ARMADA HOFFLER
PROPERTIES

First Quarter Earnings Call

Thursday May 2, 2019

CORPORATE PARTICIPANTS

Louis S. Haddad
President, Chief Executive Officer & Director

Michael P. O'Hara
Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Armada Hoffler's first quarter 2019 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, Thursday, May 2, 2019.

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
Chief Financial Officer

Good morning and thank you for joining Armada Hoffler's first quarter 2019 earnings conference call and webcast.

On the call this morning, in addition to myself, is Lou Haddad, CEO

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

A replay of this call will be available shortly after the conclusion of the call through June 2nd, 2019.

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, May 2nd, 2019, 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 mezzanine program, our construction business, our portfolio performance and financing activities as well as comments on our guidance and 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 forward-looking statement disclosure in our press release this morning and the risk factors disclosed 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.

Now, I will turn over the call over to our Chief Executive Officer, Lou Haddad… Lou…

Louis S. Haddad

President, Chief Executive Officer & Director

Thanks Mike.

Good morning everyone and thank you for joining us today. As you will hear from our discussion this morning, we have a lot going on here at Armada Hoffler. The positive momentum we've built over the past few years is starting to manifest in a variety of ways across our multi-faceted business platform. A great example of one of our strategies, the acquisition of prominent properties through the issuance of OP units, was highlighted in our press release from a couple of days ago. Before I comment on our operating performance and update you on development pipeline progress, I'll address the highlights of this acquisition.

These centers are located in our home city of Virginia Beach and are well known to us. The high sales volume of the various retailers, high occupancy over an extended period of time, and the history of upwardly trending rents and NOI, make these high barrier to entry properties worthy additions to our stabilized portfolio. Simply put, this is some of the best real estate in the entire Norfolk-Virginia Beach MSA.

Financially, the acquisition is extremely positive in virtually every respect. The purchase price of 105 million dollars equates to a 7.7 cap rate which is significantly above our cost of capital, substantially below market value, and is accretive to FFO by some 3 cents on an annualized basis. The issuance of 4.1 million OP units at a price of $15.55 will make this acquisition even more attractive to the Company.

With over 8 million dollars of NOI against 36 million of assumed debt, the acquisition further reduces our corporate debt to EBIDTA ratio.

Perhaps most importantly, the transaction establishes the developers of the centers, Venture Realty Group, as significant equity owners in our company. This group has a long-standing reputation as top-quality developers in our home region. We look forward to the opportunity to collaborate with these professionals on other exciting engagements.

While the acquisition will lead to a temporary spike in the percentage of NOI contribution from the traditional retail portion of our portfolio, after the current development pipeline stabilizes, we expect that percentage to settle back into the 40% range. As we have said on numerous occasions, well located-high volume retail will remain a significant part of our growth strategy. We expect these two properties will generate significant organic NOI growth for many years to come.

All that said, we've left our guidance unchanged at this time. While the trend is obviously positive, there are too many unknowns to accurately adjust our range of a dollar eleven to a dollar seventeen just yet. As you can see from our earnings press release, same store NOI has increased for four consecutive quarters and total NOI is significantly higher than previously forecast. However, these increases may be offset, in the short term, by a somewhat slower pace of third-party construction and consequently a slower ramp-up of the mezzanine loans on the Interlock projects. Please note that these potential adjustments in our ancillary income streams are only a result of timing differences; we believe that the contracts and loans will ultimately yield the amount of profit that we anticipated. We expect to be able to fine tune these projections as well as the timing of the closing on the recently announced Virginia Beach acquisition, by the end of this quarter.

While we are mindful of the need for clarity in annual earnings projections, as most of you know, our focus is on the long-term growth of our portfolio NAV and commensurate increases in per share FFO and a steadily increasing dividend.

Let's move on to the development pipeline starting with the most recent deliveries:

The Brooks Crossing office building in Newport News, Virginia was delivered on time and rent has commenced on the entire 100,000 square feet.

The Market at Mill Creek near Charleston, South Carolina was delivered on time and the early returns from the opening of the Lowes Foods were spectacular with early sales amongst the best in the history of the chain. The center is now 93% leased.

The multi-family projects currently in lease-up are highlighted by
1405 Point at Baltimore's Inner Harbor which now stands at 98% leased. From delivery to full occupancy in roughly 12 months, the performance of this project re-affirms our confidence in the entire Harbor Point development.

Construction continues on our adjacent Wills Wharf office building and despite being nearly a year from delivery, we are seeing robust leasing activity. Inclusive of 2 additional tenants in lease negotiations, pre-leasing now stands at nearly 70%.

The Premier at the Virginia Beach Town Center is 92% leased on the multi-family side with the retail at 76%.

The Greenside apartments in Charlotte continue to lease on track with our projections and stand at 73%.

Construction is nearing completion on the two Charleston student housing projects and pre-leasing is in full swing. The King street development, Hoffler Place, is the furthest along and with pre-leasing nearing 50%, we anticipate an on-time delivery with first year occupancy in the 75% range.

The second project, Summit Place on Meeting Street, is on a similar delivery schedule; however, the facility lies in an opportunity zone. Although that didn't factor in our original underwriting, the newly published IRS regulations pertaining to this federal incentive program apparently allow for this nearly completed facility to qualify for opportunity zone investment as long as it's not placed in service. We have been in contact with several groups who have raised funds to invest in qualifying developments. Due to these discussions along with the initial lease up proceeding slower than expected, we believe it to be in the best interest of the company to pause construction while we explore how best to take advantage of this new information. This delay may necessitate bringing the project online for the 2020 school year instead of this coming fall. With this uncertainty, we have conservatively excluded any impact from this project from our guidance. We'll keep you posted as this situation develops. In any event, we remain confident in our initial underwriting and the long-term value of this asset.

With 4 projects underway in the greater Charleston market and 2 more exciting development opportunities on the horizon, we are fully committed to a long-term presence in this dynamic, growing market.

The final project in our development pipeline, Nexton Square, a lifestyle center in which we have invested through a mezzanine loan and hold a discounted purchase option is also in the Greater Charleston Market. Although final construction completion won't occur until later this year, the first handful of tenants will open this quarter and leasing already stands at 70%.

With the majority of our pipeline delivered or nearing completion, our development group is hard at work underwriting a number of new opportunities. Although deal flow is at an all-time high, we remain committed to keeping our new development run-rate in the 150 to 200-million-dollar range over an 18-month timeframe. This discipline helps to ensure that only the most promising projects are selected for development.

Currently, a couple of mixed-use, urban in-fill projects appear to be the centerpieces of the next round. We hope to announce new projects by summers' end.

The core portfolio continues to show robust performance with increases in both occupancy and same store NOI. Releasing spreads, particularly in the retail sector continue to climb meaningfully.

Most notably, the upgrade to the units at the Cosmopolitan apartments in Town Center continues to receive rave reviews from our tenants. Newly refreshed apartments are leasing at a 7 to 10% premium to the same unimproved units. Due to this success, we have decided to accelerate the pace of construction by taking a larger number of units off-line in each phase. Although this will reduce NOI in the short-term, overall construction phase duration will be shortened and 2020 income should be higher than previously anticipated.

The construction group continues to perform at a very high level. On-time completion of the Brooks Crossing office building and the Market at Mill Creek highlighted the quarter. We also continue to track scheduled completion for the rest of the development pipeline. The value of controlling the construction of our development properties cannot be overstated. Offering dependable delivery dates to our tenants gives us a meaningful advantage over our peer group. Similarly, control of the construction process gives us the confidence to pursue the mezzanine lending strategy that has led to significant cash generation thereby substantially reducing our reliance on the capital markets to fund our portfolio growth.

Reliable construction timeframes are also a large factor in our teams' selection by third party clients on a repeat basis which solidifies the steady fee income that we have enjoyed for a number of years. While the ramp-up on several new construction starts will have the profit from this division back-weighted toward the second half of the year, we are confident that fee income will be well within our guidance range. Third party contract backlog stands at 161 million dollars with several new potential engagements in the pre-construction phase.

Now I'll turn it over to Mike to give some specifics on the quarter.

Michael P. O'Hara

Chief Financial Officer

Thanks Lou.

Today I want to cover the highlights of the quarter, thoughts on our balance sheet, and our 2019 guidance. This quarter we updated our supplemental package which we hope gives more insight into the company.

This morning, we reported FFO of 25 cents and Normalized FFO of 27 cents per share for the first quarter which met our expectations. A reminder that construction commenced on the Atlanta Interlock projects during the quarter. The mezzanine interest income and construction fees will be back-end weighted to the second half of the year.

Our core operating portfolio occupancy for the first quarter remains strong at 96 percent, with office at 95, retail at 96, and multifamily at 97 percent.

Same store NOI was positive for the fourth consecutive quarter, with GAAP positive 2.6% and cash positive 2.4%. Most significantly, our multifamily same store NOI was positive 9 percent.

Additionally, our releasing spreads were positive again this quarter, 6.8% on a GAAP basis and 3.3% on cash. We believe these continuing positive metrics reflect our portfolio strength.

We have been active with three new properties being added to our portfolio this year.

As discussed last quarter, One City Center in Durham was placed in service in October, with Duke University and WeWork occupying the building. This project was in a joint venture, in which we owned one hundred percent of the commercial space. In March, the commercial space was distributed out of the joint venture and added to our portfolio along with a new loan.

The initial project in our mezzanine program was the 1405 Point St Apartments, in Baltimore's Harbor Point. As part of the mezzanine structure, we have an at cost purchase option for 100% ownership of the building, which can be exercised in two phases. Last week, we exercised the first purchase option for 79 percent ownership. We expect to exercise the second option next year which will not require any additional capital.

And lastly as Lou outlined, we announced the acquisition of the two retail centers in Virginia Beach, which we expect to close this quarter.

The total of these three new properties is approximately 250 million dollars which required very little cash outlay. The equity required for One City Center and 1405 Point was previously funded over the past few years within the structures, and any capital required for our leverage target is included in the 2019 ATM activity guidance.

On the construction front, we reported a segment gross profit in the first quarter of 750 thousand dollars on revenue of 17 million dollars.
At the end of the first quarter, the Company had a third-party construction backlog of 161 million dollars.

Now for an update on our mezzanine program.

The payoff of the Decatur loan is on schedule. SJ Collins signed an LOI with a publicly traded REIT for the sale of this Whole Foods center. We expect closing and the loan payoff in the third quarter.

As I mentioned earlier, the Interlock projects in Atlanta began construction during the quarter with site work well under way. We expect to fund these loans through the summer.

Now turning to our balance sheet.

Over the past quarter, we've made good progress on the 2019 capital plan. Our 2019 guidance issued in February consisted of the following to hit our leverage targets for the year.

- First, the disposition of a grocery anchored shopping center for expected proceeds of approximately 25 million dollars, which will be used to pay down debt. During the quarter, we listed the Lightfoot Harris Teeter Center for sale. With the high level of interest in this center, we are now anticipating proceeds in excess of 25 million.
- Second, we expect the Decatur Whole Foods Center and Annapolis Junction loans to be paid off this year. The expected payments are approximately 60 million dollars. The Decatur Whole Food Center is under an LOI with expected closing in the third quarter.
- And, third, we anticipate raising 50 million dollars through the ATM program. Taking advantage of favorable market conditions during the first quarter, we raised 30.6 million dollars.
- In addition, the just announced acquisition of two Virginia Beach shopping centers which adds to equity through issuing 64 million dollars in Op Units and lowers our overall leverage ratios.

As Lou said, we are evaluating a number of new development opportunities. We do not expect any of these to break ground until later this year, and, therefore, they will require little capital investment in 2019.

Now turning to our debt maturities. There was only one maturity in 2019, which was paid off in January. In 2020, there are two loan maturities, both of which are construction loans, totaling 50 million dollars. The loans are for the Greenside Apartments in Charlotte and The Premier in Town Center. With the leasing activity on both projects, we have no concerns on either exercising our extension options or refinancing these projects.

At the end of the quarter, we had total outstanding debt of 744 million dollars including 91 million dollars outstanding under the 150-million-dollar revolving credit facility.

We continue to evaluate our exposure to potentially higher interest rates, and continue to hedge our interest rate exposure. At quarter end, 97 percent of our debt was either fixed or hedged. With the current interest rate environment providing an opportunity, we entered into an 85 million dollar swap lock during the quarter.

Now I'd like to go through the details of the updated 2019 guidance.
The assumptions of the guidance are:

- The sale of the Lightfoot Harris Teeter center- for anticipated proceeds of approximately 25 million dollars in the third quarter.
- Acquired 79% interest of the partnership in 1405 Point apartments during the second quarter.
- The acquisition of the two Virginia Beach shopping centers during the second quarter.
- The Decatur Whole Foods Center loan being paid off during the third quarter and the Annapolis Junction loan being paid off in the fourth quarter.
- Raising 50 million dollars through the ATM program, assuming favorable market conditions
- Interest expense is calculated based on the Forward LIBOR Curve which forecasts LIBOR at 2.36 percent at year end.

Our 2019 normalized FFO per share guidance of a dollar eleven to a dollar seventeen per share is predicated on the following updated components:

- Total NOI in the 96.9 to 97.7 million-dollar range,
- Third party Construction Company gross profit in the 4.9 to 5.7 million-dollar range.
- Interest income from our mezzanine financing program in the 15.2 to 15.7 million-dollar range which is net of 5.4 million of interest expense and also includes the remaining 4.5 million dollars recognized from the amortization of the Annapolis Junction Apartments purchase option.
- General and administrative expenses in the 11.0 to 11.5 million-dollar range.
- Interest expense in the 24.7 to 25.7 million-dollar range, which does not include the interest expense related to the mezz program.
- And, 72.3 million weighted average shares outstanding.

Now I'll turn the call back to Lou.

Louis S. Haddad
President, Chief Executive Officer & Director

Thanks Mike. Remember, Armada Hoffler is first and foremost an opportunistic real estate company that employs multiple strategies to enhance profitability and create value. These have been our central tenets for forty years, and investors can count on this to remain our primary focus. As the company's largest equity holder, management will continue to operate a business model that includes a variety of deal structures as well OP unit

acquisitions, disposition of development projects, at cost options, and stable assets. We are extremely optimistic about the company's prospects for the rest of 2019 as well as our ability to deliver on our promises over a multi-year timeframe. As we begin to look toward 2020 and the number of projects we intend to deliver and stabilize, we feel strongly that our investors will continue to realize great value creation well into the future.
Operator, we would now like to begin our 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 "#". If you're using a speakerphone today, please pick up your hand set before entering your request.

Our first question comes from the line of Dave Rodgers with Robert W. Baird.

David Rodgers
Lou, I wanted to jump into Charleston and the 2 student housing projects, if we could. Looks like and sounds like you're still a little bit behind schedule in terms of the lease up on the first, and then obviously you're going to push off the second. So you gave a lot of detail in your comments, but I guess maybe dive a little bit further in terms of maybe why you weren't going to be stabilized on the smaller of the 2 projects and kind of the state of that housing market as it is today?

Louis S. Haddad
Dave, thanks for the question. I'll give you as much as I can. The -- our underwriting of the 2 Charleston projects was primarily based on a few factors. The market study that showed a deficit of a few thousand beds in purpose-built student housing on the Peninsula and high barrier-to-entry locations with hard-to-get entitlements in hand. Nothing has changed in that initial assessment. As I said, we're very comfortable with the long-term value in these assets. That said, we overestimated the rate of absorption for students committing to this type of housing solution while the facilities were still under construction.

I thought that the benefits in hard cost savings and marketing expenses that we would reap in constructing the 2 facilities simultaneously would more than offset the potential drag of that much product coming online in one summer. Our construction company came through with flying colors as usual, and we did realize substantial savings with this approach. However, as becomes apparent, we now think the full stabilization is going to take 2 to 3 years.

I guess, in hindsight, the wiser choice would have been to forgo the potential cost savings and stagger the deliveries by a year or 2. Responsibility for that decision is on me. We've got some time now to decide whether to transact it with another seed fund or take the second building through the lease-up phase. Either way, like I said, we feel real good about the assets and we'll move on.
David Rodgers
Yes. I appreciate that added color, Lou. And -- I guess, sticking with multifamily, you had a big pickup in the same-store revenue and same-store NOI in the quarter for the multifamily component. What drove that? Was that rental increases at Cosmo, was it just kind of broad-based rental increases across the portfolio? Any additional color there?

Louis S. Haddad
Sure. Mike, why don't you...

Michael P. O'Hara
Dave, so we had -- 2 of the assets really are performing well. One is the Johns Hopkins project, of which just starting same-store sales this past year, and we've had some nice rent increases over the last year, and we also went from 10-month leases to 12-month leases. The other is Smith's Landing at Virginia Tech. Again, we will get some nice increases in rents over the prior year.

David Rodgers
Great. That's helpful. And then I guess, sticking with Apartment 1405 Point, you bought the 79% interest. Can you talk about kind of what the yield is? Or what that building is yielding to you guys on that purchase cost option?

Louis S. Haddad
Well, again, our intent is to ultimately own the whole thing. Dave, it's going to stabilize in the low 6s, perhaps a little bit better than that. I mean, I was just up there couple of days ago, and the product looks magnificent, and it's a great location. And like I said, the 287 units in 12 months is really strong. So we're feeling really good about that.

David Rodgers
So last a bigger-picture question for me, I guess, just you talked about several mixed use urban infill centerpieces for the development additions maybe later this year, Lou. Can you just talk about the development pipeline more broadly? I mean, does it continue to be really full for you guys, and is that going to take you to any new markets if you look through the remainder of the year?

Louis S. Haddad
Everything that we're looking at right now is in our existing markets, from Georgia up through Maryland. And it -- like I said, the deal flow is -- I think it's higher than I've ever seen it. So there's an awful lot of optimism out there, and -- that's the good news. The bad news is it takes longer to weed through them. Like I said, we're committed to keep our run rate reasonably in the same range. We've gone through periods like this before, where it really leads you to start believing that you can do anything. And that's just not the case. When more projects are available to you, you got to maintain that discipline and just have the very best come out through the top.

David Rodgers
Appreciate all the color, guys. Thanks.

Louis S. Haddad
Thanks.

Operator
Our next question comes from the line of John Guinee with Stifel. Please proceed with your question.

John William Guinee
Two questions. First, how are you going to digest all this deal flow, Lou?

Louis S. Haddad
Well, actually John, I'm glad you asked. We will be putting a press release out in the next week or so. We've hired a new Chief Investment Officer, Jonathan Morris, who some of you may be familiar with. Jonathan comes to us with a ton of REIT experience. A great successful tenure at Boston properties. He will be starting with us actually this coming week. And I'm looking forward to getting him engaged and help us digest what's going on. So that's my answer.

John William Guinee
Okay. Then second, you have a lot of retail product out there, you have a lot of different food anchors, most of which are Food Lion and Harris Teeter. But in this day and age, when you are underwriting food anchored centers, how are you thinking about the different anchor tenants? And then how are you underwriting the in-line space?

Does it cost $5 a foot at the turn, or does it cost $50 a foot? And can you hold rents or are they going up or are they going down?

Louis S. Haddad
So let me see if I can answer that from a couple of different angles. We're seeing healthy re-leasing spreads in our retail properties. For us, that's the result, and you guys have heard us talk about it before, tracking the volume in those grocery stores. High-volume grocers are -- have been a staple for us for a very long time. And basically, we've got a supermarket doing $400 to $500 a square foot in sales, then your small shops are going to stay full and you're going to be able to move rents.

What has changed and will continue to change is your mix. The -- we are looking really hard at limiting the amount of small shops that you build along with those anchors. And there's a lot of movement to fast casual restaurants as well as retail services. And again, it all starts with making sure you've got good traffic flow in that grocery store. As such, you've got to make sure your locations are what they need to be and that your retailing partner is what they need to be. It is interesting to watch the transition of the traditional grocery stores into more experiential type experiences for shoppers. What's interesting to look at as kind of a student of the game is as -- you've continued to see the interior of the stores shrink with the packaged products now being largely commoditized, and very difficult to make margin on. But store sizes, if anything, are increasing because of everything happening in organics and prepared foods and delis and produce sections and the like. So we're continuing to monitor it. I'd tell you, we're as enthusiastic as we have ever been some of the concepts. I was just at our Lowes Foods that I mentioned on the phone, down in the Charleston area. And that has the benefit of being able to shop while you're drinking a beer, which is an interesting concept. So we're going to continue to underwrite these things. It still starts with the old adage location, location, location. And I think the caution is making sure that you don't put too much space online.

Michael P. O'Hara
So John, your question on the cost on re-leasing the retail. So in the last year, we've re-leased renewals of approximately 390,000 square feet with the average cost of that less than $2 a foot. So I think – its talking about the renewals on the in-line spaces and even some of the boxes that we have had here recently, just don't require a lot of capital.

John William Guinee
How about the new space when you get something back?
Michael P. O'Hara
So on the retail, if you take a look at our supplemental package, again, the highest here in the last year on average is $45 a foot. But it's running in that $30 to $45 a foot.

John William Guinee
Great. Thank you very much.

Louis S. Haddad
Thanks, John.

Operator
Our next question comes from the line of Jim Lykins with D.A. Davidson.

James O. Lykins
I've got a question about one of your tenants at Town Center, Dick's Sporting Goods. I believe that's your biggest lease there and it's coming due soon. I'm wondering if they will be renewing and if they have any options? Can you can tell us what you know or what you may have heard?

Louis S. Haddad

Jim, thanks for the question. For those of you who don't follow us closely, the Dick' Sporting Goods location at Town Center was one that was originally built to house Galyans, which was a premier outdoor retailer. Dick's inherited the store through their purchase of that chain some years ago. It's nearly doubled the size of the Dick's prototype store. The initial term of the lease expires, I believe, early next year. And while we don't have a definitive answer as to their future plans, with 2 other locations within maybe 10 miles and the oversized square footage of the facility, we're hopeful that they will relinquish the space. Not that there is anything wrong with Dick's, they are a fine retailer. They just don't add anything unique to our retail entertainment mix here at Town Center. So the space will require, to John's previous question, the space will require some investments and downtime if they do decide to go. But the opportunity to bring new concepts to the core at Town Center is one that we absolutely would welcome.

James O. Lykins
So what would you potentially do with that space, that's a pretty big box. Would you cut it up? Any color on additional tenants there?

Louis S. Haddad
Sure. I don't want to name names, but we've got dynamic growing community here. It's dynamic and it's growing because we continue to add choices for the residents and the patrons and the office workers and the like. Personally, I think it would be great to add one of the large-scale fitness facilities that you see coming around. I like some of the new interactive entertainment concepts. And frankly, there is a few one in the market type destination retailers that we'd like to take a run at. It's all about the mix. And you are right. It's a great big box. It's right in our core. And it deserves some good thought before we do anything. And there's an easy answer, as we certainly can convert it to large floorspace of office space. And in the short term that might be the best financial alternative, but I don't think it's best for the long-term health. And of course, it could end up that Dick's downsizes and stays there and we do something with the extra space. So we'll see. We're tracking it closely. It's a great opportunity.

James O. Lykins
Okay. That's very helpful. One last one from me, back to the new projects you've planned to announce by the summer end. Anything else you can tell us there? Are these going to be public-private partnerships, mixed-use? Where are you in the process? Just any additional color on any of these projects?

Louis S. Haddad
Let's see. I can't give you too much more. The 2 I was referring to specifically are definitely infill urban areas, definitely have an office component, definitely have a retail component. And at least one will end up with a residential component. And as -- that's our model. The mixed-use, the walkability, the idea that your car doesn't have to move very much at all, has served us well for a number of years. It's served us well in Baltimore, it's served us well in Virginia Beach. And so we're pushing really hard. I'd give these 2 better than 50-50. And like I said before, there is several right behind that, that are waiting to take their place. So I'm pretty confident we'll be able to make some announcements before the next quarter.

James O. Lykins
Alright. Great. Thanks, Lou.

Louis S. Haddad
Thank you, Jim.

Operator
Our next question comes from the line of Rob Stevenson with Janney Montgomery Scott. Please proceed with your question.

Robert Chapman Stevenson
Lou, how should we be thinking about the mezz portfolio going forward? Are most of these development deals that you're looking at likely in that type of a structure initially? Or are they more straightforward development deals? Are we likely to see with the exercise of some of these options and repayments, are we likely to see the mezz portfolio decrease significantly in size here over the next few quarters?

Louis S. Haddad
I don't think you're going to see one piece at a time there. And thanks for that question, Rob. We're trying to give some clarity to that. Everything that we're looking at for the next pipeline does not -- would not be a part of that mezz program. And we use that primarily on large-scale multifamily where you take a couple of years to build it and a couple of years to lease it up.

We don't see that forming in the pipeline. At the same time, I don't think you'll see significant -- we've got a couple that are going to get paid off this year, as Mike alluded to. But those large-scale ones in Atlanta run all the way through 2020. We forecasted -- when we issued our guidance deck at the beginning of the year, we guided people to our thought that that program was going to stay pretty steady over the next couple of years. So I think we will be redeploying the smaller amounts that are coming due. And like I said, the proceeds, we believe, are going to be in that same range for the next couple of years.

Robert Chapman Stevenson
Okay. The 2 Virginia Beach retail acquisitions you made, make you any less inclined to exercise the purchase option on Nexton Square and raise the retail concentration further?

Louis S. Haddad
No, not at all. Like I said, we did the purchase using that at-cost or the discounted purchase option, it's been a part of our forecasting for a while.

Again, I was just at that product a couple weeks ago. Tenants will be opening quickly. That's a lifestyles center that's nestled among the just literally thousands of units walkable to the site. It is a lot of entertainment concepts as well as retail services, as opposed to traditional retail. I think that's going to be one of the best properties in the portfolio for a long time to come. As I said, we had an opportunistic acquisition here with the Virginia Beach centers. But overall, as the development pipeline stabilizes, you'll see that percentage go back to where we were forecasting. It's possible that we could look at further dispositions and it all depends on capital needs and continuing to review our portfolio.

Robert Chapman Stevenson
Okay. And then any exposure at One Columbus from the BB&T and SunTrust merger?

Louis S. Haddad
I haven't heard that there is. I would suspect that BB&T would be looking to do some consolidation at some point. We don't have room for them here, so that's a possibility. We really don't see much on the horizon that could affect us here at Town Center office space-wise. We just don't have any significant chunks of space. To be honest with you, I wouldn't mind having a significant chunk of space, because we literally can't accept a new tenant at this point.

Mind you, we're kind of in that no man's zone, where we're not ready to launch a new building for a lack of a big anchor, and yet we are not in a position to do a whole lot of leasing. We are going to get some space back. Some of you might have heard me allude to this before. All of that we've got a lot of education space here, with the Art Institute, Hampton University is there. They are all feeling the effects of the robust job market. And therefore, enrollments are down. I'd say all 3 of them are going to extend and shrink. So we will probably get back some space here, but nothing that – nothing that is all that concerning. The leasing team is all over it.

Robert Chapman Stevenson
Okay. Any significant tenants that you're currently not expecting to renew this year or next, besides the Art Institute?

Louis S. Haddad
Besides there is -- those downsizes are -- on the office side, the downsizes I just mentioned will probably be happening -- actually we want it complete. The Art Institute here downsized and extended their lease. And the space that they gave back, we promptly leased to Fidelity investments at a significantly higher rate. So hopefully we'll have some more of those. We are really not, I discussed the Dick's, the grocery stores all appear to be lining up. And Mike, didn't we just get a couple of renewals?

Michael P. O'Hara
Yes. The Food Lion at Gainsborough Square in Chesapeake just picked up their option, and we had one of the Bed, Bath & Beyonds just pick up their option as well. So couple of big ones have picked up and we're in negotiations with the other ones coming up. So like Lou said, other than the Dick's and the Compass office space, we feel good about the renewals.

Robert
Thanks guys.

Lou
Thank you.

Operator
There are no further questions at this time. I will now turn the call back over to Lou for closing remarks.

Louis S. Haddad

Thanks, operator. And thanks, everybody, for your interest in our company. We look forward to updating you on our activities and results in the coming quarters. Thanks very much. Goodbye.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.