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Armada Hoffler Properties, Inc. (AHH)

Q3 2015 Earnings Call

CORPORATE PARTICIPANTS

Louis S. Haddad
President, Chief Executive Officer& Director

Michael P. O'Hara
Treasurer, Chief Financial Officer

Eric L. Smith
Secretary, Chief Investment Officer

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Armada Hoffler's third quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. After management's prepared remarks, you'll be invited to participate in a question and answer session. At that time if you have a question, please press "star 1" on your telephone.

As a reminder, this conference call is being recorded today, Tuesday, November 3, 2015.

I will now turn the conference call over to Michael O'Hara, Chief Financial Officer at Armada Hoffler.

Please go ahead.

Michael P. O'Hara
Treasurer, Chief Financial Officer

Good morning and thank you for joining Armada Hoffler's third quarter 2015 earnings conference call and webcast.

On the call this morning, in addition to myself, are:

Lou Haddad, CEO

And Eric Smith, our Chief Investment Officer, who will be available for questions.

The press release announcing our third quarter earnings along with our quarterly supplemental package was distributed this morning.

A replay of this call will be available shortly after the conclusion of the call through December 3, 2015. The numbers to access the replay are provided in the earnings press release.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, November 3, 2015, and will not be updated subsequent to this initial earnings call.

During this call, we will make forward-looking statements, including statements related to the future performance of our portfolio, our development pipeline, impact of acquisitions and dispositions, our construction business, our portfolio performance and financing activities as well as comments on our outlook.

Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond our control.

These risks and uncertainties can cause actual results to differ materially from our current expectations and we advise listeners to review the risk factors discussed in our press release this morning and in documents we have filed with, or furnished to, the SEC.

We will also discuss certain non-GAAP financial measures, including but not limited to FFO and Normalized FFO. Definitions of these non-GAAP measures, as well as reconciliations to the most comparable GAAP measures, are included in the quarterly supplemental package, which is available on our website at www.armadahoffler.com.

I would now like to turn the call over to our Chief Executive Officer, Lou Haddad… Lou…

Louis S. Haddad
President, Chief Executive Officer & Director

Thanks Mike.

Good morning and thank you for joining us today.

As you can see from this morning's press releases, we've had another solid quarter that ended with an exciting new announcement about our pipeline. Not only are we seeing continued quarter-over-quarter strength this year in our results and metrics, but we also continue to backfill our pipeline with high-quality, institutional-grade products located in some of the best locations in the Mid-Atlantic. With sustained profitability in our third-party construction business, stabilization of recently-delivered multifamily projects and continued capital recycling, we are once again able to raise our guidance for the year.

Regarding this morning's announcement on Point Street Apartments in Baltimore, I will spend a few minutes toward the end of my remarks to discuss some details of this new investment. This opportunity once again highlights the benefits of being a vertically-integrated, full service real estate company that not only creates value beyond the traditional buy and hold real estate investment strategy but also allows for flexibility in structuring deals that best leverages and combines our various capabilities. We believe that our unique business model continues to deliver superior value to our shareholders.

I will now cover a few highlights from last quarter as well as recent developments and then turn the call over to Mike O'Hara to discuss the quarterly results in detail.

We are pleased to report FFO per share of 25 cents and Normalized FFO per share of 26 cents, which is a reflection of the tremendous quarter we had. In addition, we have once again raised both the top and bottom ends of our guidance range, resulting in 2015 full-year Normalized FFO of 91 to 93 cents per share. Better than expected third-party construction profits and multifamily occupancy affected our outlook for this quarter's guidance range and contributed to this upward revision.

At quarter end, occupancy across the core portfolio was 95.6 percent, which continues to be within our targeted range. As we discussed last quarter, both Encore and Liberty Apartments attained 80% occupancy with continued upward momentum throughout the quarter, and thus are both now stabilized and included in our multifamily occupancy figure. We expect the multifamily occupancy metric in the near future to return to previous levels as lease-up at these two properties is finalized in the coming quarters. In fact, as of today Liberty is nearly 100% occupied and Encore is approaching 90%.

As you might expect, we are pleased with the performance and stability of the multifamily sector of our business.

Our success in leasing and the strength of our overall portfolio is evidenced by an increase in quarterly GAAP and Cash Same Store NOI, which makes five consecutive quarters of significant same store NOI growth.

With regard to stabilized assets, we continue to deliver on our promise to actively manage our portfolio, while mitigating risks and proactively managing our balance sheet.

Building off the previously announced disposition of Whetstone Apartments and the partial use of those sale proceeds to purchase Socastee Commons last quarter, we utilized the remainder of the proceeds to close on the acquisition of Providence Plaza for 26.2 million dollars during the third quarter. To remind everyone, Providence Plaza is a 97 percent occupied, 103,000 square foot mixed-use complex located in the South Park submarket of Charlotte, North Carolina. This asset was constructed in 2008 and is comprised of 54,000 square feet of office space and 49,000 square feet of retail space across three buildings.

This acquisition allows us to diversify into the Charlotte market and in particular the South Park sub-market, where average household income immediately surrounding this asset exceeds 145,000 dollars per year. This mixed-used asset is a fantastic addition to the Armada Hoffler portfolio.

Additionally, this site includes an undeveloped parcel of land that is zoned for multifamily development. We have already begun our efforts to determine how the value of this additional land can be best monetized for our shareholders and will keep you updated on our progress.

The previously announced sale of the Oceaneering Building located in Chesapeake, Virginia closed at the end of October and as expected, the sale yielded a profit of approximately 20 percent on cost after only an 8 month holding period. Our intention is to reinvest the proceeds from the sale to create additional value for our shareholders while continuing our focus on asset quality and regional diversification.

Keeping with the theme of portfolio management, we discussed during our last earnings call the acquisition of Columbus Village, which took place early during the third quarter of this year. This 65,000 square foot retail asset adjacent to the Town Center of Virginia Beach is 100 percent leased and was purchased with an assumption of debt and the issuance of 1.275 million operating partnership units.

This five acre property is a prime target for redevelopment and ultimate integration into the dynamic Town Center environment. The strategic nature of this property fits squarely within our investment philosophy and is expected to create significant long-term value for our shareholders.

Lastly, as evidenced by our previous sales of single tenant assets such as the Virginia Natural Gas building, the Sentara office building, and most recently, the Oceaneering facility, we are constantly assessing each individual asset with regard to its current and future value prospects. As many of you know, we have been evaluating the risk-reward equation of our Richmond Tower office building. While it is a class-A, institutional grade office building within Richmond's central business district with superb location and visibility, the NOI from this asset represents a meaningful percentage of the Company's total NOI from stabilized real estate. This size and the predominantly single-tenant nature of the income stream has led us to the conclusion that our company is better served by the redeployment of the equity in this building into other opportunities.

Thus, we have entered into a contract to sell this asset for 78 million dollars, which represents a 7.5 percent cap rate on a proforma basis. Closing is subject to customary conditions, including the seller's satisfactory completion of due diligence. As such, we have not yet fully evaluated how best to deploy this capital. However, our primary focal points will continue to be quality real estate, credit-quality tenants, and geographical diversification. We expect to reach a conclusion in the near future.

Having touched on asset management, I now turn to our third party construction business. We are pleased with the progress of the 170 million dollar Exelon tower in Baltimore's Harbor Point. The project is well under way and is proceeding as scheduled toward a summer of 2016 completion. Construction profits continue to outpace expectations and should now top 6 million dollars for the full year.

While these stellar 2015 results will be difficult to sustain at this level, the outlook for this segment of our business over the next few years is promising, and we expect that 2016 will again skew toward the higher end of our historical range.

During our call last quarter, I provided an update on our approach to maintaining a strong development pipeline. At that time Johns Hopkins Village and Lightfoot Marketplace were the remaining two undelivered projects in our pipeline. Both projects are on schedule for a mid-year 2016 delivery. Notably, leasing activity at the Harris Teeter anchored Lightfoot Marketplace has been robust and hence we have decided to initiate phase two of the development which will include an additional 22,000 square feet. Ultimately, this best in market center will encompass over 130,000 square feet.

You'll also notice in our supplemental that we have added a Brooks Crossing project to the development pipeline. Those of you who have followed us for a while will remember Brooks Crossing is a joint venture with the City of Newport News, Virginia to bring an urban, mixed-use, low rise development to the inner city. While somewhat smaller than our typical engagement, this project is a showcase for the broad array of abilities present in our company. With groundbreaking late last year, our construction company is under contract with the municipality to build over 15 million dollars in infrastructure and public facilities. We are also under contract to develop a 7 million dollar police precinct that will be sold to the city upon completion. And finally, we will develop for our own account, a 38,000 square foot mixed-use project that will be anchored by a long-term lease with a credit office tenant. Only a company with our broad-based capabilities could take full advantage of these diverse opportunities.

And now to our exciting news of this morning. As I mentioned on our last conference call, we are focusing our development efforts on large, class-A assets with a high barrier to entry. With the Baltimore metropolitan area as well as major markets within the Carolinas being natural geographic points of expansion for our firm, this morning's announcement of our investment in the 93 million dollar Point Street Apartments project allows us to take another significant step toward the next wave of growth for our company.

Our twenty-plus year presence at the Baltimore waterfront has been predominantly comprised of third party general contracting work valued in excess of a billion dollars, most notably, the Four Seasons, the Legg Mason world headquarters and the waterfront Marriott. These engagements allowed us to develop many long standing relationships that are now manifesting themselves in investment opportunities beyond the realm of pure construction. These relationships, when combined with the multi-faceted nature of our company across both product types and capabilities, provides for some unique opportunities. Point Street Apartments is an opportunity that arose from a multi-decade association with the principals of Beatty Development Group who control what we and many others consider to be the premier development tract in the city and one of the best sites in the Mid-Atlantic.

Similar to the Town Center of Virginia Beach, Harbor Point is a mixed-use, multi-asset development. Situated between the trendy, historic Fell's Point neighborhood and the dynamic Harbor East area, offering spectacular, unparalleled water views, Harbor Point is anchored by the 900,000 square foot mixed-use Exelon tower that is currently being developed by Beatty Development Group and built by Armada Hoffler Construction Company.

Point Street Apartments is expected to feature 289 units and 18,000 square feet of retail space. We have entered into an agreement with Beatty Development Group to collaborate on the Point Street project. The way we will participate demands some explanation, but it once again highlights the benefits of our integrated business model while emphasizing our ability to provide a platform for our partners that isn't easily replicated by other firms.

The structure consists of three separate agreements with Beatty Development:

- We will provide mezzanine financing of up to 23 million dollars which, when combined with proceeds from a construction loan and the developer's equity, will complete Beatty Development's capital stack;
- We will have the option to purchase an 88% interest in the project, at the developer's cost, upon completion of construction; and
- We will construct the building as the general contractor with a guaranteed maximum price construction contract

By proceeding with the venture in this manner, we do not stress our balance sheet during development and initial lease-up. We do recognize third party construction fees and earn interest income on the mezzanine loan. And finally, the at-cost option to buy the 88% interest preserves the traditional development spread which we create on our pipeline projects.
As you might expect, this structure and the services we are providing within it, appeal to a number of other developers who control desirable sites and need strong partners. This structure is particularly well suited to multifamily developers and we are currently vetting a number of similar opportunities.

Point Street Apartments, when combined with our marquee project at Johns Hopkins, as well as the 185,000 square feet added to the Company's portfolio from the two Maryland grocery-anchored retail acquisitions will constitute a very meaningful presence for Armada Hoffler in Maryland, further diversifying ourselves into the broader Mid-Atlantic market.

We believe that Armada Hoffler is the only REIT that provides investors the opportunity to benefit from all three profit centers in real estate:

1) The ownership of income properties, which is where most REITs focus,

2) The profitable development of world-class properties at wholesale cost, for either portfolio placement or for sale to recycle the capital at a gain, and

3) In-house construction, which not only generates substantial profits from third party business but also controls cost and schedule in our development projects. We believe that this third factor is unique to Armada Hoffler across the entire REIT universe.

We will continue to execute across these profit centers to maximize the investment returns of our shareholders.

With that, I turn the call over to Mike and then we will take your questions. Mike…

Michael P. O'Hara
Treasurer, Chief Financial Officer

Thanks Lou and good morning.

Today I want to cover the highlights of the quarter, including thoughts on our balance sheet and I'll wrap up with our 2015 guidance.

This morning, we reported FFO of 25 cents per share and Normalized FFO of 26 cents per share, which was better than our expectations. This was due to increased profit from the third party construction business, continued strong multi-family leasing and lower property expenses.

Please see page 10 of the supplemental for the Normalized FFO calculation, which this quarter excludes debt extinguishment losses, property acquisition costs, development and other pursuant costs, and mark-to-market adjustments for interest rate derivatives.

We had another strong quarter of same store NOI growth. Same store NOI was positive 2.9 percent on a GAAP basis and positive 5.7 percent on a cash basis compared to the third quarter of 2014.

We added two development projects to our core operating portfolio. These properties are now stabilized and have been removed from the development pipeline. They are:

- Encore Apartments
- And Liberty Apartments

At the end of the quarter, our core operating portfolio occupancy was 95.6 percent. Office came in at 95.5 percent, retail at 96.2 percent and multifamily at 94.9 percent. The multi-family occupancy number declined this quarter due to the addition of Encore into the core operating portfolio.

On the construction front, we reported a segment gross profit, in the third quarter, of 2.1 million dollars on revenue of 54 million dollars. The construction company had another excellent quarter and was one of the reasons the quarter was better than expected.

As we announced earlier, our construction company signed a 94 million dollar contract to build two Virginia Beach ocean front hotels, as well as retail and a garage. The owner of this project has since decided to build the project in phases and delay the construction of one of the hotels. The contract was amended and reduced to 55 million dollars to reflect this change. The first phase of the project is under construction and completion is expected in the spring of 2017.

At the end of the third quarter, the Company had a third party construction backlog of 118 million dollars which includes the reduced contract I just discussed.

Now turning to our balance sheet.

In the third quarter, we continued to take actions to enhance flexibility and strengthen our balance sheet.

We continued to use the ATM program last quarter as expected, raising 4.1 million dollars of gross proceeds at an average price of $10.11 per share. We expect the ATM program to continue to be one of multiple options at our disposal to raise capital to fund our development activities.

As you can see from our outstanding debt summary on page 11 of our supplemental, at quarter end, we had total outstanding debt of 420 million dollars including 106 million dollars outstanding under the 150 million dollar revolving credit facility. Our debt metrics continue to be in line with our corporate goals.

As of September 30, our fixed rate debt, including swap locks, was 52 percent of our total debt and including interest rate caps, 77 percent of our debt was fixed or hedged. After quarter end, we purchased a 75 million dollar LIBOR interest rate cap at 1.25%. Including this new cap, 95 % of our debt was fixed or hedged. We believe that using interest rate caps limits our exposure to rising rates while giving us flexibility at a reasonable cost.

As Lou discussed earlier on the call, the Point Street Apartments is not consolidated, and therefore does not stress our balance sheet during construction and lease up. Projects of this size and duration require debt and equity for over two years with no return on that capital. With this project we are paid a return on our equity and earn a construction fee during development and have an option to purchase a controlling interest in that property upon completion. Our investment is in the form of a 23 million dollar mezzanine loan which bears interest at 8 percent. As with any development project, it will take time for the project to ramp up, so we are not expecting much of an impact from this during the fourth quarter. From a timing standpoint, we do not expect the 23 million dollar loan to be fully funded until sometime in the first quarter of 2016. The construction contract will be approximately $67 million dollars with a fee of 3%

The other new Development project that Lou discussed is Brooks Crossing. We expect to fund this project with the credit facility due to its modest size.

I want to spend a couple of minutes reiterating the details of the Columbus Village acquisition. This acquisition was funded by the assumption of 8.8 million dollars of debt and the issuance of 1,275,000 operating partnership units. 1 million of these units do not earn or accrue dividends until July 2017 and 275,000 units will not be issued until January 2017 and do not earn or accrue dividends until January 2018. The interim dividends that would have been paid at the current dividend rate equate to 1.8 million dollars. We view this as a reduction in the purchase price of the center. It can also be viewed as higher valuation of the OP units. The 24 to 30 month-period from closing that dividends will not be paid also coincides with potential NOI growth at the center. Even though dividends are not being paid on these units, the total 1,275,000 units are included in our diluted share count for FFO per share calculations.

We closed on the Providence Plaza acquisition on September first for 26.2 million dollars, representing a going in cap rate of 7.25%. This was acquired by using 14 million dollars in 1031 proceeds from the Whetstone sale and the remainder was funded thru the credit facility. This property is unencumbered and will be added to the borrowing base of the credit facility along with two other properties to increase the capacity by 25 million. These changes to the borrowing base are expected to close during the fourth quarter.

On the asset sales front, we closed on the sale of the Oceaneering building last week. The building sold for 30 million dollars which represents a 6.6% cap rate. This is our fourth disposition in the past 12 months of an asset in a cap range of between 5.75 and 6.6%. This sale is another example of the value and cap rates of our properties. The 20 % profit on this sale is similar to the profit from the Whetstone sale and is another example of the equity delivered from our development process. We intend to use the proceeds from the sale in a 1031 exchange.

Now, let me walk you through our full-year 2015 guidance.

This morning we raised 2015 full-year Normalized FFO guidance – now 91 to 93 cents per share – from our previous guidance of 88 to 91 cents per share.

We are increasing guidance due to the performance of third party construction business and multi-family leasing.

Our 2015 estimates are predicated on the following assumptions:

- GAAP NOI in the 53.7 to 53.9 million dollar range.
- Third party Construction Company gross profit in the 5.8 to 6.1 million dollars range.
- General and administrative expenses in the 8.3 to 8.5 million dollar range.

- Interest expense in the 13.3 to 13.5 million dollar range.

- And, 41.1 million weighted average shares and OP units outstanding which includes the units associated with the acquisition of Columbus Village.

This guidance excludes any impact from future acquisitions, asset sales with the exception of Oceaneering, or other capital markets activity with the exception of continuing the ATM program.

Before we turn to Q&A, I would like to make a comment about 2016. As Lou discussed, we signed an agreement to sell the Richmond Tower, subject to the usual due-diligence and closing requirements. Due to this uncertainty, the size of the sale, and that we are still formulating our plan on how best to reinvest the proceeds, it's too early to give any insight into 2016. We will give an update once we close on the transaction and have finalized our reinvestment plan.

I'll now turn the call back to Lou.

Louis S. Haddad
President, Chief Executive Officer & Director

Thank you Mike.

Thank you for your time this morning, and your interest in Armada Hoffler. Operator, we would like to begin the question and answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press "star 1" on your telephone. If your question has been answered and you wish to withdraw it, you may do so by pressing "star 2". If you're using a speakerphone today please pick up your hand set before entering your request.

Thank you. Our first question this morning is coming from the line of Rob Stevenson from Janney Montgomery Scott. Please proceed with your question.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

Can you talk a little bit about the Richmond office market and where sort of other competing assets have traded recently and then also with respect to that market I mean you know you assess that on the office side with the sale of Richmond Tower, is this the market that you want to be back in longer term or should we read into it that Richmond is part of this transaction, that Richmond office is not in long term cards for the company?

Louis S. Haddad
President, Chief Executive Officer & Director

A

I think it's the latter. We're obviously very happy with the assets, it served us well, and it's a marquee asset in that city. There is a competing product going up across the street from the project that's going to be similar in size and scope to ours. That will represent the only two new office towers in the Richmond market, actually when we built towers as we were the first one in over 20 years to go into the downtown market. So we're looking at it as more and more of an outlier with not a lot of upward pressure and as I said earlier in reviewing it. We had the rule of 30 year history don't like to hold a single tenant asset with this predominantly is for the long haul and so that's what was behind the decision to divest. I will I mean that's not a hard contract at this point, but hopefully it will go along to closing. But I don't see us in the downtown market in any meaningful way in the future.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

Okay. And best guess at this point is that like the second quarter if everything goes well sale?

Louis S. Haddad
President, Chief Executive Officer & Director

A

No it will be before the end of the year.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

And then I maybe I don't know what I you know I missed it or whatever but did you guys -- have you guy decided on a plan yet for Columbus Village?

Louis S. Haddad
President, Chief Executive Officer & Director

A

We're evaluating several right now as you know we're in partnership with the City and both of us are interested in expanding Town Centre. We're not certain just how vertical it's going to go or whether we are retenanted and expanded horizontally. So as we're going to bide our time there and let a few more cards be played.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

Okay. And what are the leases sort of run on that, what's the earliest that you could do anything on that site?

Louis S. Haddad
President, Chief Executive Officer & Director

A

We just extended the Barnes and Noble lease for a period of two years and so that's about when although we have the ability to relocate them as a part of the extension. So I can see, I don't see much happening in 2016 but possibly towards the end having a plan finalized.

Operator: Thank you. Our next question is coming from David Rodgers of Robert W. Baird. Please proceed with your question.

Dave Rodgers
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Couple of maybe yield or numbers questions just to start off on the Richmond Tower you said I think it's 7.5% cap rate, I'm assuming based on the length of the lease there that's the gap number. Can you tell me if it's gap or cash and what the cash number would be on that?

Eric L. Smith
Secretary, Chief Investment Officer

A

That is based on a pro forma cash number.

Dave Rodgers
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

That's the cash, what would be the GAAP be on that?

Eric L. Smith
Secretary, Chief Investment Officer

A

It's between 7.5 and 8 cap rate range on a GAAP basis, Dave.

Dave Rodgers
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

The investment in Baltimore, I think you went through a good amount of detail in terms of the mezzanine loan and financing and did not hear if you quoted a yield on what you expect kind of your stabilized investment to be if you bought the majority share in the asset at this point do you've a view on what that would be?

Louis S. Haddad
President, Chief Executive Officer & Director

A

As we represented this is going to hit our traditional spread, we roughly shoot for a 125 to 200 basis points spread. Obviously if you move down the cap rate curve that gets a little narrower, but we're looking at a 100 basis points plus you know actually, I'm being conservative with that statement. A nearby apartment property just sold for what would end up being a 4.5 cap we're not using that as a comp but I can tell you this is a better product than that but I think it's very reasonable that that waterfront real estate where rents are rapidly approaching $4 will trade in the 5.5 cap range and of course our spreads going to maintain close to seven.

Dave Rodgers
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Last on the numbers, the Liberty and Encore is stabilized in the quarter, how did those come in relative to pro forma and can you give us type sense of yield there as well on a stabilized basis now?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Yes I think, while Encore is still stabilizing, just hitting 90% or so now it's a little bit above pro-forma for the better than what we thought. And we'll see how that goes once if it's all the way home. On Liberty to be honest with you, we're not satisfied with the yields there below pro-forma. I mean it's great that it, I mean things like 99% occupied but we're not happy with the expenses the way they're coming in that we're going to have a hard look at that can and see if we can use that a bit. But to be honest with you right now we're not not pleased with the occupancy but not pleased with the deal.

Dave Rodgers
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

With regard to your comment I think you said there's more projects in the works maybe similar to the Baltimore projects you just talked about today, the Harbor Point, would those also be in Baltimore? Are you kind of looking more broadly? Should we be thinking maybe down the coast toward Charlotte Raleigh or these were you talking specifically in the Baltimore region?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Both Dave, the Baltimore metropolitan area is a focus for us we're looking at other opportunities there. And as you know we are looking at opportunities throughout the Carolina. So we're excited about that program, having a well-healed 30 some-year old construction company gives us the ability to control costs through a different mechanism that isn't available to others and makes this very comfortable and makes the kind of investment and as we said keeps it off of our balance sheet, we see an income coming and maintains our spread. So I think as I alluded to as you can imagine, there's a lot of developers out there that need strong partner. So we're vetting a number of opportunities at this point.

Dave Rodgers
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Last one for me, Mike with the sale of the Richmond office tower kind of played did come in by year end, what would you look at your total availability or total capacity kind of going into next year?

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

Capacity-wise, we look good I think as I mentioned on the call, we're going to increase the capacity on our credit facility by $25 million, the way we're doing Harbor Point, it's not going to stress the balance sheet and actually you know we're going to create EBITDA through the mezzanine interest as well as the construction fee so that ones taken care from that standpoint. So from that standpoint balance sheet all looks good, we will then end up with a lot of cash between the sales of Oceaneering and the sale of the Williams Mullen buildings and now we're in the great position of looking how we want to reinvest that money.

Operator: We have reached the end of our question and answer session. I would like to turn the floor back over to management for any further or closing comments.

Louis S. Haddad
President, Chief Executive Officer & Director

So thank you for your time this morning and thanks you for your interest in our company. And we look forward to updating you again soon.