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SKT - Q4 2019 Tanger Factory Outlet Centers Inc Earnings Call

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PRESENTATION

Cyndi M. Holt - *Tanger Factory Outlet Centers, Inc. - VP of IR*

Good morning. This is Cyndi Holt, Vice President of Investor Relations, and I would like to welcome you to the Tanger Factory Outlet Centers' year-end 2019 conference call. This morning, we issued our earnings release as well as our supplemental information package and investor presentation. This information is available on our Investor Relations website, investors.tangeroutlets.com.

Please note that during this conference call, some of management's comments will be forward-looking statements that are subject to numerous risks and uncertainties and actual results could differ materially from those projected. We direct you to our filings with the Securities and Exchange Commission for a detailed discussion of these risks and uncertainties.

During the call, we will also discuss non-GAAP financial measures as defined by SEC Regulation G, including funds from operations, or FFO, adjusted funds from operations, or AFFO, same-center net operating income and portfolio net operating income. Reconciliations of these non-GAAP measures to the most directly comparable GAAP financial measures are included in our earnings release and in our supplemental information. This call is being rebroadcast for a period of time in the future. As such, it is important to note that management's comments include time-sensitive information that may only be accurate as of today's date, January 27, 2020. (Operator Instructions). Following management's prepared comments, the call will be open for your questions. We request that everyone ask only 1 question and 1 follow-up to allow as many of you as possible to ask questions. If time permits, we are happy for you to requeue for additional questions.

On the call today will be Steven Tanger, Chief Executive Officer; and Jim Williams, Executive Vice President and Chief Financial Officer.

I will now turn the call over to Steven Tanger. Please go ahead, Steve.

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Good morning, and thank you for joining us. Before we get into the discussion of our 2019 results, fourth quarter performance and outlook for this year, I want to address the timing of our earnings call this quarter. This past Friday after the market closed, S&P announced that our shares are being removed from its S&P high-yield dividend and risk credit index. The primary premise of this index is long-term consecutive dividend growth, and we're extremely proud to have increased our dividend for 27 consecutive years. However, as of their measurement date of December 31, our market cap was below their threshold of $1.5 billion. Consequently, we will be deleted from the index prior to the open on Monday, February 3. Since there may be heightened trading volume in our shares with funds, which track that index, we want to expediently provide the market with our 2019 results and our outlook for 2020.

Now turning to our results. We delivered solid performance in the fourth quarter, capping a year where we exceeded our guidance with strong leasing execution, we ended the year with consolidated portfolio occupancy of 97%, contributing to better-than-expected same-center net operating income. I'm particularly proud of our leasing team, who succeeded in accomplishing one of our key strategic goals, of keeping our centers highly occupied with desirable tenants.

In 2019, we faced similar industry headwinds that many peers experienced, particularly related to several bankruptcies and brand-wide restructurings, which resulted in Tanger recapturing 198,000 square feet during the year. Even with this level of space coming back to us, we ended the year with consolidated portfolio occupancy up 110 basis points sequentially and up 20 basis points year-over-year. The success of our leasing team has been able to deliver, supports our ongoing confidence in our business and a compelling offer that Tanger Centers provide to both shoppers and tenants. While the retail model continues to evolve, retailers are increasingly discovering that brick-and-mortar stores are a critical element of successful omni-channel distribution strategies. The combination of online and physical stores produces a halo effect that often results in much higher dwell time and spend in both channels. Driving additional sales and brand connection with consumers are priority goals for retailers and physical locations help achieve them. As a result, we are seeing increased interest in outlet space from brands that had previously focused solely on online distribution. Brand name retailers remain committed to the outlet distribution channel and continue to benefit from our value proposition, including our low-cost of occupancy, which remains about 10%. Many of our high-quality core tenants are expanding and adding stores. We are focused on further diversifying our tenant base, including adding new tenants to Tanger Centers such as home decor and furniture stores, popular off-price stores and various vibrant restaurant concepts. Our business development efforts continue to gain traction and generate interest from new and existing permanent tenants as well as pop-up and temporary stores, testing the outlet strategy that have the potential to become long-term tenants. As a result of our highly focused leasing efforts and enhanced marketing programs, our centers enjoyed favorable traffic in the fourth quarter and for the full year, up 50 and 100 basis points, respectively, as shoppers continue to frequent Tanger Centers.

As I mentioned earlier, we entered the year -- we ended the year 97% leased, which is the 38th consecutive year we have exceeded 95% at year-end. This demonstrates our strong retailer relationships and the appeal of the Tanger brand. When you consider the amount of space recaptured during 2019, this achievement is a testament to our unwavering commitment to drive our business.

For the trailing 12 months ended December 31, average tenant sales for the consolidated portfolio were $395 per square foot, up 3% from the prior year. On an NOI-weighted basis, they were $429 per square foot, up 4%. Same-center tenant sales performance increased by 1.5%. Same-center NOI declined by 40 basis points for the fourth quarter and 70 basis points for the year compared to the prior year periods. While significantly better than our guidance, these results reflect the challenges we faced last year and which we will continue to face in 2020. For the trailing 12 months, 337 leases commenced, totaling approximately 1.5 million square feet. Our blended average rental rates increased 2.7% on a straight-line basis and 1.3% less on a cash basis for all leases that commenced in 2019.

Looking ahead, as we progress through 2020, we anticipate increased pressure on spreads as we continue to make maintaining a high occupancy a priority. As discussed last quarter, we have already recaptured 303,000 square feet in January related to all of the Dressbarn and Kitchen Collection stores and certain of the Destination Maternity and Forever 21 stores, many of which we're paying rents per square foot above our portfolio average. The known impact is about 350 basis points on our 2020 same-center NOI, while some of these situations remain fluid.

Another key strategic focus is our marketing and customer engagement effort, which continues to drive traffic to our centers. We concentrated our marketing initiatives early in the season based on a shorter selling period between Thanksgiving and Christmas, in order to get shoppers to the centers when the product assortment and inventory were highest. We have also focused on creating experiences and highlighting the social element of shopping. To that point, we're investing in both temporary and long-term experiential events at our centers, which gives shoppers an additional reason to come to our centers and encourage them to extend each visit.

In 2019, we hosted more than 300 events, which includes some experiences as family festivals, black party celebrations, wine sip and shops, Halloween costume contest, holiday tree lightings and much more. Overall, the events resulted in an average increase in comparable traffic over event time periods of more than 2%. These events have proven to draw shoppers and will continue to be an important component of our marketing strategy in 2020. We have also continued to develop new digital and online marketing programs designed to target and engage our various customer segments with a more personalized approach. We know our TangerClub shoppers are highly engaged, and we make it a priority to grow membership in this key segment in 2019. Our efforts resulted in having approximately 21% more TangerClub members at the end of 2019 compared to the end of the prior year.

In 2020, we will continue to focus on marketing innovation and technology. Through improved data resources, we are better understanding our shoppers, providing more personalization and more effectively driving visits and sales conversion. By targeting the right people with the right brand name value, we are drawing new and existing shoppers, achieving engagement and gaining loyalty. These are all areas where we have a successful track record and we have -- and we now have the opportunity to refine and enhance our efforts to see ever-improving results. While we remain encouraged by the success of both our leasing and marketing initiatives, we are cognizant of the headwinds we're facing. In addition to known retailer departures I have discussed, we anticipate there could be additional space coming back later this year. Given this backdrop, we will be as aggressive in 2020 as we were in 2019, with the intent to achieve leasing success and overcome the known and unknown vacancies, including continue to target a mix of new and existing permanent tenants as well as pop-up and temporary stores.

We're seeing interesting opportunities to upgrade and diversify our tenant mix. To sell or lease some outparcels to hotel, food and multifamily users and to add additional high-volume nontraditional tenants to our retail offering. While re-leasing the recaptured space will take time, our teams are working diligently across the company. And we look forward to providing updates as the year progresses.

While under -- and -- while understandable with the retail challenges of today's world, the company's share price decline is disappointing to all of us at Tanger, especially given the stability of our balance sheet, our strong annual free cash flow, our high occupancy and the increases in both traffic and sales. The outlet distribution channel remains a highly -- a relatively inexpensive and important part of many retailers' sales efforts. Despite the well-publicized list of store closures, we're continuing to see -- continuing to lease vacancies to both new and existing tenants.

Our initial preleasing success at Nashville, Tennessee, shows there is a strong demand for well-conceived outlet projects in good markets. Preleasing is meeting our expectations and on schedule. We are continuing a thorough search process to identify a new President and Chief Operating Officer. As expected, the process to find the right person to help effectively navigate this ever-changing retail landscape is taking time. We are now -- we are more focused on finding the right person than on getting someone in quickly. We'll be happy to update you at the appropriate time.

Finally, our Board of Directors has approved a $0.01 per share or 70 basis point increase in our annualized dividend to $1.43 per share. Since becoming a public company in May 1993, the company has paid a cash dividend each quarter and has increased our dividend each year, putting us among a very small group of equity REITs to have achieved such a milestone. We're all very proud of this record. I'd like to again thank the Tanger team for their hard work, dedication and creativity and navigating the evolving retail landscape. Our outperformance last year is a direct result of their efforts. As we move into 2020, I'm confident in our team will continue to demonstrate these qualities.

With that, I'd like to now turn the call over to Jim to take you through our financial results, provide a brief balance sheet recap and some details regarding our 2020 guidance.

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

Thank you, Steve. Fourth quarter AFFO available to common shareholders was $0.59 per share compared to $0.64 per share in the fourth quarter of 2018. The current year period includes a $0.04 per share dilutive impact from 4 assets, which were sold in March of 2019. For the full year 2019, AFFO was $2.31 per share compared to $2.48 in the prior year. Full year results include an $0.11 per share dilutive impact from the sold assets.

In the fourth quarter, for the consolidated portfolio same-center NOI decreased 40 basis points compared to the prior year quarter, driven primarily by tenant bankruptcies, lease modifications and store closures. And for the full year, same-center NOI was down 70 basis points. These results exceeded our guidance, primarily due to outperformance in our leasing efforts, along with higher percentage rents from increased sales and lower expenses as a result of a mild winter season.

We continue to maintain our strong financial position. We have no significant debt maturities in our consolidated portfolio until December 2023 and a low 3.5% weighted-average interest rate. As of December 31, approximately 94% of the square footage in our consolidated portfolio was not encumbered by mortgages. Our unsecured lines of credit were undrawn with $600 million of capacity. We maintained a substantial interest coverage ratio for the year of 4.3x, and net consolidated debt-to-EBITDA was approximately 5.7x for the trailing 12 months. Our floating rate exposure represented less than 1% of total outstanding debt and the average term to maturity, including extension options, was 5.5 years.

In 2019, we reduced our outstanding consolidated debt by $143 million. The strength of our balance sheet provides us with stability and flexibility and we continue to generate significant free cash flow after payment of our dividend. At this time, we plan to utilize our cash on hand and internally generated free cash flow to reinvest in our assets, raise our dividend and fund our new development in Nashville later this year. In 2020, we will remain disciplined in our capital allocation strategy.

Let me now provide some perspective on our center in Jeffersonville, Ohio, where we took a noncash impairment. Despite efforts to proactively remerchandise the center, it has continued to be impacted by unexpected store closures from bankruptcy filings or brand-wide restructurings, including additional anticipated vacancies in 2020. Based on our current outlook for the center, we anticipate that it will be challenging to recover these vacancies. Therefore, we wrote the asset down to its estimated current fair value.

In terms of our outlook for 2020, we estimate that FFO per share will be between $1.96 and $2.04. The release we issued this morning includes our key guidance assumptions and a bridge to 2019 FFO results. As Steve mentioned earlier, approximately half of our expected same-center NOI decline at the midpoint is related to the situations where we have already recaptured the space. Our assumption for the remaining potential closures is primarily related to a few unresolved situations that we are unable to discuss at this point. We expect that Jeffersonville, where we recorded a significant impairment will reduce same-center NOI by approximately 70 basis points. Lease termination fees will depend on specific tenant outcomes, and we do not incorporate fiscal assumptions into our guidance until we have reached agreements with tenants. We are proud of our accomplishments in 2019, and our team is committed to continuing to work and outperform again this year.

I'd now like to open it up for questions. Operator, can we take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Christy McElroy with Citigroup.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

I'm wondering if you could shed some light on any conversations you may have had with State Street on how they plan to effectuate their share sale this week? And while I recognize it's not in guidance, is a buyback an option to help facilitate that trade?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

First of all, we cooperate with all of our large shareholders, and get appropriate representations to ensure that we maintain our REIT status. We have looked at with our advisers, many different scenarios and opportunities with regard to the position at State Street. And right now, we've decided just to continue with our -- continue to execute our business strategy and not to change the leverage profile of our balance sheet. So the market will take care of itself. And we're as anxious as you are to see how it reacts.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Okay. And then just in regard to 2020 guidance, obviously, there's the occupancy piece and the rent renewal piece. I just want to understand a little bit, in terms of your occupancy guidance of 92% to 93%, is that an all-in number, including the 625,000 to 675,000, including the unknowns? Or is that just related to the 303,000 of knowns? And then in regard to re-leasing spreads, I think you made a comment that the 303,000 of knowns, those were above-market rents. So I'm just trying to get a handle on, what's in the occupancy number? And what are you assuming for cash re-leasing spreads?

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

Christy, this is Jim. I'll take your first question. In our occupancy guidance of 92% to 93%, that is all-in. That would include both the space that we've captured today and the anticipated further store closings. With regard to the rent spreads, yes, given the point that you made, we do anticipate some pressure on rent spreads for 2020.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Can you quantify that pressure on rent spreads? I mean, I know you've re-leased some of the space already. You talked about 46% of the expirations released year-to-date. Can you give us some sense for what that same-store guidance range assumes for that pressure on rent spreads?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

The rent spreads, our guidance for 2020 rent spreads is included in our same-center guidance for the year. And I really don't want to break out at this point in the year, how the spreads will be impacted. We'll be -- because it's still really early. We'd be happy to update you as the year progresses. But our guidance does include our best guess as of today, the end of January as what the spreads might be.

Operator

Your next question comes from the line of Todd Thomas with KeyBanc Capital Markets.

Todd Michael Thomas - *KeyBanc Capital Markets Inc., Research Division - MD and Senior Equity Research Analyst*

Steve, I just wanted to follow-up on the deletion from the high-yield dividend in Aristocrats index. You mentioned that the announcement was the reason for the earnings release this morning. And I'm just curious, what do you assess will be the potential impact of this announcement?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We did not want any delay between the S&P announcement on Friday night and our earnings guidance and reporting our results from 2019. That's why we decided to schedule the call this morning. We have no idea of the market reaction to the number of shares that probably will be traded in the next week to 10 days. This is an unprecedented event. Candidly, we don't know, the market doesn't know. And as I mentioned before, we're as anxious to see how the market reacts as you are.

Todd Michael Thomas - *KeyBanc Capital Markets Inc., Research Division - MD and Senior Equity Research Analyst*

Okay. And then, can you comment on the rationale around the dividend increase? I guess, I'm just curious, despite the outlook for 2020 with the FFO guidance down a little more than 10%, I'm curious if you can just shed some light on the dividend increase?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Well, let me put it in perspective, first of all. The $0.01 dividend increase requires less than $1 million of our free cash flow. We maintain and have always maintained a well-covered dividend and have a strong generate -- a strong balance sheet, and we anticipate generating significant free cash flow again in 2020. So it's -- our Board carefully thought about and decided that it was important for the stakeholders that depend on our dividend to continue for the 28th year to increase it.

Operator

Your next question comes from the line of Samir Khanal with Evercore.

Samir Upadhyay Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

So Steve or Jim, I mean, you're forecasting 350,000 of additional closures. I guess, how much of that do you already know, it's sort of pending versus how much of that sort of is cushion you baked into the guidance to capture sort of the unknowns at this point?

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

Samir, the -- most of that is primarily related to a few unresolved issues, not all of it, but some -- but a big portion of that. And those are some issues right now that we're unable to discuss at this point and happy to get more clarity as the year goes through.

Samir Upadhyay Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

Okay. And then, I guess, as a follow-up. When I look at your same-store NOI guide being down sort of 7.5%, when are you assuming that potential 350,000 square feet comes back to you? Is that out for the full year? Or are you assuming sort of midyear closure in 2020? Because if it's midyear, my thinking is that could be -- there could be additional drag in 2021. So just trying to get the timing of that.

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

There's some throughout the year, Samir, I think. But probably more so in the first half of the year than the second half of the year. But it's really unknown, as we said right now, it's -- the issues are unresolved and we'll just have to see how that plays out as we go through the year.

Operator

Your next question comes from the line of Greg McGinniss with Scotiabank.

Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Is there any update that you can possibly provide on expectations from the Forever 21 bankruptcy? Or is that part of that unresolved closures? And maybe how much of that unresolved closures is that piece?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We're -- we have been talking to Forever 21 for quite some time. It -- their store count and our expectation for what may unfold with Forever 21 is in our guidance. We wanted to be cautious and give the market our best estimate of the unknown results or the unknown impact on our guidance and we'll be happy to, as the year goes by, when these become known, to update you. As I'm sure you know, even as of this morning or last night in the press, the Forever 21 situation remains fluid.

So we've had 2 of our 14 stores closed as of the end of the year. Our footprint with Forever 21 at about 10,000 square feet per store is significantly smaller than other Forever 21 stores in different portfolios, but it's still unknown.

Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

And so I think the anticipated closures that you mentioned in last quarter's call was the 2 closures. So is that just the 2 that have already closed? Or is that kind of number changed in terms of expectations?

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

Yes. Greg, it's Jim. Those -- the 2 stores that closed were the 2 stores that we had expected to close, and I said -- I mentioned earlier.

Operator

Your next question comes from the line of Michael Mueller with JPMorgan.

Michael William Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Are there significant rent cuts assumed above and beyond the square footage that you're budgeting that you could lose?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Our guidance includes store closures, adjustments to rents. Everything that -- our guidance includes all of those issues. We hope conservatively, and that's how we got to our guidance for same-center NOI for 2020. And as I -- I just want to make a self-serving comment. Our guidance last year was exceeded by our performance significantly, and we've added additional leasing representatives, we are talking to a broader spectrum of new types of tenants. So our focus now is on leasing the vacant space that was returned by overleveraged tenants that were purchased by our private equity funds and poorly managed, poorly merchandised tenants that are now going out of business and being replaced by some new exciting tenants. And we hope to add some of those new exciting tenants to our centers as the year goes on.

Michael William Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Got it. And what are the attributes of the Jeffersonville center that you see that are making it harder to re-lease that property, so you're taking the impairment on?

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

Mike, this is Jim. The -- with Jeffersonville, it's a center that's been in the bottom of our portfolio. It's one of the few centers we actually have that's outside -- that sits in between 2 markets and it's outside of a -- either a tourist destination or a top MSA. There's been a little shift in the competitive environment. So when the center gets hit with these kind of vacancies, it does take a lot of time, and it's a little bit challenged to get -- to recover that -- recover those vacancies.

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

And I might just say that even though this asset is a noncore asset for us, in utmost transparency, we have decided to include the Jeffersonville performance in our same-center NOI guidance. And we'll update that, obviously, as the year goes by.

Operator

Your next question comes from the line of Vince Tibone with Green Street Advisor.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

You mentioned bringing more restaurant concepts into your center, so I was hoping you could share what percentage of your rent today comes from restaurants? And where you could see that going over the next few years?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Right now, well, different types of restaurants, let me clarify. We have very few white tablecloth, sitdown restaurants. We do have quite a few family friendly, moderately priced restaurants like Red Lobster and many more, we've added additional Starbucks, and we also opened up a very interesting -- it's a urban tasting ancillary called Smith Creek distillery, which also serves food and adds little life and fun to our properties. So we're talking to all different types of food users. Also on our outparcels, we are talking to and working with several different type of family fresh -- family friendly restaurants to go on the outparcels near our centers.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Got it. So would any of these restaurants be able to take in or backfill some of the newly vacant space? Or more of these opportunities on the outparcels and really densifying the centers in a way?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

I think both. We're working with people to come in to the existing centers and to take the outparcel space.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Got it. And then one more for me on temporary tenants. So what is the typical length of those leases? I'm trying to get a sense of those temporary deals that're likely a lot lower rent per square foot. Are those being included in the leasing spreads? Or are they generally too short to where they wouldn't hit that threshold?

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

No. Temporary tenants are leases that have a term of 12 months or less with us. And their terms could be anywhere from 3 months to a year. We do not include the temporary tenants in our rent spreads.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

Got it. But they are included in that total portfolio occupancy level, just to be clear?

James F. Williams - *Tanger Factory Outlet Centers, Inc. - Executive VP & CFO*

Yes. Yes, they are.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

And is there any sort of sense you can give us of where -- how many tenants are on that shorter rent arrangement now? And do you see that going higher this year?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We have probably a little elevated group of temporary pop-up tenants, probably close to between 5.5% and 6% this year, and so maybe 100 basis points from a year before.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

And that's on a square-footage basis, just to clarify?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

I'm sorry, I didn't hear you.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of Retail*

I said is that the square-footage basis or a rent basis, that -- those numbers you just cited?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

On a square-footage basis.

Operator

Your next question comes from the line of Craig Schimdt with Bank of America.

Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

Given the amount of space that's going to needed to be leased, I'm assuming we should expect an increase in tenant allowances and CapEx. Do you have a sense of how much that might increase?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Craig, that's in our guidance. And we -- the basic amount of our tenant allowance in our guidance is comparable to last year, somewhere between $17 million and $19 million, or about $40 a foot.

Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

Okay. And then, when you look at your tenant exposure, how much longer do you think you're going to be in the -- these sort of accelerated store closings hitting your portfolio? Does it extend to '21, '22 and beyond?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Greg, I wish I could tell you how people would merchandise their stores and our people would finance their businesses. These are, obviously, issues outside of our control. And they're issues that impact all of the retail industry, regardless of the distribution channel. We work hard with our tenants. We have a marketing group and we have a group that works with -- from our leasing group combined, and we work with tenants to structure and execute exclusive and unique marketing programs to try to drive their sales and to help them. But there is no answer for that, Craig. But we do monitor a lot of different tenants that are below our portfolio average and work hard to try to improve their sales by increasing traffic.

Craig Richard Schmidt - *BofA Merrill Lynch, Research Division - Director*

Okay. And just how has the introduction of off-price retailers into your tenant base worked out?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We have several T.J. Maxx, Marshalls, HomeGoods, and other type of off-price retailers. It's been seamless. We tested in Foley, Alabama, 5 years ago, the concept to see if there would be any friction between off-price retailers and some of the fine brand names that are sold in that store, and there was no friction. So based on that success, we're working with them about introducing more stores.

Operator

(Operator Instructions) We have a follow-up question from Christy McElroy with Citigroup.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

It's Michael Bilerman here with Christy. Steve, do you have a sense on the extra 300,000 square feet that you expect that you're negotiating with? And I understand you can't talk about the specific situations, but what is the cadence during the year of that square footage coming out and impacting same-store relative to your guidance?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Well, obviously, since it is unknown, this is just my best estimate. We think that the -- these situations will be resolved in the first 6 months of the year. And we have put the last 6 months' impact as best we could guess into our guidance.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Okay. Christy also had a question.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

Yes. Sorry, I had a follow-up. Just with lower income due to the occupancy decline, and you talked about the higher CapEx assumed, which is in your guidance that -- all that causes upward pressure on your FAD payout ratio, obviously, in 2020 versus 2019. What is your estimation of free cash flow after dividend for 2020? And how does that change your capital allocation priorities as you think about putting capital to work?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We anticipate this year to have free cash flow after the payment of our dividend of around $75 million. We anticipate continuing to upgrade our shopping centers of greater co-tenancy, raise our dividend, and we feel we have -- and start our new development in Nashville, all with internally generating cash flow, and we have $16 million of cash on hand. So we anticipate that the cash flow and the cash on hand will be adequate to fund our capital needs in 2020 without changing our leverage profile.

Christine Mary McElroy Tulloch - *Citigroup Inc, Research Division - Director & Senior Analyst*

And you made a comment earlier regarding potentially selling land to hotel, food and multifamily uses, what could be any proceeds from that?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

They are not significant. And they do take quite a while to complete due diligence and get these assets and these uses sold. But we're in discussions with 7 or 8 different types of uses in various different categories such as multifamily, food, fitness, that we think will add to the traffic of this center and the surrounding area and more shoppers and longer dwell time.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Guys, one last question from me. One of the strategies for the last few years was putting a number of tenants on short duration leases at dramatically reduced rents, and then hopefully, as those leases come up, be able to find them to full-term market deals. Can you at least share what's embedded in guidance for this year for the leases that are coming up that were previously marked down 25%, 30%, how much square footage, I guess, comes back to market? Is that acting as a positive offset to same-store, at all?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

If you're discussing a bounce back of significant impact, there was not. We have fewer, much less of the short-term leases that we had previously. We've been successful in extending some of the short-term leases that came to the end of the term and extending them for 2 and 3 and 4 years, extending them out more. And it was a successful strategy to keep the occupancy robust until we were able to find a longer-term tenant.

Operator

(Operator Instructions) We have a follow-up question from Greg McGinniss with Scotiabank.

Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just regarding tenant sales, which continues to show some modest year-over-year improvement, I'm just trying to understand if that's from weaker tenants falling out, which increases the average or if sales are actually doing better? So kind of assuming, is it fair to assume that tenant sales are going to increase once Dressbarn is no include -- no longer included in the average next quarter?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

I think that's fair to assume.

Greg Michael McGinniss - *Scotiabank Global Banking and Markets, Research Division - Analyst*

And so is the tenant sales growth, is there any -- is it broad-based for what is in the tenants that you have had? Or is there certain tenants doing more of the heavy lifting, similar to a Tesla or Apple helping out the malls?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Fortunately, we don't -- unfortunately, we don't have Tesla or Apple. And Greg, I just want to be clear, all of the stores that came back at the end of last year, the beginning of this year are included in the 2019 sales per square foot. If we had excluded them, which some people do, it would have impacted our sales per square foot by about $7 per square foot. But those lower volume tenants are in the comparable numbers. And we will -- and it is a broad-based increase in sales, and it's also a broad-based increase in -- across the tenant base that we have. And we've also increased our traffic.

Operator

(Operator Instructions) Your next question comes from the line of Douglas Eden with ECM.

Douglas T. Eden - *Eden Capital Management LLC - Principal & Investment Advisor Representative*

Can you hear me okay?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We can hear you just fine.

Douglas T. Eden - *Eden Capital Management LLC - Principal & Investment Advisor Representative*

Good. Given the large short interest in the stock and acknowledged strong balance sheet of the company, have you considered increasing the leverage ratio even somewhat to repurchase shares at these depressed levels and possibly start to squeeze the shorts?

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

We have, with our advisers, looked at various different scenarios, some of which included purchasing back the stock. We've concluded it's in the best interest of the company that we continue to execute our business plan. We could not, in our view, buy back enough stock to have a meaningful impact. It's not our strategy to shrink the portfolio. It's not our strategy to shrink the equity market capitalization. And it is our strategy to execute our business plan long term. We think that will provide the best results. And maintain the liquidity and optionality that we have with a strong balance sheet.

Operator

All right. At this time, presenters, we don't have any further questions on queue.

Steven B. Tanger - *Tanger Factory Outlet Centers, Inc. - CEO & Director*

Okay. Well, thank you very much, everybody, for joining us this morning. If you have any follow-up questions after the call, we'd be happy to respond directly. Have a great day, and thanks again. Bye now.

Operator

Thank you. And that concludes today's conference. Thank you all for participating. You may now disconnect.