



Federal Realty Investment Trust (FRT)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$114	5 Year CAGR Estimate:	1.7%	Market Cap:	\$9.5 B
Fair Value Price:	\$81.5	5 Year Growth Estimate:	4.3%	Ex-Dividend Date:	1/2/25
% Fair Value:	140%	5 Year Valuation Multiple Estimate:	-6.5%	Dividend Payment Date:	1/15/25
Dividend Yield:	3.9%	5 Year Price Target	\$101	Years Of Dividend Growth:	57
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Federal Realty is one of the larger real estate investment trusts (REITs) in the United States. The trust was founded in 1962 and concentrates in high-income, densely populated coastal markets in the US, allowing it to charge more per square foot than its competition. Federal Realty trades with a market capitalization of \$9.5 billion today.

On October 30, 2024, Federal Realty Investment Trust (NYSE: FRT) announced its financial results for the third quarter ended September 30, 2024. The company reported net income available for common shareholders of \$0.70 per diluted share, up from \$0.67 per diluted share in the same quarter last year. Operating income also saw an increase, reaching \$105.8 million compared to \$100.1 million in Q3 2023. Funds from Operations (FFO) available to common shareholders improved to \$1.71 per diluted share, up from \$1.65 per diluted share in the third quarter of 2023.

Federal Realty demonstrated strong leasing performance during the quarter, signing 126 leases for a total of 580,977 square feet of comparable retail space. This achievement reflects a cash basis rollover growth of 14% and a 26% increase on a straight-line basis. The company also reported a 2.9% growth in comparable property operating income (POI), excluding lease termination fees and prior period rents collected. Portfolio occupancy reached an impressive 94.0%, with a leased rate of 95.9% at the end of the quarter. These figures represent significant increases of 90 basis points in occupancy and 60 basis points in leased rate quarter-over-quarter, as well as 170 basis points in occupancy and 190 basis points in leased rate year-over-year. Additionally, small shop leasing remained robust, ending the quarter with a 93.1% leased rate, up 60 basis points quarter-over-quarter and 240 basis points year-over-year.

In terms of portfolio expansion, Federal Realty acquired Pinole Vista Crossing in Pinole, California—a grocery-anchored shopping center comprising 216,000 square feet on 19 acres of land—for a purchase price of \$60 million. This acquisition underscores the company's strategic focus on expanding its presence in key markets and enhancing its high-quality property portfolio.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$4.94	\$5.32	\$5.65	\$5.91	\$6.23	\$6.33	\$4.52	\$5.57	\$6.32	\$6.55	\$6.79	\$8.40
DPS	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.22	\$4.26	\$4.32	\$4.34	\$4.40	\$4.78
Shares¹	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.4	83.0	85.0	85.0

We use funds-from-operations (FFO) instead of earnings-per-share for REITs as the latter is messy and uninformative for this industry. Prior to 2020, Federal Realty's funds-from-operations had not dipped year-over-year at any point in the past decade, a tremendously impressive feat given that the trust operates in the highly cyclical real estate sector.

While growth numbers have not always been impressive, the simple fact that it has such a consistent track record of safety and stability when it comes to funds-from-operations and dividends per share makes it one of the most desirable REITs in the market. Federal Realty's growth moving forward will be comprised of a continuation of higher rent rates on new leases and its impressive development pipeline fueling asset base expansion. Margins are expected to continue to

¹ Share count in millions

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rise slightly as it redevelops pieces of its portfolio and same-center revenue continues to move higher. Moving forward, we expect FFO/share to grow at a mid-single-digit pace. We also expect Federal Realty to continue increasing its streak of 57 consecutive years of dividend increases.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	24.3	27.8	27.2	27	22.9	19.6	20.7	16.2	24.6	13.9	16.8	12.0
Avg. Yld.	2.7%	2.4%	2.5%	2.5%	2.8%	3.4%	4.5%	4.7%	2.8%	4.8%	3.9%	4.7%

Federal Realty's valuation now stands at 16.8 times our 2023 FFO estimate, which is above our fair value estimate of 12 times FFO. That said, we expect the payout ratio to continue to trend downward moving forward as the company will be focusing on strengthening its portfolio and balance sheet moving forward, so the dividend yield will likely only increase to 4.7% over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	67%	68%	68%	67%	65%	66%	93%	76%	68%	66%	65%	57%

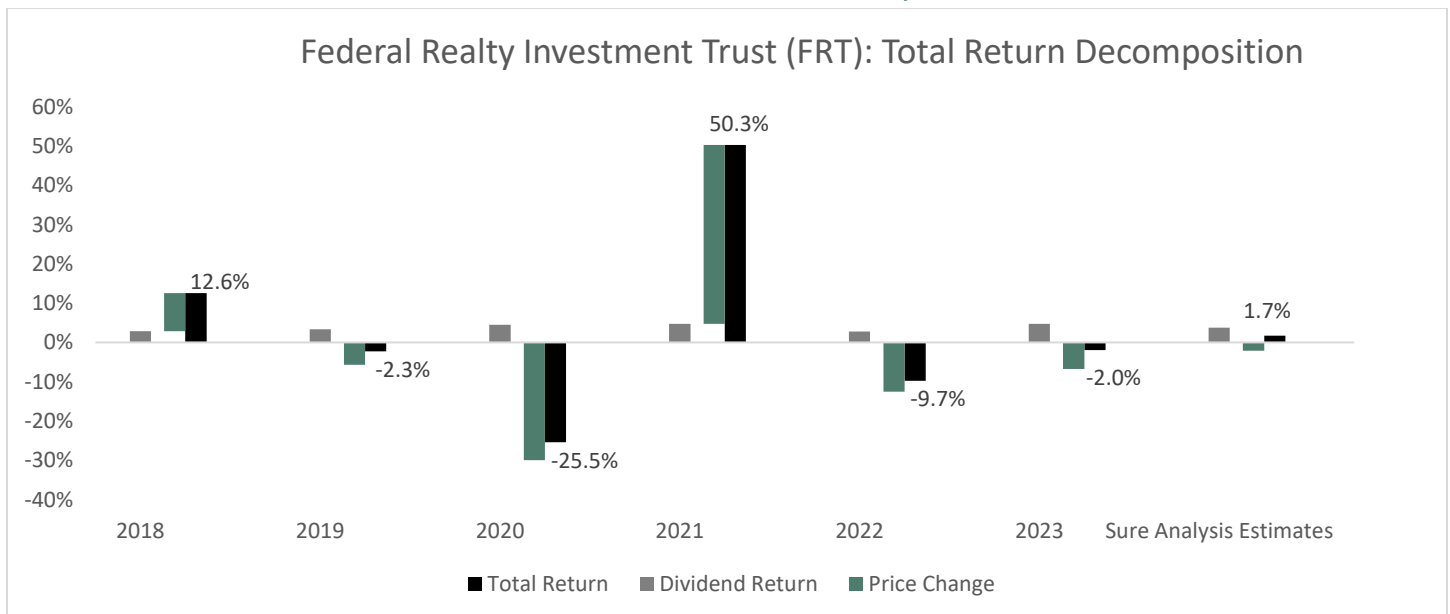
Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see that changing. The preferred mix of dividend payments as a percentage of FFO is two-thirds, and that is where we see the dividend in the coming years. Federal Realty's dividend payment is still considered moderately safe and should continue to be raised for many years to come.

Federal Realty's competitive advantages include its superior development pipeline, its focus on high-income, high-density areas and its decades of experience in running a world-class REIT. These qualities allow it to perform admirably, and even grow through recessions, when some of its lesser peers struggle to keep the lights on.

Final Thoughts & Recommendation

We are forecasting total annualized returns of 1.7% going forward. Federal Realty is a high-quality name that has an impressive dividend growth track record. However, we rate the REIT as a Sell given its poor total return outlook.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	686	744	802	857	915	936	835	951	1,074	1,132
Gross Profit	474	511	548	585	628	637	545	635	718	769
Gross Margin	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%	65.3%	66.7%	66.8%	67.9%
SG&A Exp.	32	36	33	36	34	43	42	50	53	51
D&A Exp.	171	175	194	216	244	240	255	280	302	322
Operating Profit	271	300	321	332	350	355	249	305	363	397
Operating Margin	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%	29.8%	32.0%	33.7%	35.0%
Net Profit	165	210	250	290	242	354	132	261	385	237
Net Margin	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%	15.8%	27.5%	35.9%	20.9%
Free Cash Flow	(15)	87	(10)	(60)	148	52	(132)	31	100	245

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,547	4,897	5,423	6,276	6,290	6,795	7,608	7,622	8,234	8,437
Cash & Equivalents	48	21	23	15	64	127	798	162	86	251
Accounts Receivable	93	110	117	210	142	153	160	169	198	202
Total Liabilities	2,735	2,977	3,204	3,743	3,686	4,019	4,921	4,745	5,022	5,211
Accounts Payable	146	147	202	196	178	256	229	235	190	175
Long-Term Debt	2,338	2,556	2,727	3,213	3,158	3,357	4,291	4,048	4,329	4,599
Shareholder's Equity	1,594	1,654	1,967	2,107	2,186	2,375	2,304	2,421	2,794	2,804
LTD/E Ratio	1.46	1.54	1.38	1.42	1.35	1.32	1.74	1.57	1.47	1.55

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%	1.8%	3.4%	4.9%	2.8%
Return on Equity	9.7%	11.3%	12.1%	12.2%	9.4%	13.2%	4.8%	9.4%	12.7%	7.4%
ROIC	4.1%	4.9%	5.3%	5.4%	4.2%	6.0%	2.0%	3.8%	5.3%	3.1%
Shares Out.	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.4	83.0
Revenue/Share	10.17	10.79	11.28	11.87	12.49	12.52	11.06	12.29	13.35	13.92
FCF/Share	(0.22)	1.25	(0.14)	(0.83)	2.02	0.70	(1.75)	0.40	1.24	3.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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