Seeking Alpha
Transcripts | **Financial**

Federal Realty Investment Trust (FRT) CEO Don Wood on Q3 2019 Results - Earnings Call Transcript

Oct. 31, 2019 9:57 PM ET
by: SA Transcripts

Q3: 10-30-19 Earnings Summary

Press Release *Slides*

EPS of $0.84 beats by $0.03 | Revenue of $233.21M (1.86% Y/Y) beats by $1.33M

Earning Call Audio

Subscribers Only

0:00:00 -1:09:05

Federal Realty Investment Trust (NYSE:FRT) Q3 2019 Earnings Conference Call October 31, 2019 9:00 AM ET

Company Participants

Leah Brady - IR

Don Wood - President & CEO

Dan Guglielmone - EVP & CFO

Conference Call Participants

Greg Mcginniss - Scotiabank

Jeff Donnelly - Wells Fargo

Christy McElroy - Citi

Jeremy Metz - BMO Capital

Craig Schmidt - Bank of America

Samir Khanal - Evercore

Alexander Goldfarb - Sandler O'Neill

Haendel St. Juste - Mizuho

Derek Johnston - Deutsche Bank

Michael Mueller - JPMorgan

Vince Tibone - Green Street Advisors

Floris Van Dijkum - Compass Point

Linda Tsai - Jefferies

Michael Bilerman - Citi

Ki Bin Kim - SunTrust

Operator

Greetings and welcome to the Federal Realty Investment Trust Third Quarter 2019 Earnings Conference Call. [Operator Instructions] A question-and-answer session will follow the formal presentation. [Operator Instructions]

I would now like to turn the conference over to your host, Leah Brady. Please proceed.

Leah Brady

Thank you. Good morning, and thank you for joining us today for Federal Realty's third Quarter 2019 Earnings Conference Call. Joining me on the call are Don Wood, Dan G, Jeff Berkes, Wendy Seher, Dawn Becker and Melissa Solis. They will be available to take your questions at the conclusion of our prepared remarks.

As 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. 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 last -- our earnings -- 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. These documents are available on our website.

Given the number of participants on the call, we kindly ask that you limit your question to one or two per person during the Q&A portion of our call, and if you have additional questions, please feel free to jump back in the queue.

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

Don Wood

Don. Thank you, Leah, and good morning, everybody. Well, we are able to accomplish something this quarter that we tried to do unsuccessfully for the better part of the last decade, and that is to acquire the wildly under-market Kmart leased at Assembly Square marketplace for $14.5 million or about $2.4 million an acre.

This very important six-acre parcel will allow us to unlock over time. The significant value creation made possible by the success of Assembly Row over the years and allow us to both densify and unify the power center with the mixed-use community. This is a real estate acquisition through and through, a GAAP required that the expense currently in the income statement.

Accordingly, reported FFO per share is $1.43, but the $1.59 excluding that charge compared with the $1.58 reported in last year's third quarter. Also remember that this year's number reflects the 2019 accounting change requiring the expensing of previously capitalizable direct leasing cost of about $0.02 a share per quarter.

The Kmart lease acquisition is pretty darn representative of the focus and prioritization of our efforts these days. At this point in the cycle and given the oversupply of retail nationally, the dependence on significantly higher rents, significant increases of portfolio occupancy and landlord-friendly lease terms as the only happening for growth is difficult.

It's tempting in a retail environment like this to keep that cash flow growing by making inferior short-term decisions with regard to tenant selection, lease terms, redevelopment opportunities. We won't do that. Our focus is on the next bunch of years, not the next bunch of months.

Because while the current environment is resulting in slower short-term cash flow growth in earlier in the cycle, it's also creating more opportunities for medium and long-term value creation in great locations that up until now were not possible.

As I said, we've been back and forth with Kmart at Assembly for a decade, with no economic deal close. In 2019, an economically viable agreement was reached, and even though we'll lose a $1 million of rent in 2020, the unlock significant value creation potential is obvious.

Similar story in Darien, Connecticut, where previously fruitless negotiations with Stop & Shop took a productive turned in 2019 with an economic deal agreed to resulting in the beginning of our planned development next quarter after many years. We bought Darien in 2013. We've been negotiating with Stop & Shop since 2013. Six years later, we have a deal and we'll start construction. Of course, we'll lose $1 million of rent in 2020. But again, the value creation of a redeveloped Darien property will dwarf that.

Similar story on Third Street Promenade in Santa Monica, where finally we'll be free to redevelop an entire 45,000 square-foot building on the hard corner of Wilshire and Third Street currently occupied by an over-sized Banana Republic that was built for another time and another consumer. We'll lose $2 million of rent in 2020, but because of where it is, we will improve the value of that corner and the value of other buildings we own nearby significantly. You get the idea.

I've got another dozen stories like that on a smaller scale that I could bore you with, but suffice to say that we're willing to sacrifice roughly $6 million or $0.08 a share annually in order to create compelling retail and mixed-use neighborhoods that will be worth far more than they are today.

The retail real estate environment is more conducive to opportunities like these than at any point since the bottom of the last cycle in 2009 and 2010. The fact that we can do all that and yet still grow overall cash flow, albeit more slowly from year to year, that's the power a great real estate and the deep and diversified skill set.

Okay, back to the quarter. We did a lot of leasing, 95 comparable deals and 8 more non-comparable deals, that is new space, for nearly 0.5 million square feet, more than in the last year's quarter. The comparable deals were done at first year cash rent of $38.93 per foot compared with $36.31 per foot in the last year, the previous lease, a 7% increase.

Higher rent was achieved overall across the board on anchors, on small shop deals, on both new and renewal leases. Comparable property operating income was 2.1% higher this quarter than last year's third quarter, and lease termination fees had a minimal impact on that metric, as they approximated $2.8 million this quarter versus $2.6 million last year.

The overall portfolio remains well leased at 94.2%. We would expect that to be marginally lower in 2020 largely due to repositioning opportunities I discussed early -- earlier as well as tenant failures like Dress Barn and others. In terms of our roughly $350 million plus in annual development spend this year and next, primarily comprised of office development at Santana Row, Assembly Row and Pike & Rose, along with retail development at CocoWalk in Darien, we remain on schedule and on budget.

You'll notice in our 8-K an increase in scope at CocoWalk, as we were successful in getting the two-floor GAP space back early on the west side of the project, thereby allowing us to redevelop that side currently in conjunction with the bigger project. Yields remain unchanged.

Look at our balance sheet at quarter end, shows nearly $700 million of construction in progress. We have a ton going on at this point in time that will undoubtedly create big new income stands in the future, but obviously not helpful to the P&L this year or much of next. While in uncertain environment like the one we're has created opportunities for us among our existing tenant base, it's also opened up opportunities among potential sellers, some really interesting real estate.

To that end, we currently have nearly $300 million in acquisitions tied up under contract with expected closings of most of it in the fourth quarter, subject of course to our completion of due diligence. $30 million in that did close in the third quarter. But even so, I want to take you through those deals at a high level, each one very different from the other and with a very clear value-created common denominator. I also want to take you through the funding sources resulting IRRs.

The first and largest is our agreement to form a 90-10 joint venture with a local real estate operator with a 90 for an initial 40-plus individual street retail properties in Hoboken, New Jersey. Our share of the investment approximate $185 million, the properties mostly apartments, over-street retail, a prime retail -- a prime real estate sites on either Washington Street or 14th Street to Hoboken's main commercial thoroughfares.

We're very bullish on Hoboken and its access to be increasingly important west side of Manhattan, including the $20 billion-plus Hudson Yards development. That access is easier than in many areas of Manhattan through the path, ferry and the bus through they immediately adjacent link of tunnel, one or more transportation choices of which is walkable from the buildings we're buying.

While we loved the potential rent upside in both retail and residential income streams as Hoboken continues to mature and find favor among city commuters, maybe the most important part of this venture is that it creates a far more productive business development arm for us in Hudson, New Jersey. We expect this initial set of assets to be just the beginning.

The other two are smaller and very different from the first, a more conventional grocery anchored center in a very densely populated urban neighborhoods with under-market rents, surface parking and potential pad development opportunities, demographics that are both incredibly dense with strong incomes. A surface part site this large in the middle of an urban residential neighborhood like this is unusual.

And finally, we have an income-producing retail site in Fairfax, Virginia, under contract that is immediately adjacent to our first quarter 2019 acquisition of Fairfax Junction. Separately, each center is relatively small for us with limited future potential. Early in the year, you may have wondered why we bought the first. But together, the combined 11-acre site at the prominent intersection of Lee Highway and Main Street Fairfax is powerful. Along the way, it will serve as a solid current income producer, but in the future, wonderful raw material for densification and inclusion all it uses.

I go through this combined $300 million investment before they're closed for two reasons. First, think of the breadth of the type of property we look at. Everything from urban street retail with the rent and development upside, while effectively acquiring a regional growth partner, to an urban grocery anchored shopping center with rent and pad side, to an effective land assemblage with the current yield income stream in an affluent Washington DC suburbs serving as raw material for the future, the common thread through all this compelling long-term retail-based real estate, relevant real estate both for today and in the future with an obvious path to income and value growth.

Now how do we pay for it. The sales of Plaza Pacoima and a single building in for Hermosa Beach, California, two assets, where we could not see a path to growth, got us started, the sale of 12 acres under the threat of condemnation at San Antonio Center, which we expect to close in the fourth quarter by the way, along with some pretty attractive assumed debt on the acquisitions to make up the rest. So here's the overall math.

These assets, assuming we closed on all of them, will provide nearly a nickel of initial annual FFO accretion, net of the lost FFO of the sold assets . But that's just a byproduct of the capital allocation rationale. The reality is that we're investing in assets with great mid- and long-term futures and a 10-year IRR in excess of 6.5% and funding that investment with asset sales and assumed debt of properties with few long-term growth prospects and a 10-year cost of 4.5%.

More than 2% improvement in the IRR of nearly $300 million of recycled capital. It's an investment approach like this which balance the short-term accretion with long-term value-add that gives us such great confidence in Federal Realty's future through inevitable cycles.

All the focus on short-term occupancy, current earnings and lease-up expectations at this uncertain time is understandable, and it's certainly important. What a company's clear path to growth and mid and long term relevancy of its retail real estate long after the current vacancies have been leased up is in our view far more important.

Let me turn it over to Dan for addressing your questions.

Dan Guglielmone

Thank you, Don, and good morning. Our reported FFO per share of $1.43 translates to $1.59 per share on adjusting for the one-time charge relating to the purchase of the Kmart leased at Assembly. the $1.59 figure is the appropriate comparison for consensus and year-over-year purposes this quarter.

While the solid results was driven primarily by continued benefit from our proactive leasing activity as well as lower property-level expenses, it was offset by the weight of opportunistic capital transactions during the quarter, including both debt and equity issuance as well as asset sale, slightly higher G&A than we had originally forecasted and continued drag from our redevelopment and re-merchandising initiatives of properties in both the comparable and non-comparable pools.

Our comparable POI metric came in at 2.1% for the quarter, ahead of our expectations, bringing this metric through the first 9 months this year to 3%. In the third quarter, net benefit from proactive re-leasing activity boosted the result of 175 basis points versus third quarter 2018. While we had another strong quarter from term fees, we received very little boost from them in comparable POI with just 17 basis points of tailwind versus last year.

We again faced 70 basis points of drag from repositioning programs at some of our larger assets like Plaza El Segundo, Congressional and Huntington. As a result of the better than expected quarter, we are increasing our forecast for comparable POI in 2019 from a range of 2% to 3% to about 3%.

While Don emphasized our focus on positioning our portfolio for the long-term and the potential short-term impact of these repositioning and re-merchandising initiatives, the quality of our real estate is driving a broad upgrade in our tenant base, as evidenced by new leasing activity.

A few to note include - a new 40,000 sqft urban target as part of our Hollywood Boulevard redevelopment in LA; a new 38,000 sqft Home Depot design opening at Montrose Crossing, a great add to that center in our home market. We finalized the deal to relocate Walgreens at the Darien redevelopment and significant uptick in rent from the old lease.

And we've also been proactive in reducing exposure to struggling retailers. One example is changing out two of our three remaining cost-plus locations to bring in uses, which enhance the merchandising at Escondido and Pentagon Row. Combined with the recent opening of Nordstrom Rack at Plaza El Segundo, in the last 12 months, we've reduced our exposure to cost-plus from four locations down to just one remaining.

While our lease percentage ticked up to 94.2%, we expect -- during the quarter, we expect our occupied percentage to begin to feel some impact over the next few quarters, as we get after some of these repositioning opportunities that Don previously highlighted. As Kmart at Assembly, Stop & Shop at Darien, Banana Republic at Third Street are turned over from a relevant tenancy and a full impact of Dress Barn's closure mute our occupancy, as well as our FFO to start the year.

With respect to new developments, you may have noticed some updates and new additions for the redevelopment schedule on Page 16 of our 8-K supplement. As Don discussed, we expanded the scope of our redevelopment project at CocoWalk with the early recapture of the GAP space on the west side of the project. It resulted in a modest increase to the budget.

However, we are maintaining our targeted development yield on that incremental capital. At Hollywood Boulevard, where we are combining and redemising spaces to bring in previously mentioned new urban target and a collection of QSRs while doing a complete refresh on the west side of that project, of roughly $20 million incremental spend at a targeted 9% incremental return.

And at Lawrence Park in Philadelphia, where we locked in long-term and established major medical use in less attractive, lower-level space and created more attractive retail square footage at the front of the property, you will see a complete refresh of that property as well. $10 million of incremental capital at an incremental 8% yield.

Now let's discuss some of the capital activity during the quarter. Given the big rally in the treasury market during the third quarter, we're able to be opportunistic by reopening our 10-year notes due 2009 for an additional 100-plus million dollars of proceeds at 2.7%. At the time of issuance, the lowest 10-year bond ever issued by a REIT. We also took advantage of the strength in the equity market by accessing our ATM program for an additional $75 million of proceeds.

And lastly, we closed on the remaining $70 million of asset sales we have been working on at the time of our last earnings call, although one closed after the quarter end. Selling two non-core assets on the West Coast for a blended mid-5s cap rate, bringing our total asset sales for the year to just shy of $150 million at a blended upper-5s yield.

More importantly, a blended sub-6% unlevered IRR. This activity positions us with higher than normal levels of liquidity with above-average cash on hand at $163 million and nothing drawn on our newly expanded $1 billion credit facility.

While this enhanced financial flexibility will weigh on results by a few pennies for the second half of 2019, we couldn't be better positioned to execute on our business plan on both the development as well as the acquisition front.

Our credit and liquidity metrics continue to be at extremely comfortable levels for A- rating at quarter end. Our net debt to EBITDA stood at 5.3 times. Our fixed charge coverage ratio steady at 4.3 times, and our weighted average debt maturity remains at 11 years. With respect to FFO guidance for the balance of 2019, we're adjusting and tightening our range from $6.30 to $6.46 per share to a new range of $6.32 to $6.38 as adjusted for the acquisition of Kmart.

On a NAREIT-defined basis, which includes the Kmart charge, this range of $6.16 to $6.22. The primary driver of this revision is the capital markets activity I just highlighted. As being position with more cash on hand, plus running the impact of our asset sale activity through our model, impacts results and the midpoint by $0.01 this quarter and a forecasted $0.02 next quarter.

With increasing macro headwinds of slowing economic growth, trade wars and both global and domestic political uncertainty, running the balance sheet with more conservatism, even though slightly dilutive to current year's earnings, it seems prudent at this time.

Now on to some preliminary thoughts on 2020. We are still in the midst of our 2025 budgeting process. I'm going to keep this very directional in nature. Still more wood to chop and finalizing our forecast. And we have alluded to the greater intensity, of which we are going after repositioning and re-merchandising opportunities in our portfolio for the medium- and long-term value creation at the expense of near-term growth over the next several quarters.

Roughly $6 million of net drag from this activity driven by the recapture of some larger anchored spaces that we've benchmarked at Assembly Stop & Shop at Darien, Banana Republic at Third Street, as well as a handful of smaller deal roughly in that $0.5 million per year rent range at places like Santana Row and the former cost-plus deals at Escondido and Pentagon Row. We may also get after some more of re-merchandising opportunities, given that we see an environment which is right for upgrading our tenancy.

We also have the impact of losing 10 Dress Barn locations, which have $2.5 million run rate of annual rent that is projected to impact all of 2020. While we are active in discussions to backfill 6 of the10 that we've lost, that rent won't begin to come back online until 2021. Despite these headwinds, we still estimate that we have a baseline of net growth of roughly $0.11 to $0.12, which should get us into the mid $6.40s as a low-end of the range.

Like with last year's preliminary guidance, it is still too early in our forecast process to predict how much higher we can push the upper end of guidance range. However, given the diversity of growth drivers we have in our arsenal and particular growth outside the comparable pool, 700 Santana coming online, continued maturation of Assembly and Pike comparable pool, 700 Santana coming online, continued maturation of Assembly and Pike & Rose, although redevelopment deliveries such as CocoWalk, Jordan Downs and Bala Cynwyd Residential starting to contribute in 2020, plus the acquisitions we expect to close this quarter with an offset from the aforementioned aggressive proactive releasing initiatives, expected tenant departures just highlighted, as well as a top term fee comparable given a strong 2019 on that front, our preliminary target for the upper end of the range could push up into the low $6.60s. We'll have more for you on this topic in our next call, and we look forward to seeing many of you at NAREIT in Los Angeles in a couple of weeks.

And with that, operator, you can open up the line for questions.

Question-and-Answer Session

Operator

Thank you. At this time, we will conduct a question-and-answer session. [Operator Instructions] Our first question comes from Nick Yulico with Scotiabank. Please proceed with your question.

Greg Mcginniss

Hey, good morning. This is Greg on with Nick. I was just to start hoping to get a few more details on Kmart and Assembly Square marketplace. Curious when they start paying rent and then the expectations on backfilling in terms of timing and rent again. And then what else needs to happen at that asset for you can really start considering redeveloping the Atlantis.

Don Wood

Sure, Greg. But let's talk about a few things about it. So -- and I assume you're pretty familiar of where it is on the site and how it kind of connects effectively the power center with, the mixed-use property. Assuming you know that, think about that.

First of all, the rent will continue through the end of the year, I think, or just about through the end of the year, then early out. We have entitlement to do on that site. That will take a couple of years to effectively get for us to be able to start construction, to be able to put stuff together.

We don't expect adjusted on that property for those couple of years. We expect to lease up. There's a couple of ways to do it. It may even not be retail in terms of how it gets leased up, because at the end of the day to day it's a giant 100,000 sqft box ground floor right next to transportation that there is pretty darn significant temporary tenant activity right now.

Nothing done, but something that would be really cool and actually accretive to 2020 to the extent we can get it done. Just not done yet. But when we do get that thing re-entitled, which we hope to be able to do, as I say, in a couple of years, the mapping on that site should be in the hundreds of millions of dollar of spend. So big deal, certainly worth waiting for to the extent we get it done.

Greg Mcginniss

And just to clarify on that one. So the entitlements that you have at Assembly Square don't transfer over to that area?

Don Wood

They're fine for retail for the use that is today, but we have some other ideas for residential and/or office on that site in addition.

Greg Mcginniss

Okay, thanks. And then just for a second follow-up here. So based on your earlier comments regarding Banana Republic, are you exclusively looking at redevelopment opportunities there? What might that look like? Or are you still considering retail backfill, traditional retail backfill?

Don Wood

Jeff want to take that?

Jeff Donnelly

Yeah. Hey, Greg. We've got a number of alternatives we're working through right now. When we say redevelopment, we're not really talking about changing the building envelope, but reworking the interior of the building and reworking some of the uses that could go into the building.

Traditional retail is potential for a portion of the backfill, but not all of it. But we're still working through three or four alternatives we have for the building. Right now the response to our leasing and marketing effort there has been great. And hopefully in a quarter or two, we'll be able to give a little bit more definitive idea on forward heading.

Dan Guglielmone

You should by the way -- Greg, you should by the way expect more rent than the rent we're getting out today. A lot of times you look back and say, what $2 million bucks coming out of that building, that's a big number and how do you get more rent? When somebody is paying a lot of rent in locations like that, you can be pretty darn comfortable that we will, and even the capital necessary to do that will create an accretive project there.

Jeff Donnelly

Yes, like Don said in his prepared remarks, regardless of which direction we go, the uses to go into the building are going to be additive relative to the current tenant to that end of the street and support our other assets on the Promenade.

Greg Mcginniss

All right. Thank you very much.

Operator

Our next question comes from Christy McElroy with Citi. Please proceed with your question.

Christy McElroy

Hey, good morning, guys. I just wanted to follow up on Hoboken. Did you say what the timing was of the closure of the remaining deals? And currently, is all that space owned by a single partner? And sort of what's the benefit of kind of clustering and possibly aggregating more space in that market?

Don Wood

Good questions, Christy. Thanks for asking them. First of all, the timing. We closed on the first building in September. Most of the rest of it will be closed in the fourth quarter. Some of it may drag into the first quarter. We're dealing with some different partnerships or different structures and it's a bunch of buildings. So in terms of -- so that's the timing.

In terms of what's going on here, one of the things that we have always struggled with in terms of street retail is getting enough of critical mass on the street to effectively be a real player and to influence both the merchandising in the street and influence the economics on the street. We were able to do it in Third Street Promenade years ago. You may remember that we tried to do it on Newbury Street in Boston.

We have bought a couple of buildings, but we're never able to get as much as we wanted. So we sold those buildings when we -- when the bigger deal fell through. This is the next -- or latest iteration of that where we do 40 buildings both downtown and uptown in Hoboken. We got some power and I understand this is probably the worst kept secret in RIET-dom.

And so we've been doing an awful lot of work with respect to the demand for this -- these buildings and what the rents would be in terms of that demand, and it has been extremely positive. So we're very bullish on what can happen here. The idea of more is exactly as you would expect that the clustering of it more of the retail storefronts here gives us clearly more leverage with tenants who want to come in.

Christy McElroy

Thanks. And then just and looking at 2020, thank you for all the detail on the kind of the preliminary range but also a lot of moving parts in terms of space recapture, in terms of what's known at this point. As you kind of look into your budgeting and you think about what's unknown for credit loss and tenant fallout, how are you thinking about next year? Are you looking at it more conservatively than you did in 2019, or is it about the same in terms of kind of the tenant credit environment right now?

Don Wood

Yes. At this early stage of the process, I think we're kind of sitting in kind of a similar type of position as last year. I think we would expect kind of that credit loss whether it would be bad debt expense, unexpected vacancy rent relief, kind of in total all of those different components, kind of consistent with kind of how we looked at it over the last year and even the year before. I don't think at this point we're getting more conservative or more aggressive I think where we sit today, kind of keeping it in line with the past history is where we feel most comfortable.

Christy McElroy

Okay, thank you.

Operator

Our next question comes from Jeremy Metz with BMO Capital. Please proceed with your question.

Jeremy Metz

Hey, guys, good morning. Dan, appreciate the direction outlook for 2020. Sticking with that in the revised expectations here in 2019, but also some of the drags you noted, how should we think about the comp POI trajectory from here relative to the 3% you're now expecting in 2019? And then if you have it, how much will be coming into the pool next year in terms of the residential and commercial as those should be pretty additive?

Dan Guglielmone

Yes. No, I think that one of the things that we're -- still too early in our process. This was a real -- yeah, we go through a pretty rigorous budgeting process that's very ground up. With only 100 properties, we're able to dig into each and every asset, dig into each and every business plan at each asset and roll everything every business plan at each asset and roll everything.

We're not at the point where we've got a sense of that. This is very top-down and directional. So I don't really have a sense on where comparable. As I said, a lot of moving parts, a lot of work to do. So I'm not prepared to kind of give a sense of trajectory on the comp POI basis.

But, hey look, I think that from a residential and an office perspective within the comparable pool, most of all, a good chunk of our residential outside of the comparable pool, but there is some within it, particularly on the West Coast. That should be additive. That should be beneficial. And that should help the comparable number, but still too early for us to kind of give any kind of direction one way or the other on kind of guidance for next year.

Jeremy Metz

Alright. And then, Don, you got a lot in the pipeline here in the acquisition front. You mentioned the pickup in interesting opportunities out there, that conducive environment to go out and capitalize on these. You obviously have the balance sheet to do so. Beyond the $300 million here, how active is the pipeline beyond that? Is there more in the works that we could be hearing about here in short order?

Don Wood

There is. Jeremy. It's -- we were asked a lot to kind of smooth out the notion of acquisitions, how much we would do. We were asked to how much proactive releasing where we do. The reality is it's kind of where you start and you're spot on it is you take advantage of opportunities when they avail themselves, and that's not smooth.

And so I think about kind of some of the stuff we're doing both on the acquisition side and the proactive side, and I know a lot of this stuff, including acquisitions. We've been trying to get done for a long time. But the market wasn't ready. The economics weren't ready. And it's a -- it's really a very good time.

I'm very optimistic on our future on where we're going and why we're doing it, because we're able to do some deals that were high-five in ourselves around here, and that hasn't happened in a while, even though it's your turn dilutive. So, yeah, you very well maybe hearing about more.

Operator

Our next question comes from Craig Schmidt with Bank of America. Please proceed with your question.

Craig Schmidt

Great, thank you. Don, when you introduced to the Hoboken acquisition, you said that it could create business opportunities and development arm in New Jersey. It sounds like that would obviously be beyond Hoboken. But could you describe what you could see happening there?

Don Wood

I could, but I'd prefer not to. The -- we're dating. This is an initial partnership with a local company that has done an amazing job, frankly, of accumulating everything that's there. They also have pretty large long tentacles into other properties and other development opportunities there.

So the idea of us of saying what we got and being able to do more with them, including potential opportunities in and around Hoboken. So I'm not talking about Morris County or anything far away from this center of gravity, which is where we're going to concentrate.

Craig Schmidt

Okay, thank you.

Operator

Our next question comes from Samir Khanal with Evercore. Please proceed with your question

Samir Khanal

Dan, just sticking to the comparable POI, the question's here, I just want to make sure for Darien. When you lose that the Stop & Shop, where the $1 million rent goes out there, that -- does that come out of the pool next year?

Dan Guglielmone

Darien will come out of the comparable pool basically at the start the year. So that will not have -- that will have drag on FFO, but it will not have drag on next year's comparable POI metric, because...

Don Wood

It's not comparable.

Dan Guglielmone

It's not comparable, exactly.

Don Wood

And then so basically if you wanted to think about it, just to sort of summarize, or it's the Kmart you lose, you lose the Banana Republic and then sort of the Dress Barn and then any sort of unanticipated kind of vacancies for next year is a sort of the headwinds, right. At this point, I think those are main points.

Dan Guglielmone

And then also whatever, as Don alluded to and we're going through the process now, whatever other re-merchandising, we can get after. I mean, we've been proactive in, as I mentioned, in the cost-pluses. There is other opportunities that, as Don said, when you can get after stuff, when there is demand to bring in new tenancy and remerchandised, you get after it. So I think that's something we're working through in our budgeting process right now. So but, yes, that's right.

Samir Khanal

Okay. And I guess, Dan, one question here. We've noticed the cost on CocoWalk went up a little bit here. I think it was around $10 million. What's the story there?

Dan Guglielmone

Yes. A bigger project, and it's really -- so when we laid that out, the west side of the project has a two-level GAP store in it that had term, and we were -- so we -- as we did our development plans, redevelopment plans. we didn't expect to touch that side. Well, it's GAP and it's 2019, not 2016 or ' 15, and so we got a deal.

So, to be able to get to that space and therefore access the west wing, if you will, of the project as we're going through construction of the rest of the project was it's clearly a better thing didn't think we could, but the times to allow us to. So you got a bigger project there and you've got nothing that changes with yield. So you're getting paid for the incremental capital on that. I think it's a real positive.

Samir Khanal

Thanks, Dan.

Operator

Our next question comes from Alexander Goldfarb with Sandler O'Neill. Please proceed with the call

Alexander Goldfarb

Hey, good morning, Don, there. So just a few questions. First, Don. I appreciate the -- your comparison of the Hoboken versus your efforts on Newbury Street number of years ago, but just sort of curious how you viewed street retail in Hoboken versus obviously what's going on here in New York or Miami, where street retail has become sort of a bad word. What gave you comfort that in Hoboken it didn't experience the same situation that we sell street retail in other areas?

Don Wood

Yes. it's so funny, Alex. And you know me. I am Jersey kid through and through. And it's a whole lot of different than Manhattan, right? And the people that go to -- go to Hoboken are -- even that moved to Hoboken are generally from Jersey who go there. They're not coming from Long Island. They're not coming from Westchester, etc. So it is a completely different market. The in-place rents, Alex, are below $50, okay.

So we're not talking about $200 street retail. We're not talking about a numbers that are scary that way. The in-place resi rents are $2.65. So we're not talking about things that have run to the extent of anywhere near the markets that you just made. What has changed -- I'll tell you what has changed is its acceptability and its access to the more important parts of Manhattan now, because Manhattan is changing, right.

And so when you sit and you think about getting to that West side from a lot of places in Manhattan, it is not easy. And we're hopeful that Hoboken will see part of the globe, if you will, from all of that investment. And I can tell you the early deals that we're talking about are validating that thesis.

Alexander Goldfarb

Okay. And then the second question is on 2020. Don, clearly at the Investor Day earlier this year, you guys emphasized repeatedly the focus on dividend growth on the 51-year track record. So going through the pieces, Dan mentioned $0.08 coming out of the retail, the drag from the capital, but it sounded like through the acquisition program, there was a net $0.05 positive from the capital activities with what's going on in the acquisition side, but you still be $0.08 negative on the retail since sort of that net $0.03 down, if my math is right.

What are the other factors that are contributing to what would seem an abnormally low earnings growth year for you guys? Are there other things that are going on? Is it other drag? Or is it other potential projects that you may do? Just trying to put the pieces together.

Don Wood

Yes. Listen, I feel for you because we are a multi-dimensional company. We have a lot of pieces. it's not -- we're not trying to lease up a bunch of empty boxes from a time when our occupancy was really low that provide some growth. It's not that at all.

So when you sit and you think of things like the space on hopefully on February 1 being turned over to Splunk at 700 Santana Row and that income starting on February 1, that's a pretty good thing that that adds to that. But take a look at the balance sheet, Alex. There $700 million of construction in progress, producing exactly zero from that.

Money's out. Cost of money is out, but income has not effectively started on that. So that in and of itself is a current earnings drag, if you will, to some extent. So sort of say in there. Other things are, guys, I think we went through -- I think Danny did a pretty good job a through most of the big ones that we can think through, not with the specificity of month-by-month in rent starts and rent dilutions.

But from my perspective, if we can make this portfolio stronger and better for the future and still grow even if it's smaller, to me that says everything about the quality of the assets. Because we haven't -- we didn't get beat up 2 years ago, 1 year ago. 3 years ago, 4 years ago with earnings, as you know, we grown every single year.

Alexander Goldfarb

You do, and you've obviously done a good job managing the develop -- the massive development you've delivered over the past few years, which is why I asked the question, because the past few years we were able to manage through that development track. That's why I was just wondering if there were any one specific item that was impacting the 2020. But I appreciate your comments, Don.

Don Wood

Thanks a lot.

Operator

Our next question comes from Haendel St. Juste with Mizuho. Please proceed with your question.

Haendel St. Juste

Hey, good morning. So, Don, I guess just, not to beating the dead horse, but the acquisitions, certainly a sense and excitement in your voice that I haven't heard an acquisitions in a long time. So I guess I'm curious what you're getting from the seller side. Are they more willing to be engaged? Are the pricing expectations changing? Is your cost of capital making some of these deals a bit more easy to underwrite? Just curious on what's sort of driving some of that enthusiasm. Thanks.

Don Wood

A lot of human things. I think there is absolutely the overall notion that the economy isn't going to stay strong forever. That -- there is a recession coming someday. Whenever that's going to be, that time today is such where the assets are -- yes, especially when we're talking about really, really good assets, right.

We're not talking about sellers who are looking at dumping properties and having their cap rates go up and be able to get paid, because there is the only time they can get paid, but we are talking about sellers who know when they have a good thing generally -- and this is just my gut, worried about the future in terms of the economy. And no, they can get paid pretty well today and that wasn't obvious a couple of years ago. So that's on the acquisition side.

On the proactive re-leasing side, I think there has been a major shift in not only retailers, but in most businesses in the country of it's better to rip the band aid off rather than work through problems long term. And I think we see that in a number of different places.

When we had a restaurant company, who was not doing well in the DC area but doing well in other places, I think the old days, they would have kind of not wanted to close their stores, let's say, in the DC area. They work through it. Today, they're more willing to rip it off and move forward.

So there is that psyche that's out there today both on the sellers of property side and the business -- people are doing business in retail today, that in my view is fundamentally different than it was a few years back. Does it impact pricing? Not significantly. If a couple of these deals we're really happy with what we're doing, how we're getting them, but they're still really expensive, because they're great real estate. So I hope that helps they're still really expensive, because they're great real estate. So I hope that helps.

Haendel St. Juste

That does. And I guess I'm curious on the thinking here and the willingness to take that some of the incremental dilution and drag. Clearly, the market is reacting to bit negatively. I think there are higher expectations for growth. And so fully appreciating your big thing. You have a great portfolio and you're building for the long term. Just curious how you factored all that into a thinking, why now. I understand some of that may be entitlement related, but just curious -- just how all that.

Don Wood

No, no. It's a very -- it's an important question I thought what I covered in my earlier stuff, but let me make you crystal clear now. Because you do it when you can and it's not always available, and it kind of goes to your previous question, on the psyche, if companies are willing to make change to deal economically, not have silly expectations for which there is no economic deal, a lot of people - it's always for sale, are not practically speaking it's not.

And so today there is no way, no way we wouldn't do the Kmart deal to save $1 billion next year. There is no way we wouldn't do the Darien deal to effect -- to save that $1 million next year. And if there is four more of those? No, we'll do those too, because they're available today. We're working on this stuff for years. There is a fundamental difference in the psyche of people in our business, willing to be reasonable with respect to economics today, I believe.

Operator

Our next question comes from Derek Johnston with Deutsche Bank. Please proceed with your question.

Derek Johnston

Hi, everybody. Thank you. Just back to Kmart and Assembly briefly, are you concerned about the entitlement process for residential there coupled with low development yields and the probable inclusion of a percentage of affordable housing? Would in office mixed use make more sense, given that Puma will fully be moved in?

use make more sense, given that Puma will fully be moved in?

Don Wood

I'm concerned about everything all the time on development and the processes and how we get through, but none of that changes the real estate fact that when there is an opportunity, you jump on it. Because truly I think any decent real estate guy can sit back, grab a cup of coffee, sit on that site and look at the traffic and look at the way things go between two things and say there is an economically viable way to create significant value here.

Exactly what that might be? Who knows at this point. And I know that we know isn't something you can put in the model and factor in to 2020 or 2021 for that matter. But the jump to can they do something better accretively in a both an income perspective, in a value perspective on that 6 acres, that's not a long leap most people I think can get there.

Derek Johnston

Yes, that's a great property and I completely understand. And just shifting gears. We haven't really had an update on Primestor JV in the West Coast in quite a while, and just any thoughts on further projects with them? Or could we see this relationship develop or grow over the next few years? And are there any other opportunities within the portfolio and other metros, such as Miami, to kind of replicate the success there?

Don Wood

Yeah. Jeff, can you take Primestor?

Jeff Donnelly

Yeah, sure. So we are operationally doing great right on top of what we underwrote a couple of years ago in terms of the capital that we've invested and the NOI or POI that we expected. So everything from that standpoint is going as planned. We would love to grow the footprint. And we're doing that maybe a little bit slower than I wouldn't liked, but we're doing that business.

We have Jordan Downs under construction, delivering into next year. We were able to acquire the Toys "R" Us box adjacent to our Los Jardines property in Bell Gardens late last year. And we've got a couple of other things on the acquisition pipeline that we're working on as we speak that will hopefully come to fruition early next year.

That said, I mean, you've heard this from us before. The acquisitions market is competitive and difficult particularly in LA, all California quite frankly, and we're disciplined about how we go about that part of our business as is Primestore.

So to the extent we can shake stuff loose where we think we can make money, we will and we won't do a deal just to do a deal, which is probably why haven't seen us grow from an acquisition perspective significantly with that platform yet. But it's definitely something we want to do and it's definitely something we work hard on every day. Now I'll let you take the second half of the question on other metros, if you don't mind.

Don Wood

Yes, no. Not at all. I mean, conceptually there is something there. I mean, even with respect to what we're doing in Hoboken and around Hoboken, and as we think that through, that's a potential other market that we can look in. But we want to make sure we have the experts in those markets before we jump in. So stay tuned.

Operator

Our next question comes from Michael Mueller with JPMorgan. Please proceed with your question.

Michael Mueller

Yes, hi. I guess on the Hoboken transaction, what's the rough split between residential and retail in terms of NOI?

Don Wood

70-30, right? Yeah, roughly 70% retail -- 70% commercial, retail and a little bit of office, and about 30% residential

Michael Mueller

Got it. Okay. And then, Dan, you mentioned some lease term income in the quarter, can you just quantify what that was?

Dan Guglielmone

Yeah, yeah. We had a strong quarter in 2018, and so last year of $2.6 million, and $2.8 million this quarter. So a modest boost to the comparable, but it wasn't a big driver of our outperformance on the comparable basis.

Michael Mueller

Got it, okay. That was it. Thanks you.

Operator

Our next question comes from Vince Tibone with Green Street Advisors. Please proceed with your question.

Vince Tibone

Hey, good morning. Could you elaborate on your plans at Third Street Promenade and also talk a little bit about the overall health of the retail area there? Because there are some vacancies on Third Street and Santa Monica Place, so just wondering how that is impacting the rents you're expecting at the Banana Republic re-dev.

Don Wood

Again, Jeff.

Jeff Donnelly

Yeah. No, there is some turnover on the Promenade right now. That's definitely true. And as you go south on the street in the Santa Monica Place, and I know your local, you can see that. We're very pleasantly surprised at what we have going on in Banana Republic. And like I said a few minutes ago, we've got 3, 4 alternatives that we're working through.

There is competition toward the building for the space of the building. As Don said, the rent, whichever direction we choose to go, we're going to collect materially more rent than we're currently collecting. So because we are in kind of a leasing, marketing, negotiating mode right now, I really can't say a lot more about it than that. But we, like I said, pleasantly surprised and it's going to be an accretive deal for us.

Don Wood

And the only thing I would add to that JV, and Vince, just to think about and everybody should think about this for us, one of the cool things you get here is that we don't just -- we evaluate for highest and best use of the real estate. And so to the extent there is a better use in retail for all our part, of a building or a shopping center, or whatever, we can do that.

And so, obviously, I think about it as you sit and talk about Third Street or any other market, where the success of that street has absolutely brought demand from other users who pay pretty darn at good economic numbers to be in there. We got the ability to look at it that way and therefore to execute it that way, and I think that's an advantage.

Vince Tibone

Interesting, but the Third Street, the entitlements you have in place now are just retail or there's something you're exploring potentially changing the use or adding additional height, which I know there are restrictions in Santa Monica to that spot.

Don Wood

Yeah, we won't be adding additional height. Yeah, in my previous comment, we're going to be working within the existing building envelope, and depending on the use, there may be some work we have to do with the city, but we're not -- we're confident that we would get through that, so.

Vince Tibone

Okay, great. Thank you.

Operator

Our next question comes from Floris Van Dijkum with Compass Point. Please proceed with your question.

Floris Van Dijkum

Good morning. Thanks for taking my question. A question -- a follow-up question on the street retail. Your urban street retail you found on two deals, Primestor and the Hoboken transaction. As you think about that, first how much would you need to be able to invest to be able to consider an opportunity like that? And also how many other markets around the country do you think could meet your criteria?

Dan Guglielmone

It's a good question, but a difficult one. We don't go out and look for street retail. We don't go out and look for grocery-anchored shopping centers. We don't go out and look for land assemblage is to put things together. Basically what we are doing is trying to find places for which demand exceeds supply. And when you have a place like that, like Hoboken for example, the notion there is, can you get enough?

And I don't know what the number is, Floris, but if you look at our history, you get a pretty good idea. We spent like $40 million, $50 million or so, something like that on Newbury a few years ago, and then we're talking about a $200 million-plus deal that we were unable to get.

So when we were stuck in with just $40 million or so or, whatever the number was at that point, we said, no, we can't impact change. So we sold it. Similarly, you see that we just sold Hermosa, which was one building in a great area. That I mean if we controlled Hermosa Beach, California, I'd love to own and continue to own in Hermosa Beach, California. We didn't.

So we look at it -- looked at it there through the [indiscernible] guys, if you will, of one building and what we can do with that one building, the -- when we talk to Arturo at Primestor about that rationale, he fully agrees and understands that with us. So there is the symbiosis in terms of what it is that we're trying to do there. I expect to have that same type of symbiosis in Hoboken, with our partner there.

And as I think I've said in the past, we've been unable to get it done well in Miami. And then it depends on each particular site that we see, and whether we're confident that the rents can be rolled up, whether we're confident that we could build more if that's the case there, etcetera.

So I don't have a good answer for you, other than to really reinforce that we are not a street retail company, we're not a grocery-anchored shopping center company, we're not a mixed-use company. We are a real estate company that basis ourselves in retail-based properties and whatever that could mean from it. So it's a nuance, but I -- and I know it's important or it's easier to categorize, but I can't really help you as much as I'd like to with that because we look at it from a real estate point of view.

Floris Van Dijkum

Fair enough. Don, maybe just -- it might be early, but can you make any comments as to return expectations> Or will you be introducing the JV partner at a later point?

Don Wood

I will be at a latter point. Let us get through the rest of the same get a closed up, and I'll talk more about this thanks.

Operator

Our next question comes from Linda Tsai with Jefferies. Please proceed with your question.

Linda Tsai

Hi, thanks for taking my question. You already discussed Banana Republic. But for Stop & Shop in Kmart, would your replacement rents look like there? And then how are you thinking about the population of the 10 Dress Barns in the level of replacement rents or types of redevelopment opportunity?

Don Wood

You bet. Let me take the first two and then Danny take it from there. The Kmart site is more complex. So any short-term replacement rent, I would expect to more than cover the Kmart rent on a per-foot basis. I don't know whether we get the whole 100,000 or whatever it is done, but I think you'll be happy with that in the short term. In the longer term, it's obviously a much better thing from a great perspective, because it's so much bigger.

At Stop & Shop, and you kind of -- you see it in the go to our redevelopment schedule on the overall project of Darien and redeveloping Darien, which will include residential, which will include boutique retail, which will include, well, we'll see what else it includes, as we go through. What certainly accretive to the brand we lost.

Dan Guglielmone

And then with regards to the Dress Barnes, I think it's a case-by-case basis. One of the things with Dress Barn is they did pay market rent. So we expect to kind of really see the upside with our Dress Barnes is really just kind of putting in merchandising in tenancy that enhances the broader center and enhances the long-term value of the real estate, I don't think I think you'll see some roll-ups and I think you'll see some kind of staying flat and kind of a little bit of a mix, but there's not a whole a ton of rent upside on Dress Barn.

Linda Tsai

Thanks.

Operator

Our next question comes from Christy McElroy with Citi. Please proceed with your question.

Michael Bilerman

Hey, it's Michael Bilerman with Christy. Don, a quick question for you. Back in May, at the Investor Day, we should have dropped in your opening comments, but thought about selling an interest in your asset base, in certain projects that would raise substantial sums.

And when I pushed you on it in the follow-up, you said there was nothing planned today. I guess now that your acquisition pipeline seems to be growing, the $200 million deal at Hoboken, it sounds like you got a lot of other irons in the fire, would you give that more consideration today to bring in capital into some of your deals rather than issuing equity on your ATM.

Don Wood

Yes. And Mike, it's a very fair question and every -- I won't say every deal, I would say every 6 months, certainly more than our annual budget process, we guard this balance sheet like in Fort Knox. And so there is never a conversation of what happens on the left side of the balance sheet that is not shared even equal time for what happens on the right side of the balance sheet.

So even when you sit and you think about where we are today, we did think prudent use of the ATM was the best solution. I always want to have as few competing goals on the common shareholders' money, and so joint ventures selling pieces of things do complicate that. And so generally I have a bias to not do that, which is what I was saying in May, and that still applies today.

Having said that, to the extent there are opportunities that overall make an awful lot of sense for the long-term value of this company, but we'll never -- we're never going to do big equity issuances. Whenever you do big anything on the right-size of balance sheet, we want all those arrows in our quiver to be available to us. To the extent bigger ones hit, then sure we would open up that spicket.

So it's a balance. I know it's a complicated answer, but if you were working with me on this side, I think you'd agree that every 6 months or so, you do have to take a real look at that, make sure you understand what irons in the fire actually going to close, how are you going to get them all done and paid for, and so far, I think we've done -- and I think it's, we're really good at that.

Michael Bilerman

All right. But at least an example of Primestore on this Hoboken deal, you have a partner that staying in from a capital and also providing some operating level. I would say, a joint venture with a capital partner is the lease complex in terms of a relationship because you're just taking their money rather than taking...

Don Wood

...it's all the least value add, it's also the least value-add.

Dan Guglielmone

Right. I mean, because, yes, it's more complex bringing -- taking in a partner, but we're getting something strategically to create real estate value for those things. And that trumps just money, because at the end it's just money...

Michael Bilerman

Right. Well, like money. I think you do too. So how big is this pipeline? I mean how big could acquisitions get this next year? You're talking about a $1 billion? Are you talking $500 million?

Dan Guglielmone

I'm not, I'm not, I'm not. If you look at what we've done over our history, the one thing I like about us a lot is balancing moderation. So you're not talking about $1 billion in acquisitions, you're probably not talking about $0.5 billion of acquisitions, but I would put that at the upper end at the upper limb.

Michael Bilerman

Okay, thank you.

Operator

Our next question comes from Ki Bin Kim with SunTrust. Please proceed with your question.

Ki Bin Kim

Thanks. Just bigger picture, Don. Has your real view on the health of retail changed at all in the past year for your tenants, and I am not looking to answer for those, but what do you think is mispriced in this business? And maybe the simplest answer is no test the value per pound for different types of shopping centers versus maybe even certain retailers that are proceed that's really healthy that people are going to go achieve faster with more money.

Don Wood

Yes, that second part of that question, I'd love to have a beer with you and sit and talk it through. It's a whole lot more complex than the 30 second thing to be able to answer the question on. And so I'm going to give you an a bigger picture point on the first question part of the question that you asked.

Yes, I think there is a healthier, frankly, retailer mindset out. It's healthier. And it's not always better for the landlord, right? Here is some, there is tough negotiations, there is the, as I said before the preponderance of the ability to rip the band-aid off and move forward, I view those things as healthy, because it does suggest that there is a plan for them to move forward.

I like that. I hate and we do see this in some grocery operators today, where there is still at the real estate level there is -- maybe we'll consider, maybe we'll consider that, not really sure how that works all the way up top to the boards and the CEO's office to those companies, that stuff I don't like. So the more I do overall see more definitiveness, if you will, in business plans that, well, not always good for us, or everybody in this business is far better than uncertainty

Operator

Thank you. At this time, I would like to turn the call back over to Leah Brady for closing comments.

Leah Brady

Thanks for joining us today, and we will see many of you at NAREIT in a couple of weeks.

Operator

This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.