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Macerich Co. (MAC) CEO Tom O'Hern on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.3063 beats by $0.21 | Revenue of $214.26M (-1.55% Y/Y) misses by $-2.43M

Earning Call Audio

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Macerich Co. (NYSE:MAC) Q3 2019 Earnings Conference Call October 31, 2019 1:00 PM ET

CompanyParticipants

Jean Wood - Vice President of Investor Relations

Tom O'Hern - Chief Executive Officer

Scott Kingsmore - Executive Vice President and Chief Financial Officer

Doug Healey - Executive Vice President, Leasing

Conference Call Participants

Jim Sullivan - BTIG

Steve Sakwa - Evercore ISI

Craig Schmidt - Bank of America

Christy McElroy - Citi

Alexander Goldfarb - Sandler O'Neill

Jeremy Metz - BMO Capital Markets

Linda Tsai - Barclays

Vince Tibone - Green Street Advisors

Derek Johnston - Deutsche Bank

Caitlin Burrows - Goldman Sachs

Ki Bin Kim - SunTrust

Michael Mueller - JPMorgan

Operator

Good day ladies and gentlemen, and welcome to The Macerich Company Third Quarter 2019 Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the conference over to Ms. Jean Wood, Vice President of Investor Relations. Please go ahead, ma'am.

Jean Wood

Good morning. Thank you for joining us on our third quarter 2019 earnings call. During the course of this call, we will be making certain statements that may be deemed forward-looking within the meaning of the Safe Harbor of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially due to a variety of uncertainties and other factors. We refer you to today's press release and our SEC filings for a detailed discussion of forward-looking statements. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures are included in the earnings release and supplemental filed on Form 8-K with the SEC posted in the Investors section of the company's website at macerich.com.

Joining us today are Tom O'Hern, Chief Executive Officer; Scott Kingsmore, Executive VP and Chief Financial Officer and Doug Healey, Executive Vice President, Leasing.

With that, I would like to turn the call over to Tom.

Tom O'Hern

Thank you, Jean. And thank all of you for joining us today. It was a solid quarter with generally good operating results. Sales per foot were up 13.2% to $800 per square foot. That's our 12th consecutive quarter of sales growth. Occupancy was 93.8%, down from 95.1% a year ago, mostly due to first half 2019 bankruptcies. Average rents were up 3.5%. We continue to experience very good leasing volumes with year-to-date leasing activity up 29% compared to last year. The leasing environment continues to improve with strong activity across multiple categories.

We are nearing completion of our extensive 2019 financing plan, which in total will generate nearly $600 million of liquidity. As we continue to explore non-core dispositions, we have an agreement to sell our 50% interest in Tysons Vita, the residential tower at Tysons Corner for $82.5 million. That transaction is anticipated to close near year-end. FFO per share was $0.88, exceeding the First Call and Bloomberg consensus estimates.

As you are all very well aware, Forever 21 has filed for bankruptcy. We have 28 locations with them. We've been in weekly conversations and negotiations with them. Four of the stores will close later this year or early next year and one of those stores is not owned by us, Vintage Faire. There will be rent concessions on many of the other stores. We expect the total impact on an annual basis of the closures and concessions to be approximately $0.08 per share on an annual basis. We felt the effect by about a penny a share in the third quarter and we'll feel effect by about another penny a share in the fourth quarter. The two large format stores they plan to close our already released.

On the redevelopment front, our pipeline continues to progress well. On September 19, Macerich and PREIT opened Fashion District Philadelphia. The property features unique and exciting mix of full price flagship, outlet retail, restaurants, entertainment and co-working uses. Tenants such as Century 21, Burlington, Nike, H&M, City Winery, Ulta, Hollister and American Eagle have all reported extremely strong traffic and sales volumes that exceed their expectations. Another 150,000 square feet is expected to open by Holiday 2019, including an entertainment cluster featuring an AMC Theater, which is Downtown Philadelphia's first theater in 35 years, a Round One and Wonderspaces.

Within the past quarter we have executed leases with several very noteworthy tenants including Primark, which will open a two of a flagship, Industrious, Sephora, Kate Spade, A/X Armani and DSW Shoes. We are very pleased by the opening and the leasing momentum from this unique downtown destination. We have leases executed for 80% of the center with another 14% of the space committed upon active negotiation.

We continue to make excellent progress on the repositioning of recaptured Sears locations. Construction is underway at four of these locations, at which new tenants will open in 2020. The entitlement process continues at the two larger mixed-use projects, Los Cerritos Center and Washington Square both of those assets are in a top 10. Our thinking on these two densification projects continues to evolve including likely delivering mixed-use elements through long-term ground leases for the non-retail components including hotel and multifamily residential.

We now estimate the aggregate redevelopment investments at these locations of $130 million to $160 million over the next several years. Pre-leasing of these redevelopments continues to progress well including a recent signing of a new entertainment concept from Harkins Theaters at Chandler Fashion Center. The diversity and uniqueness of the tenancies for these former Sears locations is broad and compelling including sporting goods, entertainment, fitness, food and beverage, medical, hotel, multifamily residential and potentially co-working. This array of uses will provide a diverse cash flow stream and will greatly elevate the productivity and customer traffic compared to the former department store use. For more details, please see our 8-K filing of this morning.

At Scottsdale Fashion Square we're nearing completion of the multifaceted redevelopment. Industrious is now 100% occupied within the former Barneys Department Store location. As we continue to expand our partnership with Industrious at Broadway Plaza, Fashion District Philadelphia and Country Club Plaza, we are very encouraged by the synergies we've observed in Scottsdale from co-working in a retail environment. The new Apple flagship at Scottsdale continues to be a magnet of customer energy and for additional leasing activity within the east wing of the property. Follow on leasing of digitally-native brands, luxury brands and other retail has exceeded our expectation.

By spring of 2020, the full collection of high-end and lifestyle restaurants will be fully opened. And we anticipate that both Equinox and Caesars Republic Hotel will open during 2021. With sales now exceeding $1,500 dollars per square feet and total property sales in 2020 up 38% and growing, Scottsdale Fashion Square is clearly firing on all cylinders.

In Carson California, the Carson Reclamation Authority continues its horizontal site work to support Los Angeles Premium Outlets. Our 50-50 JV with Simon Property Group expects to commence vertical construction of Phase 1 in 2020. Pre-leasing interest for the project including flagship and anchor retail is very strong.

As we've mentioned and Doug will provide more details on this in a few minutes, the leasing environment has never offered a greater diversity and breadth of uses. Uses include co-working, fitness, beauty and health, digitally-native and emerging brands, entertainment, food and beverage, hotel and multifamily. These are clearly the future for the best-situated retail real estate like ours. I have firm conviction that despite the current disruption in the retail environment, this is ultimately creating a healthier and more diverse portfolio.

And now, I'd like to turn it over to Scott.

Scott Kingsmore

Thank you, Tom. The third quarter reflected good financial results exceeding Street expectations. Here are some highlights for the quarter. FFO was $0.88 per share, which was $0.01 ahead of Bloomberg and First Call consensus of $0.87 per share. This represents an $0.11 decline from FFO in the third quarter of 2018 of $0.99 per share given primarily the following factors.

First, higher interest expense of $2.7 million. Secondly, higher leasing expenses of $5.6 million driven by the new lease accounting standard. Third, lower lease termination income of $3.3 million. Fourth, reduced land sale gains of $4.2 million driven by two land sales that occurred in the third quarter of last year. And lost anchor rents from Sears, which was approximately $2 million. These factors were then offset by savings in corporate overhead of $2.5 million.

Same center growth and net operating income was up 0.9% for the year and 0.2% for the quarter. The year-to-date growth is on the high-end of our 0.5% to 1% same center NOI guidance for 2019. The deceleration in third quarter growth is consistent with our expectation as we previously communicated given the full quarter impact of bankruptcies in the third quarter and also given strong comp center growth that we're bumping up against in the third quarter of 2018.

Margins continued to show improvement. The EBITDA margin for the quarter improved by 40 basis points from the third quarter of 2018, up to 63.8%. EBITDA margin year-to-date was up approximately 1% and on a trailing 12 month basis, EBITDA margin stands at 64.4%. This is a mall sector-leading margin improvement of over 5% since 2014, which is very noteworthy considering the top-line pressures in our business over the last few years.

With respect to 2019 earnings guidance, at this time, we are reaffirming our guidance for both FFO per share diluted and for same center net operating income and we direct you to our 8-K supplemental filing from this morning.

Regarding our financing activity, the following summarizes the current status for our 2019 plan. Leading into the quarter, we had closed four deals totaling over $850 million. In July, our Fashion District Philadelphia joint venture closed in accordion and amendment to its existing unsecured term loan facility, which resulted in a $51 million of additional funding at LIBOR plus 2%.

In September, we closed on a $190 million CMBS loan on the previously unencumbered Tysons Tower. This 10-year loan bears fixed interest at 3.33% and is full term interest only. Our joint venture in One Westside anticipates closing a syndicated non-recourse bank construction loan in the fourth quarter, which is expected to have very attractive terms. When closed, this financing will or this loan will finance the partnership's remaining incremental cost to deliver the redevelopment of this creative office campus to Google.

And then lastly, we have agreed to terms on a $555 million CMBS financing on the recently redeveloped Kings Plaza in Brooklyn. This will generate over $125 million of excess loan proceeds versus the existing debt. This 10-year loan will fair fixed interest rate at 3.67%, is full term interest only and is expected to close within the fourth quarter. This financing is anticipated to provide $10 million of ongoing annual cash flow savings relative to the existing mortgage that will be prepaid.

Collectively, these financings represent an ambitious eight loan financing plan for 2019, which is nearly complete and that is expected to exceed $2 billion in total volume and to generate approximately $576 million of incremental liquidity to the company. Looking forward over the next several years, we do anticipate annual incremental cash flow from financings of $250 million to $400 million per year. Today we have over $700 million of capacity on our $1.5 billion revolving line of credit.

That's the summary of our 2019 financing plan. And now I will turn it over to Doug to discuss the leasing and operating environment.

Doug Healey

Thanks, Scott. In the third quarter sales and occupancy remained strong and the leasing momentum continued. Portfolio sales ended the third quarter at $800 per square foot. That represented a 13.2% increase from $707 per square foot on a year-over-year basis. Economic sales per square foot, which are weighted based on NOI were $922 per square foot. That's up 12.6% from $819 per square foot a year ago. Quarter-end occupancy was 93.8%, down 1.3% from the end of the third quarter 2018 and down 0.3% from the end of the second quarter 2019.

Trailing 12 month leasing spreads were 8.3% compared to 9.4% at the end of the second quarter 2019. Average rent for the portfolio was $61.16. That's up 3.5% from $59.09 one year ago. Consistent with the second quarter, leasing volumes remained extremely strong in the third quarter. During the third quarter, 239 leases were signed for just over 1 million square feet, bringing the year-to-date total to about 2.6 million square feet. This represents 29% more leases and 25% more square feet than at this point last year. And this excludes Fashion District of Philadelphia, which we'll discuss in a moment.

Leases of note include Tiffany, The Village at Corte Madera, Rod and Gun at Broadway Plaza, Five Below at Freehold, Jo Malone at Scottsdale Fashion Square and Carter's at Arrowhead, Flatiron in Freehold. The large format and food and beverage spaces remain active. As Tom mentioned, we signed a 65,000 square foot entertainment concept by Harkin's Theater for the second level of Sears at Chandler. And we also signed a lease with Saratoga Hospital to replace 57,000 square feet of the former Sears at Wilton Mall.

In the food and beverage category, we signed leases with Bourbon & Bones at SanTan, Urban Plates and [indiscernible] at North Bridge and Cooper's Hawk Winery & Restaurant at Chandler. We signed multiple leases with digitally-native and emerging brands, including Casper, Tommy John and Stance at Scottsdale Fashion Square, Roman and Gilly Hicks at Tysons Corner, Alton Lane at North Bridge and Amazon 4-Star at The Village at Corte Madera.

And further to Tom's comments on Fashion District Philadelphia regarding its grand opening, it was another stellar quarter for FTP in terms of leasing. In the third quarter we signed 16 leases for 83,000 square feet including a lease with Industrious for 47,000 square feet and the momentum continues. In the last three weeks alone, we've signed leases with industry-leading retailers including Primark in 47,000 square feet, Sephora in 7,500 square feet, Kate Spade in 3,500 square feet and DSW in 15,000 square feet. Also in the third quarter, we opened 65 tenants totaling 206,000 square feet.

Retailers of note include H&M at Danbury Fair, Sun Life Organic at Scottsdale Fashion, Five Below at Fresno, Abercrombie Kids at Arrowhead in Stonewood, Vans at Fashion Outlets of Niagara Falls, J. McLaughlin at Biltmore and Altered State at Washington Square. In the emerging brands category we opened Casper at Tysons Corner Center and Warby Parker at Village at Corte Madera. Also in the third quarter, we opened seven locations totaling 46,000 square feet with YM, a fashion retail chain out of Toronto, Canada.

As most will recall, earlier this year, Charlotte Russe filed Chapter 11 and ultimately liquidated March, leaving us with 26 locations totaling 160,000 square feet. YM bought the rights to the Charlotte Russe name and ultimately signed leases with us at 18 of our 26 vacant Charlotte Russe locations. And as I mentioned, seven of those locations opened in the third quarter. The remaining 11 will open between fourth quarter 2019 and first quarter 2020. The eight Charlotte Russe locations that YM didn't take, five have already been leased to other retailers. So at the end of the day, we've leased 23 of the 26 Charlotte Russe locations leaving only three of the 26 locations or only 18,000 square feet of the 160,000 square feet unaccounted for and this all happened within six months of Charlotte Russe liquidating. The point of this really is to highlight yet another example of our ability to react quickly and efficiently to some of the headwinds our industry is currently facing and, in most cases, improving the quality of our real estate along the way.

So in conclusion, the leasing environment remained strong and our metrics are solid. We continue to demonstrate our ability to take advantage of the current disruption in the retail environment by uncovering and securing new, exciting and cutting-edge uses across multifaceted categories. And in doing so, we continue to create properties that are among the most desirable in our industry and will be for a long time to come.

And with that, I'll turn it over to the operator to open up the call for Q&A.

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions] We'll take the first question today from Jim Sullivan, BTIG.

Jim Sullivan

Thank you. Yes, a couple of questions, Tom, on the trend of the metrics here. Sales productivity growth has been very impressive for a while. On the other hand, when we look at leasing spreads, they are a little bit weaker here than what we have seen. And as a result, the occupancy cost as a percentage of sales has been easing slightly and this has been going on for several quarters. So I wonder if you can kind of help us understand as the tenant mix is changing and we oftentimes mention Tesla, we mention Apple, the productivity or the occupancy cost has tended to slide somewhat. So as you look forward given the changing tenant mix, is there an occupancy cost number that we should be thinking about or that you think about as kind of the level where this is going to settle? And to put that in the context, we've seen the occupancy costs come down from about 13% to a little below 12% of total sales?

Tom O'Hern

Well, you had a lot of different metrics in there, Jim. In terms of spreads, spreads have been compressing a little bit. Whenever you have a lot of space that comes back, it's kind of a balancing act between occupancy and rate. In this year, for example, we've had about 600,000 square feet of non-anchor space that has been rejected through bankruptcies. So I suspect that rate has suffered a little bit as a result of pushing for occupancy and filling that space. In terms of the occupancy cost as a percentage of sales, I think a normalized level is between 12% and 13%. I'd like to see frankly see us push a little bit higher than that as we sign new leases, but the reality is sales have been outpacing rent bumps for a while now. And so, that's tended to keep the occupancy cost a bit on the low side.

Jim Sullivan

Second question for me and that -- and thank you for the information on Forever 21 impact going forward. Is the $0.08 per share number that you've provided has the impact, the full year impact in 2020, is that net of the re-leasing of the two boxes that you mentioned?

Tom O'Hern

No. No, that's the full impact, Jim, of the concessions and the closures without any mitigation from new leases being signed. So it could be less than that.

Jim Sullivan

Okay. And of the $0.08, and don't know if you have this, but the three stores that are on the closing list and then there are other concessions that you mentioned, and I wonder if you can kind of advise us what percentage of the $0.08 is attributable to the closings as opposed to the concessions?

Scott Kingsmore

Yes, Jim. Good morning. It's roughly 25% of that number.

Jim Sullivan

25% is attributable?

Scott Kingsmore

Yes, yes. Let me expand a couple of thoughts. So it's $0.08. It's roughly $0.02 in terms of closures and the estimated balance of that is potential concessions. Again, this is an evolving situation. This is as we see it today. But just to frame the outcome, it's $0.08 on an annualized basis and we expect roughly a $0.02 impact in 2019.

Jim Sullivan

And then finally on that, one of your peers detailed when talking about the concessions they provided to Forever 21 that under the concession agreement they have the right, i.e. the other landlord has the right to recover this space from Forever 21 after one year of the concession period. Is that something that is a feature in your concessions or not?

Tom O'Hern

It's a case-by-case basis, location-by-location, Jim. So we have some of those, but it's not in every single location.

Jim Sullivan

Okay, perfect. Thanks guys.

Tom O'Hern

We do have a right to recapture some of those stores.

Jim Sullivan

Okay. Thanks, Tom.

Tom O'Hern

Thank you.

Operator

Next, we'll hear from Steve Sakwa, Evercore ISI.

Steve Sakwa

Thanks. I guess just to be real clear, so the $0.01 hit I guess happened in Q4, Q3 that same amount carries and then the kind of the incremental $0.06 I guess will carry over into next year. I mean you've already got $1.5 million of kind of rent reductions already running through the third quarter numbers, just to be clear, is that correct?

Tom O'Hern

That's right, Steve.

Steve Sakwa

Okay, thanks. And then I guess, Tom, just bigger picture on kind of the dividend and capital and capital needs, if you kind of look forward over the next couple of years, I realize you've been very successful in refinancing mortgages and pulling capital out to fund your needs. What are the capital needs look like over the next maybe two to four years and what is the board's thought on the current dividend policy?

Tom O'Hern

Steve, the capital requirements are going to range $150 million to $200 million per year over the next three years or so. And there is a deck that we've provided, an Investor deck that shows sources of liquidity to cover that. As you are probably aware, as I mentioned earlier, we just declared a dividend of $0.75 a share a quarter and our board is very comfortable with that dividend level. So as I said in last call, I mentioned here, we have no intention of cutting the dividend.

Steve Sakwa

Okay, thanks.

Operator

Next up is Craig Schmidt, Bank of America.

Craig Schmidt

Thank you. I was wondering if you could walk me through the difference between second quarter and third quarter Sears development pipeline, particularly focusing on the total cost pro rata?

Tom O'Hern

Yes. Craig, the biggest difference there you do note cost reduction is as we look at densification historically when we've done hotel deals, they've been on a ground lease, but we're expanding that approach and in the two cases where we expect to do some multifamily residential development rather than to participate with the multifamily developer we are instead going to ground lease, the land to the developer, let them develop and we will receive an annual ground rent payments including rent escalations. So that's the biggest change. Prior to this quarter, we had been considering participating in the development of the multifamily.

Craig Schmidt

Okay. And then the future phases, I guess the footnote says that it looks like there could be something happening in addition to what you're working on at Los Cerritos and Washington Square?

Doug Healey

Yes. Craig, at both centers there is some additional land opportunities that we could develop most likely with mixed-use. Right now, we're getting the projects entitled for this initial phase and anything else we do is going to be much further down the road. So at this point, we think it's prudent to pull it off the pipeline, but there is some additional opportunity down the road.

Craig Schmidt

Okay. Well, thank you. I appreciate it.

Tom O'Hern

Thanks, Craig.

Operator

Our next question comes from Christy McElroy, Citi

Christy McElroy

Hey, good morning to you guys. Just following up on the agreement to sell Tysons Vita, I believe you are also in the process to sell JV interest in high quality mall. Is that still something that you're pursuing? And then just kind of going back to Steve's question on the dividend, I think one of the reasons for keeping the dividend at an elevated level, you mentioned last quarter was not to have to do a special resulting from taxable gains on asset sales. So is that still the case? Thank you.

Tom O'Hern

Yes. As we look at it today, Christy, we are currently -- in addition to our agreement to sell the residential tower, we're also in discussions on other possible JV transactions. It could potentially be a mall, it could be some of our other non-core assets and those negotiations or pending. So I'm not going to get specific as to which assets they are or any of the other details. But we would expect some of those other transactions to be closing most likely in the first quarter and in all likelihood that will generate some significant tax gains. So yes, we've got to be mindful of that going forward as well because our preference would be to retain as much capital resulting from those transactions rather than pay out a special dividend.

Christy McElroy

And would these be non-retail -- would these be non-retail assets, are you still looking to sell more interest in the mall?

Tom O'Hern

It could be both. It could be a mall and it could be non-core, non-retail.

Christy McElroy

Okay. And then just maybe if you could provide an update on your short-term leasing, I think you had expected that activity to pick up to address sort of near-term space backfill. And does that impact of that short-term leasing flows through your re-leasing spreads?

Scott Kingsmore

Hi, Christy. No, the short-term leasing, the temporary leasing does not flow through the leasing spreads, by definition, those spreads are for deals that are greater than 12 months, but that activity obviously continues. If you look at our occupancy, it's still at a heightened level relative to temporary occupancy in the fullness of time and I think it's 6.4% at the end of the quarter. So we'll continue to see that I would tick down as we convert some of those users to more full rent-paying permanent users.

Christy McElroy

Okay. Thank you.

Tom O'Hern

Thank you.

Operator

Our next question today comes from Alexander Goldfarb, Sandler O'Neill.

Alexander Goldfarb

Thank you and good morning out there. So two questions. First, on the mortgage activity, maybe because you guys have obviously been active with Kings Plaza and some other stuff, we all saw the SoNo Mall underwriting. So maybe you can just give us an update on the mortgage market today, how it may have changed in underwriting, I'm sure it's probably by asset quality, but maybe you could just give us an update there? And then Scott on that point on Kings Plaza, I think you said there was $10 million of savings If I look in the supplemental, the existing loan looks to be the same rate as the new loan. So maybe you can just -- maybe I misheard the $10 million in savings or maybe you can just clarify that?

Scott Kingsmore

Yes, sure. I'll touch on the latter point. Good morning. Alexander. The Kings Plaza deal, yes, it's a very similar coupon rate, but it is full term interest-only, whereas the existing debt is 30-year amortizing. So incrementally that will generate $10 million of annual cash flow savings. We deliberately took an interest-only deal here, we obviously could have realized a tighter coupon if we had done amortizing. But I guess, to your first point, the markets were very receptive to this particular financing. It's a very sizable financing, being executed in the CMBS market on a single asset basis. The bidding was very deep and very thorough and we did get some balance sheet interest too, but given the size of the financing at $555 million, obviously it's difficult and challenging to pull together a club of that size. But we do see strong demand for A quality mall, debt financing both in the balance sheet arena as well as CMBS. So the -- that level of interest hasn't changed or abated at all this year.

Alexander Goldfarb

Okay. But as you look at some of your less, lower tier malls, do you think you'll get the same interest or those you probably have to resize those as those mature?

Scott Kingsmore

Well, generally we don't have a lot of those, but there are some that are coming up. And I think in those instances, we'll end up getting a little bit more creative. I do think we'll have credit sources for those to take those out. I do think they will end up with perhaps a little more structure and some more conservative underwriting. Fortunately for us though, those are more exceptions rather than the norm. But yes, I do think there will be credit sources to take those out.

Alexander Goldfarb

Okay. And then the second question is on Sears. Obviously, they remain in the headlines on the viability of the RemainCo, you guys still have some Sears that are open. Can you just update us how many of those are yours versus Seritage or JV with Seritage versus Sears-owned outright?

Scott Kingsmore

Yes, sure. We have got, we've got two that are within the Seritage JV which are Freehold and Danbury. We have three that are wholly-owned and that's Green Acres Mall, Stonewood and Victor Valley here in Southern California. Additionally, there are two non-owned Sears, which happened to be owned, wholly-owned by Seritage that are our portfolio, but obviously we don't have control of those boxes. So seven in total continue to operate.

Alexander Goldfarb

Okay. Thank you.

Operator

Jeremy Metz from BMO Capital Markets has the next question.

Jeremy Metz

Tom, just following up on Christy's question, you mentioned again some transactions in the work here beyond Tysons deal that you announced today. I guess one, any sort of rough guidelines you can give in terms of potential gross proceeds you could be looking at, are we talking about a similar level to what you targeted earlier this year? And then I guess the follow up here would be, you seem to have pretty similar comments throughout the year on a joint venture of the top 20 assets that hasn't quite happened yet, you did obviously Tysons residential, it seems like there is more type of that activity being considered. So I guess what sort of confidence should we take in these latest considerations actually happen or should we just take more of a wait and see approach from here?

Tom O'Hern

Well, obviously we're in negotiation on multiple assets here and it wouldn't behoove us to get into a lot of detail, it would be adverse to our negotiating position on those. But we're looking at multiple assets including a top 20 mall and some other non-core assets. So we delivered on Vita here and we will give you more details as we can on the others. In terms of confidence level here, it's in negotiation. So it's kind of hard to predict, but it is something we've done many times in our history. And don't be surprised to see it happening during the fourth quarter or the first quarter.

Jeremy Metz

And so, would it be wrong to think even to kind of put a rough framer that the same amount of gross proceeds that were out there early this year could be achieved or should we be thinking a lot less than that, anything rough?

Tom O'Hern

Well, I'd say the range is on the low side, 100 to the high side of 400.

Jeremy Metz

Got it. I appreciate that. It's helpful. And then in your opening you talked about the improving environment here, you talked about some of the good leasing volumes and the tenant sales strength you've seen. As we think about some of this translating into same store NOI from here, you had the muted level growth 2019, you have some of the headwinds that we talked about already on Forever 21 and some others. So will those outweigh some of the positive leasing activity and keep growth more or less muted or how should we think about that? Thanks.

Tom O'Hern

Well, we're not quite ready to give guidance yet. You did point out there is some headwinds. I think the impact of Forever 21 for example will be adverse to same center by about 130 basis points. The leasing environment has gotten better. We'll give guidance in January. We're not ready to do that right now though.

Jeremy Metz

Thanks, Tom.

Operator

Next up is Linda Tsai, Jefferies.

Linda Tsai

In terms of your comment about moving quickly to re-lease vacant spaces, you talked about how only three spaces remain for Charlotte Russe. Can you discuss what you're doing on the leasing side and maybe what you've changed in terms of processes to react quicker? And then how are you thinking about those three remaining spaces, are those in kind of like less desirable centers?

Doug Healey

Linda, it's Doug. With regard to Charlotte Russe specifically, I did mention, it was a big package with YM out of Canada. And then the other five were with other various retailers such as Five Below and a couple of other ones. With regard to the three that remain unleased, we're still sourcing demand. I think the point of those comments really were to show the ability to react quickly, albeit not covering all the rent. These deals are short-term in nature. We have right to the space. I think the positives were no capital -- very little to no capital invested and very, very little downtime.

Linda Tsai

Thanks for that. And then in terms of the $250 million to $400 million in debt financing proceeds you're expecting annually, does that assume steady state leverage? And then, if so, what's driving the gross asset value up?

Scott Kingsmore

As far as steady state leverage, I'll just refer back to Tom's comments in terms of what our pipeline looks like and opportunities look like for dispositions of retail or non-retail assets. In terms of being able to refinance and extract incremental value out of properties with rolling debt, really that's a debt-for-debt transaction, Linda. Any excess proceeds we take out are primarily going to repay our line of credit. So really it boils down to our ability to raise some equity through a disposition program.

Tom O'Hern

Well, the other side of that Scott as well is we do expect growing EBITDA as a result of bringing online some of our major redevelopment projects like Fashion District Philadelphia, as well as Scottsdale Fashion Square. So that's going to make a difference if the leverage metrics you're looking at happens to be debt-to-EBITDA.

Linda Tsai

Thanks.

Operator

Our next question comes from Vince Tibone, Green Street Advisors.

Vince Tibone

Hi, good morning. I just have one more quick one on Forever 21. You mentioned the $0.08 annualized impact on FFO from them. What will be the annualized impact on same store? I'm just trying to get a sense of any of that lost income will be treated as anchor rent and then not hit the same store metrics?

Scott Kingsmore

Yes, Vince. I would expect the majority of that will hit same center.

Vince Tibone

And can you just provide like, so what does the $0.08 translate to on a basis point impact to NOI, are you able to just kind of provide that color?

Tom O'Hern

Yes. I just mentioned a moment ago, it's about 130 basis points of impact to same center.

Vince Tibone

Perfect. Thank you. I appreciate it.

Tom O'Hern

That's okay, Vince. Thanks.

Operator

Derek Johnston from Deutsche Bank is up next.

Derek Johnston

Hi, everyone. How are you doing? God, a lot has been covered. Maybe a watchlist update given the fallout that we've had in the past few years and even this year. Is there anything on there that Scott you're worried, does Francesca has ever come up and how does the watchlist compared to what you're expecting for 2020?

Scott Kingsmore

Well, we don't get into the specific names that are on that watchlist, but in terms of the length of the watchlist, it's much shorter than it has been, I mean we've gone through a pretty significant period here starting in 2016 where a lot of names that were on that watchlist in the beginning of 2016 have gone into bankruptcy in 2016, 2017 and 2018 in the beginning of this year. So it's a much shorter list. There's always going to be names on there, but it's much more manageable than it was even a year ago.

Derek Johnston

Okay, great. And I guess just a bigger picture one. So everyone talks about retail disruption and including you guys today in the opening remarks. I mean how do you view the current state of retail today and how are the malls going to fit into it? And when we look at valuations and investor sentiment, where the pundits getting it wrong right now and really how are you guys really planning to take advantage of this evolving landscape and drive shareholder value?

Doug Healey

It's Doug. Contrary to what the -- what you might read or hear in the media, there is significant demand for our shopping centers. If you could point to my opening remarks, the tenant executions and the store openings are just a small subset of what actually is going on out there. And I think you know as our town centers really evolve, it becomes less about traditional apparel and shoes and jewelry and more about everything to everybody. So as the town centers expand, so do the uses and categories that we're able to choose from. And if you look at some of the categories that are very active and that we're dealing with right now, you're looking at large format and restaurants and fitness and theater, entertainment, experiential, DNVB's, the international retailers, and as Tom mentioned, co-working. So as our centers expand, so do the categories and the depth of activity in those categories is extremely significant.

Tom O'Hern

And just to supplement that, Doug. If you look at some live examples, take Industrious for example, we've added them to Scottsdale Fashion Square, we've got a few other deals with them. They bring roughly 400 consumers, right demographic to our malls every day to shop, to dine. It adds energy, it adds traffic. Another tenant that we're doing multiple deals with is Lifetime, high-end fitness. They have on average 5,000 members, many, many trips a week and that's going to add additional traffic and volume to our centers. So we're really evolving more towards town centers away from just being malls and lots of different uses, less apparel, more entertainment, more food and beverage and it's going to continue to evolve in a very positive way.

Derek Johnston

Thanks everyone.

Operator

The next question is from Haendel [ph], Mizuho.

Unidentified Analyst

So Barney's is closing all of its stores, I think except for one in Boston. So I'm curious what your plan is for your Barney's Box at Santa Monica Place and maybe what potential impact that might have on next year's FFO or same store NOI?

Scott Kingsmore

Yes. I'll turn over the leasing backfill to Doug, but these are -- we had two boxes. We had one in Chicago at Fashion Outlets and one in Santa Monica. These were small format stores that were not anchor boxes. So they're very inconsequential, not even really worth getting into and very, very immaterial in terms of financial impact. But Doug, I'll let you comment on what some of the backfill plans are.

Doug Healey

Yes. At Santa Monica Place, nothing is finalized yet. So I can't really speak specifically to the tenant backfill, but I can tell you there is significant interest in both the space in its entirety or in a couple of instances cutting it up into two or three separate spaces.

Unidentified Analyst

Okay, fair enough. And then, Tom, maybe one for you. You mentioned Industrious quite a few times on this call. I guess I'm curious, how comfortable are you or maybe what level of exposure you're comfortable with co-working as a concept in light of WeWork's troubled would call them here. It sounds like it's something you're contemplating in across a number of malls? And then maybe, is that something you're contemplating as well for some your former Sears boxes? And if so, can you share a bit more?

Tom O'Hern

Yes. We've done a few deals with Industrious, they're a great operator, they have a different business model than WeWork in terms of how they run their business. We like what they've done in terms of the synergies and the benefits at Scottsdale Fashion Square. And we think that use is going to be around for quite some time. Look at the locations they picked and they're great locations. We've got another one that's in the works at Broadway Plaza, that's about four blocks from the BART Station there and huge demand. So we think in the right locations it makes sense and it's very synergistic with other mall uses.

Unidentified Analyst

And the Sears boxes and their plan to backfill or something that you're not comfortable discussing about?

Tom O'Hern

I'm sorry, I didn't follow that question, Haendel.

Unidentified Analyst

Curious about -- if that's part of the plan for some of your former Sears boxes, just curious on the redevelopment plan to those former Sears boxes?

Scott Kingsmore

There is some potential, Haendel, at one of them. It's possible at one of the Sears boxes, but I don't think that's going to be a predominant share, it's just going to be an opportunity we have for a portion of the site.

Tom O'Hern

There's been pretty good demand for that space. I'm not sure we've got any availability for them frankly.

Unidentified Analyst

All right. Thank you.

Operator

And next up we'll hear from Caitlin Burrows, Goldman Sachs.

Caitlin Burrows

Hi, there. I guess I was just wondering on Fashion District now being open, I think the contribution to 2019 is relatively small, but considering your spend and the expected return, I think the expected quarterly NOI contribution is about $2.7 million. So just wondering if you could go through when you expect to reach that level of NOI contribution, how long that buildup could take?

Scott Kingsmore

Yes, Caitlin. I think by the time we get to 2021, that's our first stabilized year. We'll provide you some more definitive guidance next quarter when we give you our 2020 guidance. In terms of not only the NOI contribution, but also the FFO contribution, bear in mind, we'll be taking the cost and putting them into service too, so we'll no longer be capitalizing interest on those. So we'll give you a good idea of what the contribution is. I do think it's going to be a significant contribution to the bottom right now. The 2021 is our first stabilized year.

Caitlin Burrows

Got it. Okay, that's all. Thanks.

Operator

And we'll now go to Tammy [ph], Wells Fargo Securities. Tammy, your line is open. Please check your mute function.

Unidentified Analyst

Sorry about that. Just wondering, are you still expecting a 175 to 200 basis points drag this year from bankruptcies on 2019 same store growth? And then I guess as you think about next year, would you think that would be directionally higher or lower?

Scott Kingsmore

Yes. Sure, Tammi. This is Scott. Good morning. Look forward to meeting you at some point. Yes, I would say it's about 200 basis points and we gave a range of 175 to 200 last quarter. And I'd say it's elevated a bit because of what we've discussed about the one retailer stop mentioning the name. And as far as the impact on 2020, again we'll provide you some more definitive guidance in the next quarter. Directionally I think it would be less though.

Unidentified Analyst

Okay, great. Thank you. And then just the Charlotte Russe thesis, the rents that YM is paying, are those higher or lower relative to what Charlotte Russe was paying, if you could just give us some parameters around that? Thank you.

Doug Healey

It's Doug. With YM we'll be capturing just over half of what Charlotte Russe was paying us.

Scott Kingsmore

But again the notion there is no downtime, we got recapture rights. So it's a short-term opportunity and within the next two to three years we'll have the opportunity to re-lend that space, if not sooner.

Unidentified Analyst

Great. Thank you.

Operator

Up next is Ki Bin Kim, SunTrust.

Ki Bin Kim

Thanks. Can we just go back to the sources and uses topic, obviously I think a very important one for your stock and your company? Can you just recap for me what percent of your assets are still unencumbered? And you mentioned that you were looking at selling or selling a stake into some non-core -- sorry, non-malls, how many of those are actually left? I'm just trying of get a -- just a big picture sense of the different levers you can pull.

Tom O'Hern

I'll let Scott comment on the malls that are unencumbered. We've got five or six non-retail assets in the portfolio that could at any point in time be candidates for sale. Obviously, we just mentioned one of them Vita, the apartment tower at Tysons there is also an office tower there, it's an office tower at Scottsdale. And at some point, it will make sense for us to potentially create a liquidity event on the Westside One project, where we own 25% of what will be the Google headquarters, but that's probably down the road, not near-term. But once they open, that's certainly a candidate for disposition as well.

Scott Kingsmore

And Ki Bin, in terms of unencumbered assets, those are -- they include retail as well as non-retail. Bear in mind that we did close financing of the Tysons Tower this last quarter. So that's an example of non-retail. I'd say in total, we probably have roughly 15 plus assets or so that are unencumbered. Generally, those are in the lower quartile of our portfolio, but it's a pretty easy match if you look at our supplement.

Tom O'Hern

I mean, historically, a good source of liquidity has been refinancing of our top 20 assets where typically by the time we're at the end of a 10-year loan term, loan-to-value is probably in the high-30s, low-40% range and we typically finance at 55% to 60%. So it's very normal for us to have excess loan proceeds as we do our refinancings every year.

Scott Kingsmore

And Kings Plaza is a great example of that, Ki Bin. Obviously, we bought the asset from Vornado seven years ago, had interim financing in place and just after that period of time including our redevelopment of the Sears Box, we're pulling out an incremental proceeds of 125. So that's just one example of the ability to extract additional liquidity out of some of these very, very high quality assets.

Ki Bin Kim

And you think you have that level of liquidity from these assets from I guess other near-term maturities, if I look at 2020 maturities, secured debt maturities, you have Danbury Plaza, Fashion Outlets of Niagara, and I think that's about it. Do you think you're able to extract incremental financings from those as well?

Scott Kingsmore

I think we're going to be able to extract incremental liquidity out of our assets in the range that I provided earlier and that's going to come from existing debt rollover, it's going to come from other sources too including construction financings. I just mentioned, our Westside loan that we anticipate to close in the fourth quarter, which will fully cover any remaining costs to be incurred for developing that to Google campus. So all of that goes into the mix. But yes, I do think we'll be able to hit those targets that I mentioned in my opening remarks.

Ki Bin Kim

All right. Thank you.

Scott Kingsmore

You bet.

Operator

And we'll go to Michael Mueller, JPMorgan.

Michael Mueller

Yes, hi. I was wondering, can you walk through how we should think about the co-working transactions in terms of lease structures and economics?

Tom O'Hern

I'm not really going to get into economics of individual deals, Mike, but I will tell you the way we've structured the co-working deals, they're percentage rent deals.

Michael Mueller

Michael Mueller

Okay. And what about duration in terms of the lease term?

Tom O'Hern

Duration are I think generally 15 years.

Michael Mueller

Okay, that's helpful. Thank you.

Tom O'Hern

Thanks.

Operator

And everyone that does conclude our question-and-answer session. I'll hand back to the speakers for any closing remarks.

Tom O'Hern

Thank you, Lisa. Well, thank you for joining us today. And we look forward to seeing many of you in a couple of weeks out here at Los Angeles for NAREIT.

Operator

Ladies and gentlemen that concludes today's conference. Thank you all for your participation today. You may now disconnect.