 7% bucket is targeted to be delivered by 2020 with the exception of Bluxome that will go beyond that.

Peter Moglia

And this is Peter. I mean you should also realize or just look at our statistics; we've been delivering well over 1 million square feet per year into all of our submarkets, so we're not just buying space and or buying land and sitting on it. We're putting it to work pretty closely to after acquiring it, and as I mentioned on the comments like just year-to-date, we've already put -- we've already leased 1.2 million square feet of development space. So we're acquiring things, but we're putting it to work on this quickly as we're closing.

Michael Carroll

Okay, great. And then Peter, can you talk a little bit about the competitive environment for I guess some of these, I guess acquisitions, just in general how has that changed over the past few years? Are you seeing the same type of players and have you seen pricing kind of increase some of these attractive land sites?

Peter Moglia

I think pricing is just a function of real estate in general, lab space is certainly attractive, but all asset types outside of retail have been gaining significant value and I think we're just along for the same, right? There are few more buyers in the [indiscernible] for things that are stabilized, but a lot of the same people are still are still there. And as you can see despite the activity that we've published in his report. We're coming out ahead in many of these bids.

Michael Carroll

Okay, great. Thank you.

Operator

Our next question will come from Rich Anderson with SMBC. Please go ahead.

Richard Anderson

Thanks, good afternoon. So, you touched on this in your comments but the third quarter, releasing spreads kind of brought down the average from a year-to-date perspective. Still in same growth. But I'm curious, is it fair to say that 30-ish type GAAP spreads for the long term is not something that investors and analysts should be thinking of or when you look, line of sight into what you have in front of you, including early renewals that growth of that order of magnitude, not to give us guidance is something that isn't sort of off the table or starting to sort of wither ?

Dean Shigenaga

Rich, it's Dean here. If you look back at Page 21 of our supplemental, you do have two quarter and three quarter years' worth of historical information on rental rate growth on leasing activity. I'll just rattle out some stats. But the GAAP numbers are 24% to 30% and the cash numbers anywhere from high 12% up to 16%. So that may be a little bit of a barometer for range it's all healthy extremely healthy. Even the stats that we published for the quarter. So you're talking about a different mix of leases, leases that are being executed every period and every year. So, I think is being able to address a healthy real estate environment like we have in front of us, should give us some solid rental rate growth as we think about the future, but I can't tell you today, it's too early to predict on guidance. Rich, so stay tuned for our Investor Day for 2020.

Peter Moglia

Yes, and okay. And I'd also say to Rich, I was actually at an investor meeting yesterday and one of the kind of leading investors I won't name him but talked about the macro environment going forward and created a range that if a progressive on the Democratic side one versus a Trump re-election that the market could swing literally 50%. So, down 30% and maybe up 10%, 15% or 20% on just policies obviously depends a lot on how Congress would shape up from the House and the Senate. But I think that we're all subject to that fluctuation or that kind of mindset going forward into 2020. So that's not specific to us, in particular. So if it turns out, predictions or whatever happens turned out to be positive, then that's going to be a lot more positive for our business and if turns out to be negative will be negative for our business. So I think that's a factor that is way beyond our control, for sure.

Richard Anderson

Sure, no problem. Thank you for that. And another sort of kind of recurring theme is the early renewal element to your leasing activity 69% this quarter, but you've really been into the future expiration schedule. I think something like 12% expiring in '20 and '21 combined. To that end, is there a finiteness to the quote unquote pipeline of early renewal activity in your mind, or can it extend well beyond '21 into '22 and forward such that the early renewal activity will continue for some time to come?

Joel Marcus

Yes, I think, I mean, my own view is, and I'll let these guys comment is not only early renewals but movement growth of companies where somebody leaves, I mean Stripe might be a good example and unexpected move by somebody. And then the backfilling of that space, if they do give it up. Don't know if they will or not. Steve's comment on that. But so there are a number of situations that continue to come up, one happened yesterday that we got word of in Greater Boston and somebody wanting to do something kind of unexpected. But at the end of the day, you say, wow. If we have that space back or could share rent on that space. It would be a big, a big plus because it's an older lease in place. So I think those things still permeate throughout the asset base.

Dean Shigenaga

Richard, it's Dean here. You're right that the volume on early renewals as a percentage of our leasing activity has been very high, but it's been high for a number of years. So I think given real estate fundamentals just a lack of general supply in the markets in our tenants needing to continue to grow, you should probably continue to see healthy renewal rates as a percentage of leasing activity. Our volume in expirations are relatively light 5% a year for the next few years, but we still have tremendous early renewals that will drive leasing velocity on top of that.

Richard Anderson

Okay, great. And then quickly Dean for you, just so I have the model right all the forward equity taken down in the fourth quarter and zero preferred dividends?

Dean Shigenaga

We just had a little bit of dividends due through the closing of Series D in October and then it goes away after that and the bulk of forward I think the question came up last quarter settles in 4Q. I'm sure we have a little bit coming in 3Q as well.

Richard Anderson

Okay, great. Thank you.

Operator

There are no further questions in the question queue. This will conclude the question-and-answer session. And I would like to turn the conference back over to Mr. Marcus for any closing remarks.

Joel Marcus

Okay, thank you very much everybody and we look forward to talking to you on fourth quarter and year-end. Take care.

Operator

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