Operator

Welcome to Armada Hoffler's fourth 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, February 6, 2019.

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

Please go ahead.

Michael O'Hara

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

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

The press release announcing our fourth quarter earnings along with our quarterly supplemental package and our 2020 guidance presentation were distributed this morning.

A replay of this call will be available shortly after the conclusion of the call through March 6th, 2020.

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, February 6th, 2020, 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.

Lou will start the call today by discussing our 2020 guidance. At this time, I'd like to draw your attention to our 2020 guidance presentation that we published this morning. I'll now turn the call over to Lou.

Louis S. Haddad

Thanks Mike.

Good morning everyone and thank you for joining us today. Next month, we will mark the 41st anniversary of the founding of our company. We take a great deal of pride in achieving that milestone, one not often seen in the commercial real estate business. Over the years we've earned a reputation for integrity, consistency, and professionalism, traits that are the foundation of our success.

The last decade saw us turn a seasoned, vertically integrated, multi-asset class, private real estate company into a publicly traded diversified REIT. The results have been stellar. The company has increased its market cap nearly 5-fold since its 2013 inception and investors have enjoyed returns in excess of 150% over the last five years, more than tripling the returns of the RMS.

In addition to analysts and investors, there are many employees and joint venture partners listening in on the call today. On behalf of our founder and chairman, Dan Hoffler, the board of directors, and executive management, we sincerely thank you for being a part of our team. I'm proud to be associated with each one of you.

While the focus of my comments today will be on our 2020 guidance as presented in the release this morning; I'll first offer a few thoughts on the fourth quarter and 2019. As you can see from our earnings release, we've been extremely busy at the company. Over the last few months, we've announced three new development projects, signed several third-party construction contracts, and made solid progress on our asset recycling initiative. Perhaps most importantly, 2019 saw us maintain high occupancy portfolio wide and generate healthy increases in releasing spreads.

Our fourth quarter results were in line with expectations and Normalized FFO for the full year was a dollar seventeen per share, which was in the middle of our guidance range. As we forecasted at the beginning of last year, 2019 would yield a double digit increase in per share earnings over 2018, and it has done so with a year over year increase of nearly 14 percent.

As has been relayed to you over the last few quarters, we anticipate only a slight increase in earnings per share for 2020. This is a year where our focus is to substantially increase our NAV through our capital recycling efforts, exciting development initiatives, and high return redevelopment. In short, we anticipate that our activities over the course of 2020 will build a solid case for expansion of our multiple and ultimately lead to significantly higher earnings over the next few years. As the company's largest equity holder, management remains committed to generating long-term value for all shareholders.

Turning to our guidance presentation, as you can see by the earnings range on page 4, the mid-point of our per share guidance is $1.18. While on the surface not as exciting as last year's large increase, we decided to sacrifice short term profits for long-term growth and value.

Specifically, as is detailed on page 5, beginning with the sale of Lightfoot Marketplace last year, we anticipate the likely sale of 8 of our older commodity type neighborhood centers at a mid-seven cap rate. The vast majority of the proceeds will be used in the acquisition of two new whole foods centers, the new lifestyle center at Nexton square and a multi-family asset within sight of the Capitol building in Richmond Virginia.

It is important to note that all of these high-value acquisitions will be executed off-market, for a discounted price and with existing partners, some of whom will be taking their equity in the form of OP units. Despite the discounted purchase prices, the cap rate differential between our acquisitions and dispositions will have a negative effect on short-term earnings.

When you combine that head wind, with a decrease in mezzanine income and capital raising for new exciting development projects, you can see the reasons for this year's range. More importantly, we hope you all feel as we do; that these intentional moves are part of a longer-term strategy that positions the company for even greater returns than investors have enjoyed over the last five years.

Before I walk you through the other highlights of our presentation, I am going to reiterate a fact that many who follow our company have correctly pointed out, that we do not fit neatly into the standard REIT box. With third party construction profits, build-to-suit asset sales and mezzanine interest income, our platform has a unique complexity that can't be wholly measured by traditional REIT metrics. That said, while these ancillary income streams augment earnings and decrease the need for external capital, the end goal of monetizing development spreads in this fashion is to enhance growth in our portfolio income through new development projects and off-market OP unit acquisitions.

Illustrative of this point, as you can see by the information at the top of page 6, we expect our portfolio NOI to climb by over 40% from 2019 levels when the current development projects are fully stabilized. The FFO per share contribution from this additional NOI will be meaningfully higher due to the millions of dollars earned from mezzanine activity and construction income that we reinvest into the company, thereby reducing the need for outside capital.

Also of note on page 6, as we have been projecting, the pie chart showing the NOI contribution of our various product types continues to adjust with concentration moving from retail into multi-family and office. While the non-retail assets that are being added to the portfolio through development and acquisition, are of trophy quality and offer significant long-term growth; I'd like to emphasize that we are also very bullish on all components of our retail portfolio. Neighborhood grocery centers, regional discount chains, and entertainment and mixed-use retail will remain as a high-occupancy and growing sector of our business.

Turning to page 7 you can see that we've also been very successful in diversifying our portfolio on a geographic basis. Upon stabilization of the current pipeline, nearly half of our property NOI will come from outside of Virginia. This increased diversification is the result of years of goodwill and strong relationships built with strategic partners in these dynamic markets.

The development pipeline is described on page 8. Premier retail at Town-center is one tenant away from stabilization, while Summit Place and Wills Wharf are on track for delivery in the 2nd quarter. We expect both projects to be substantially leased by year end. The three projects that will break ground later in the year, Southern Post, Chronicle Mill and Ten Tryon, constitute nearly 250 million dollars of prime mixed-use space in fast growing sub-markets. All three are weighted towards multi-family and office uses, but will also include some complimentary retail.

On the redevelopment front, renovations continue in the Town Center of Virginia Beach with all construction scheduled for completion this year at the Cosmopolitan Apartments, Columbus Village and Apex Entertainment. We anticipate returns in excess of our ground up developments on the new investments in these properties.

Beyond the engagements nearing completion and recently announced projects, we are evaluating multiple new opportunities in these and other neighboring areas. While nothing has been finalized, our expectation is that at least one of these new engagements will be ready to announce later this year.

Page 9, shows our mezzanine investment program. As most of you know, this initiative allows us to provide development and construction expertise as well as our strong credit to trusted partners developing high quality projects in return for most of the value creation. We've separated the program into 2 types: assets that we intend to ultimately acquire through a discounted purchase option, and projects that we feel are better suited as short-term investments. The assets in this latter category are expected to trade at cap rates significantly below our cost of capital thereby making our acquisition less practical. Consequently, our partners will likely be offering the assets to the general market. However, if an opportunity arises to negotiate a favorable option to purchase, we won't hesitate to add top quality assets to the portfolio, as was the case with the pending acquisition of the Delray Beach whole foods center. The mezzanine lending strategy, combined with the schedule, quality, and cost control provided through our general contracting arm, enables us to participate in top quality developments, and monetize a large percentage of the wholesale to retail spread through interest and fee income. Stated another way, this aspect of our investment strategy maximizes flexibility in deciding which projects are best suited for inclusion in the portfolio and which are best to monetize based on a variety of factors, including capital market and commercial real estate conditions.

As you can see, over a multiyear period we expect to generate some 60 million dollars of fees and interest income. Based on the projected payoff dates of the current projects and likely engagements in predevelopment, we expect the program to stay near the current level at least through 2020, yielding significant profits over the next few years. Mike will update you on the 2020 guidance on this segment of our business.

Page 10, covers our third-party construction and other real estate services. With a healthy backlog of over 240 million dollars, the division is expected to have one of its best years ever with over 7.5 million dollars of gross profit in 2020. This substantial increase in fee income partially offsets the negative effects of the headwinds I described earlier, adding a layer of flexibility not available to most any other REITs. Although significant, third party fee income is perhaps the least important benefit of our construction company. Aside from giving us the confidence and control to pursue our in-house development and mezzanine strategies, construction contracting has brought us many new relationships with high quality developers that we may ultimately add to our circle of partners in new ventures.

Stepping back to a macro look at the business, the top of page 11 shows the year over year anticipated change in the composition of our Normalized FFO. As you can see, FFO from our properties rises the most on an absolute basis, followed by construction profit while interest income and other fees slightly decrease.

The pie charts show that while a significant portion of our FFO is derived from ancillary real estate related sources, the vast majority is generated from our portfolio. With the large increase in construction profit offsetting the decrease in the mezzanine and other fees, 2020 shows a very similar breakdown to 2019. However, as we have said in the past, our expectation is that mezzanine, construction, and build-to-suit contributions will stay more or less static or slightly decrease over the next few years, while stabilization of the existing development pipeline will increase property NOI by nearly 50 million dollars. We expect the resulting FFO generated will return the property segment to well over 80 percent of the total on a consistent basis, thereby solidifying our free cash flow and expanding our earnings base and our multiple. Now I'll turn it over to Mike to give some further detail on our guidance as well as some specifics on last quarter.

Michael O'Hara

Thanks Lou.

Good morning, before my comments on the quarter and our 2020 guidance, I'd like to bring to your attention our updated website. Last week we launched our new and improved website which is easier to navigate and to find our financial information. When you have time please check it out.

For the fourth quarter, we reported FFO of 29 cents and Normalized FFO of 30 cents per share. For the full year, FFO was $1.10 and Normalized FFO was $1.17 per share.

2019 was a very good year for REITs, in general, and AHH, in particular. Our 2019 total shareholder return was 37 percent versus 26 percent for the RMS and in 2019 AHH had 26 all-time high closes.

Our 5-year total shareholder return through 2019 was 156 percent versus 40 percent for the RMS. We are obviously pleased with these returns and are grateful for the trust our shareholders have placed in our company.

With AHH trading at current levels, above consensus NAV, and with the current interest rate environment, our cost of capital is substantially lower than in the past. With this lower cost of capital, we have the ability acquire higher quality assets, such as multifamily communities, Whole Foods centers, and be accretive. During 2020, we will continue to pursue high quality assets to upgrade our portfolio.

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

Same store NOI was positive for 2019, GAAP was positive 3.8% and cash was positive 4.5%.

Additionally, our releasing spreads were positive again this quarter, 6.7% on a GAAP basis and 3.4% on cash. They were also positive for the year, 5.6% on a GAAP basis and 2.2% on cash. We believe these positive metrics are a reflection of the quality of our portfolio.

Now back to the guidance deck. Starting on page 12, there are a couple of slides relating to the balance sheet. As you can see, we generally have maintained leverage within our corporate targets of: Total debt to EBITDA with an upper limit of eight times and core debt to Core EBITDA in the six times range. A reminder that our Core Debt includes the debt associated with our operating properties as well the outstanding balance on our credit facility, which includes the equity requirements of construction loans for our development projects. With the increase in equity requirements required by lenders today, which is typically 35 percent of the development cost. We have maintained our target range for the past few years, aside from a short term spike in 2018 related to our build to suit/sale of the distribution center. With the upcoming asset recycling, in which we are rotating into better quality assets, EBITDA from these properties will initially be lower. Due to this, after we complete the recycling, our leverage may be higher for a short period of time.

As for the new development projects we recently announced, they are expected to break ground during the first half of the year. As is typical of development projects, the initial capital requirements are modest and ramp up during the construction schedule.

Due to the timing of these capital requirements and the effect of the asset recycling, we believe using the ATM throughout the year is the prudent method to manage leverage.

Now turning to page 13 to review debt maturities. During the fourth quarter, we completed the refinancing of the remaining 2020 loan maturities, and we closed on the recast of our unsecured credit facility, which extends the maturity of the revolver portion to January 2024 and the term loan to January 2025.

Page 14 of the deck illustrates our core operating portfolio occupancy, since 2013, which has been the mid 90's. This reflects the strength of our properties and we expect this to continue at these levels in 2020.

Page 15 illustrates the details of our 2020 mezzanine investment program guidance. While still substantial, we anticipate the program being below the 2019 levels. In the fourth quarter, we began to recognize interest income from loan exit fees included in the Annapolis Junction and Interlock loans. Both these loans have provisions that include a fee when the loans are paid off. These fixed fees are essentially our profit participation within these projects. The exit fees are substantial, with five million dollars included in our 2020 guidance, in addition to 16 million dollars of interest income. The 2020 interest income guidance is based on anticipated loan payoffs of the Delray, Nexton and Annapolis Junction as listed on this slide.

As discussed on the last earnings call, the new GAAP standard known as CECL went into effect on January 1. This new standard requires companies to establish loss reserves on most receivables and loans even when current facts and circumstances do not indicate a loss will be incurred. In establishing these reserves, companies need to estimate the impact of future business cycles that could affect the loans. We have determined that this new standard only materially affects our mezzanine loans. Based on our analysis and data from our consultant, we have estimated that we will record a reserve of between two and four million dollars effective January 1st. As is typical with any new GAAP standard, this initial reserve will not go through the income statement and instead will appear as an adjustment to equity in the first quarter of 2020. Going forward, we will go through this same analysis every quarter and adjust the reserve. This adjustment is non-cash and with the unpredictable nature of the reserve, we decided not to include this adjustment in Normalized FFO. That said, any actual losses from our mezz program will be included in Normalized FFO.

On Page 16, is our 2020 full-year Normalized FFO guidance of a dollar sixteen to a dollar twenty per share, along with our guidance assumptions.

As Lou discussed, our asset recycling is included in our guidance with expected completion in the second quarter. This recycling is similar to 2016, when we sold the Richmond office tower and the Oceaneering build to suit, with the proceeds invested in 11 retail centers. This recycling lowered our earnings, but increased the quality of the credit behind the leases and NAV.

Our 2020 recycling consisting of selling 9 centers, 1 of which closed and 8 of which are under letter of intent. Proceeds will be invested in higher quality real estate including two Whole Food centers and a multifamily community. These transactions will reduce our NOI by 1.5 million dollars on an annual basis. As we said in the past, real estate is a long-term game and not managed quarter to quarter. We believe this recycling increases the quality of our portfolio, our NAV, and will perform better over time.

Speaking of NAV, please turn to page 17 of the guidance deck. Growing NAV, earnings and the dividend are the main focus of our company. We believe the value we are creating through our unique business model is reflected in the growth of these three metrics. We believe this growth equates to our stock out performance over the past five years and the increased of our equity market cap by 5 times.

Now back to the fourth quarter.

We raised 25.5 million dollars through our ATM program at an average price of $18.30 per share. For the year, we raised 98.4 million dollars at an average share price of $16.76. With the stock trading above consensus NAV during the fourth quarter, we took advantage of the market conditions.

At year end, 77 percent of our debt was either fixed or hedged. With the current interest rate environment, we are being patient with our hedging strategy. Last month, we purchased 100 million dollars of 2 year LIBOR caps at 1.75 percent.

As you have just heard, we have a lot of activity 2020 with many moving parts, and we will continue to be transparent and keep you informed.

Now I'll turn the call back to Lou.

Louis S. Haddad

Thanks Mike,

A few other items of note. As Mike mentioned and you've seen in our press release, we've refreshed our website with several new features including a sustainability update. As I mentioned last quarter, we are very proud of our decades long track record in this area. Please take a look if you get the chance.

Secondly, we will be discussing further governance enhancements as well addressing our dividend at our board meeting in a couple of weeks.
Operator, we would like to begin the question and answer session

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.

Q&A Session

Operator

[Operator Instructions]

Dave Rodgers

I wanted to start with the dispositions. It definitely sounds like there's more of a quality bias within the portfolio broadly, which I think everybody applaud. But in the last couple of quarters, we've heard about maybe a one City Center sale in durham and the potential for something to happen in some IT place. And then kind of the disposition plan came out as a kind of more smaller retail assets. So I guess, maybe talk a little bit more about your thoughts and processes as you went through and thinking about those assets in particular?

Louis S. Haddad

Sure, Dave. We had -- we first evaluated the disposition program, we had had our eye on those 2 assets as well as a dozen or so retail assets. So it was always going to be weighted a bit towards retail. We decided in the final analysis that one at City center, it wasn't good timing to try and sell a building that had substantial rework tenant. And in terms of the Summit place in Charleston, we were overtaken by leasing. Leasing effort started nearly fall when school got back, and we've been very pleased with the progress of it. And we've decided that is more probably a long-term hold based on the way the project is being received. So these are things that we will continue to evaluate. We're really happy the way this has turned out with, again, some of our older retail, which is a stalwart in our portfolio, yet not high as growth. But the opportunity to fold into some newer retail as well as multifamily is something we're really excited about for the future.

Dave Rodgers

How should we anticipate your tenant roster and retail shifting with the assets under contract and how you view this plan going forward? Do we expect smaller -- some of the smaller shops to start to kind of peel off of that list? Is there a plan around tenancy?

Michael P. O'Hara

So certainly, with this rotation, we're going to be selling some Food Lions and Harris Teeter centers. And with that change, we're certainly going to see increase with Whole Foods and Amazon as one of the tenants. I would say on the small shops, certainly, there'll be less small shops that are going to be view because we have a number of centers were selling on our retail versus what we're buying.

Dave Rodgers

And then last on dispositions, the timing that you mentioned, Mike. I mean, what's the impact from an NOI perspective on the 2020 number versus the negative $1.5 million of kind of long-term dilution from the trades this year that you talked about in your guidance, though?

Michael P. O'Hara

Yes. We're trying to get this tied up, so they come April, that we'll be selling. We've identified, as you saw in the presentation, all the assets we're buying other than one. We have 2 or 3 candidates we're looking at right now. So we think we can time everything up pretty well other than maybe that one asset, which will be $20 plus million may lag behind. So we're not expecting a huge impact from it.

Dave Rodgers

Great. And last question for me. Lou, you made a comment about keeping the mezzanine pipeline pretty stable into 2020. As you look beyond that, I know you made the comment that it could vary, but what's your confidence level in kind of building that pipeline back up as some of these projects start to mature right now?

Louis S. Haddad

Dave, it's -- our confidence level is very high. It's really almost the opposite. It's -- we want to make sure that, that program doesn't expand. We want to -- we like it at the level that it's at and really don't see any issue with keeping it at or near that level. Obviously, it's a bit lumpy, but I think you can see it pretty consistent for the next few years based on the opportunities that are coming to us.

Operator

Our next question comes from the line of John Guinee with Stifel.

John William Guinee

Great. I noticed you increased your disclosure on your construction pipe and something showed up 27th at Atlantic big high-rise apartment in -- on the ocean front of Virginia Beach, what's going on there?

Louis S. Haddad

Sure, Dave, that is a -- it will be the -- as we understand it, the only high-rise apartment project on the waterfront on Virginia Beach. We are simply the contractor there. It is the same group that did the hotel next door, same ownership group, which, as you -- I think people may know also has a couple of our officers or most notably, our Chairman and Vice Chairman, our investors in the project.

John William Guinee

Is that a little bit of a conflict, and it looked like you disclosed a $300,000 gross profit in your -- in your recent filings on pretty significant deal.

Michael P. O'Hara

John, I guess on the conflict, the 27 Street, the job -- the project was offered to the REIT first. We decided to pass on that because the returns on that aren't going to fit with our cost of capital on that one. So that wasn't a conflict, and we're certainly going to make some fees on building that, which is good. I'm not sure what you're talking about on the other than $300,000, not to go back and take a look at that. Is that in the Q?

John William Guinee

I think it's in the Q. It seems like an awfully low number for an awfully big, a complicated project.

Michael P. O'Hara

We just started the project.

John William Guinee

Oh, okay. Sorry.

Louis S. Haddad

Yes, the fees are in the millions, John. The -- we just started the project. So I'm not sure where that's being picked up, but it might be what's been earned to date, I guess, we'll get into that at rate fees. We have a construction fee as well as some development fee in there on the behalf of those people. But yes, just to reiterate, the project came to us first, and we elected to pass. It's going to be a great project, but much like you see a lot of these multi-family projects, it's going to be great from an IRR basis if somebody levers it up. They have something like a 90% loan. And so their cash-on-cash return is going to work out really well, but it doesn't work really well in the REIT space, as you all know.

John William Guinee

I'm assuming you disclosed all that and there is still with independent board members only, et cetera?

Louis S. Haddad

Correct. Yes.

John William Guinee

What Q you did you put it or what case did you put it in?

Michael P. O'Hara

It was in the third quarter. There'll be more -- there will obviously be more in it now because, initially, there was a smaller GMP or a smaller contract that was done initially for some site work in tiles until they get the full GMP, which is now -- which was now signed in this past quarter.

John William Guinee

All right. Second one, a new board member seems to be more kind of Virginia centric, political party driven, all that sort of thing. I was at the NMHC Conference a month ago, and there are dozens of qualified women who are with real estate experience with REIT experience, maybe give you someone who is outside of the Commonwealth of Virginia, but you seem to -- the new board member seems a little bit unusual. Can you expand on that?

Louis S. Haddad

Sure. And Ms. McCauliffe is extremely qualified and kind of breeds through the process with our existing independent board members, basically because of her background. As the lawyer with SEC experience and capital markets experience as well as her involvement in worthy causes as well as ESG activities.
She was a perfect addition for what we were looking for. And you're right, there are a lot of qualified candidates out there. But that's on one.

John William Guinee

Okay. I noticed the Whole Foods in Delray went from a payoff right now to something that gets paid off a year from now, and all of a sudden has a discounted purchase option, what sort of happened there?

Michael P. O'Hara

So John, that's going to get paid off in the fourth quarter, I mean, the second quarter of this year. Certainly, we have a relationship with Collins. And as part of that, they offered to see if we're interested in buying those, but we have to obviously come up with the right price that works for us, of which we negotiated. That will be part of when we sell the centers, that will be part of the 1031. So the cash will flow through as part of a 1031 impact to us.

John William Guinee

Are you keeping the tax protection for the OP unit holders? Or is that burning off? I think that expires second quarter of this year, which was congratulations 7 years since your IPO.

Louis S. Haddad

Thanks. Yes, whatever the original provisions of the tax protection there or what's going to be placed.

John William Guinee

So essentially, you're going to do a 1031 low tax basis transfers continue to protect the OP unitholders?

Michael P. O'Hara

All right. So OP units, and I'm going to say all shareholders, John, it's just a -- there was no reason not to do one here that we can think of.

John William Guinee

Okay. At acquisition for Whole Foods, ones in Delray and ones in Akron, Ohio. Last time I checked, Lebron James is no longer in Akron, Ohio. What's the split in terms of investment in Akron, Ohio and the cap rate versus investment in Delray Beach and the cap rate?

Michael P. O'Hara

We negotiated those together. It was a -- we had -- both -- we had to buy both, and they wanted to sell both. It was all together. So we negotiated the 6% between the 2. Obviously, the Delray, we trade at a better cap rate than the Akron as well.

John William Guinee

How much is the Akron's and how much is the Delray of the 48 million? You have to know the difference between the $48 million? Is this $8 and $40? or is this $24 million and $24 million.

Louis S. Haddad

It's neither, John. We negotiated a 6% cap on the NOI for those 2 centers.

Michael P. O'Hara

Akron's NOI is lower than in Delray. So this is more of it's weighted towards Delray?

John William Guinee

Okay. And then I was looking at your your mezz page, Page 15 of your guidance. And Interlock as Interlock paid off in 2021, I think, but you have exit fees in 2020 amortization of them and then Annapolis junction has $5 million of amortization of exit fees, but I thought that happened in 2019. So I'm surprised that there's 2020 in both intra Lock and Annapolis junction.

Michael P. O'Hara

Okay. On Annapolis junction, the $5 million that was the purchase option fee. Remember that that was the loan modification fee that closed in the fourth quarter of '18. We received the cash member was amortized over a year. In addition to that, on this in the airlock as part of our negotiations on this. As we've talked about, we like getting 80% of the profit on these. Part of that are exit fees that are built into these loans. We -- what we've decided to do from an accounting standpoint is not to recognize start recognizing those fees until we know that they are collectible, and certainly, under GAAP, you can't wait until the day you collect the money to start recognizing those fees. We determined here this past quarter that the timing was right as those projects move along that it was time to start amortizing those exit fees, which amortize over the next couple of years.

John William Guinee

The -- how much of, Dave Rogers asked a good question on Durham and the reason that didn't sell is because we work, how much of your office, the office at Interlock is the WeWork lease?

Louis S. Haddad

40%, may be.

Michael P. O'Hara

40%, I think.

John William Guinee

So do you feel comfortable collecting an exit fee in 2020 for a loan that matures in 2021 and has -- we work as 40% of the tenant?

Louis S. Haddad

We feel real comfortable with the Interlock and the demand that's there. And in fact, we would recognize an increase in the value of the property if we work weren't there. Based on the tenants that are there in the market. However, we were continuing to do extremely well in Atlanta and is full bore on that space. So they're going to be there, and we're very comfortable with where we sit. As we said, I think this came up in the last quarter. Just about everybody that you would talk to CEOs across the country. We'll tell you that co-working space is here to stay. It's somewhere around 2% of the market right now. It's going to get level off according to the pendants that 10% to 15%. So whether or not which names might survive and get bigger and better or go away is not a bet that we're willing to make. But in terms of the locations and the use, we feel very comfortable with what we have there. And in fact, as I mentioned last quarter, we just leased 30,000 square feet to a co-working user here at town center. So it's here to stay, and we're going to take advantage of it. Just like everything else in our portfolio, we're not going to make a big bet. So that's just prudent. But we're comfortable with where we sit.

Michael P. O'Hara

And John, our underwriting here, we certainly use a cap rate, we think, works with WeWork in that building. In addition to that, there are significant tax credits in this project combination of the investor lenders bonds as well as brownfield credits.

John William Guinee

Okay. And then lastly, you guys do a great job of outlining your NAV. And what we noticed is that if you just hold the cap rates fixed, your NAV is about the same now as it was in early 2015, your NAV per share at a fixed cap rate. Do you guys -- does that concern you guys? I don't see NAV going up kind of it's on the curve going down the last few quarters? Does your math, Mike tell you the same thing? And does that concern you?

Michael P. O'Hara

See a couple of things on that, John. I think that when you do your calculation, you're using the same cap rate, and we believe we have been increasing the quality of our assets over time. The other thing that, say, in this past quarter that hurts us as you take the redevelopment that we have going on right now with the -- between the Cosmo and Columbus Village, we've got assets that NOI is significantly less than it was stabilized. So on our NAV page, you can only get the NOI of, I'm going to say, a building that's 70%

leased. And on top of that, we're only adding the cost of the redevelopment back on the NAV page. So there's a big delta there between the value of what that property is versus what's showing on this NAV page.

Operator

Our next question comes from the line of Rob Stevenson with Janney.

Robert Chapman Stevenson

Lou, what's happening with the construction gross profit that you're nearly doubling from $4.3 million to $7.6 million in 2020. Is that just more volume being put through the construction company?

Louis S. Haddad

Yes, it's -- yes, thanks. It's a good question. We -- so basically, what's happening is we have a lot more third-party volume this year versus internal volume. And as everybody knows, you don't make fees on working for the REIT. And last year, the construction company had a much higher mix of in-house projects versus third-party party projects, which we've illustrated in the guidance deck. So it's more volume. It's also -- they've been able to negotiate some pretty healthy fees. Most of the work is being done in a 4% basis. And then as you can see by the bar chart on the construction page. That will continue to ebb and flow. We're not this isn't commodity construction. Our people are invested in these deals. Whether they're third-party or their mezzanine or they're internal. They baby them from inception all the way through completion. And so it's not easily multiplied or scaled up, and our intent is not to scale it up. So as the mix continues to fluctuate between internal and external projects. You'll see those those numbers continue to fluctuate as well.

Robert Chapman Stevenson

Okay. I just wanted to make sure it wasn't just 1 project or some sort of early delivery bonus or something like that, that was skewing the numbers on a one time thing?

Louis S. Haddad

No, it's all it's all volume. I think there's very little savings split income in there, if any?

Robert Chapman Stevenson

Okay. And then Mike, did I hear right that looking at Page 5 of the guidance, the acquisitions and dispositions, obviously, Lightfoot's already been done. But that the other transactions, the 2 dispositions in the 3 acquisitions, excluding the 2 TBD 1 are all supposed to close sometime in the second quarter or by the second quarter?

Michael P. O'Hara

We're expecting this, yes. We expect them to close in the first quarter. The apartments and the 2 Whole Foods are all set up. We were through due diligence, and we're in good position on those to be ready to close as well as NextGen.

Robert Chapman Stevenson

Okay. And then the dispositions, the Greentreeand the 7 shopping centers?

Michael P. O'Hara

Green tree, we've got a signed purchase and sale agreement at this time, and that's on schedule on the setting shopping centers, we have a signed LOI, expect to have a signed purchase and sale agreement this week. And with the timing within everything should put us in the beginning of April for closing on that.

Robert Chapman Stevenson

Okay. I know the 7 shopping centers are going to one purchaser? Or are they being spread around in multiple transactions online?

Michael P. O'Hara

Yes, one buyer.

Robert Chapman Stevenson

Okay. When does the Apex lease commence? And when does it start paying actual actual cash rent versus just the GAAP amortization?

Michael P. O'Hara

Yes, we've got gaps starting in August, and they take occupancy and start paying rent, and we're expecting right refers in November.

Robert Chapman Stevenson

Okay. So the Apex lease shouldn't really have much of an impact on 2020?

Louis S. Haddad

No, it really doesn't.

Robert Chapman Stevenson

And then, any known move-outs of impact in the retail and office portfolios over the next 6 or 8 quarters at this point?

Louis S. Haddad

Nothing that -- nothing that really sticks out. I'm not sure if everybody understands what's happening here at Town center. We did have a move out or Hampton University downsized at our headquarters building, and we're taking advantage of that by moving our construction company back into the building where they originally started. Obviously, their rent is eliminated. And at some point, that's going to be a hit in same-store NOI, I guess, maybe next quarter, Mike?

Michael P. O'Hara

Yes.

Louis S. Haddad

Yes. So we'll be explaining that one. But outside of that, there's really nothing material.

Robert Chapman Stevenson

Okay. And then last one for me. Mike, any no difference today between NAREIT and normalized FFO in 2020?

Michael P. O'Hara

So we're going to have a couple of things. Obviously, it's the biggest driver has been the mark-to-market on our hedging strategies, has been the biggest difference over the last couple of years. And as I said in my remarks, is with CECL, because of the unpredictability of that, it's almost like a mark-to-market, we're going to exclude that. The way CECL is going to work in a pooled approach. Is we're going to take a look at the overall balance and then adjust the reserves. So that reserve is going to be going up and down based upon the total outstanding balance as well as whatever the data is saying and what the losses should be on that. I would expect that, that will increase FFO would not normalize this year because we're going to be starting at a higher -- I'm going to say, balance to begin with -- outstanding balance with that $2 million to $4 million initial reserve that will come down as the balance comes down over the year.

Operator

Our next question comes from the line of Jamie Feldman with Bank of America Merrill Lynch.

James Colin Feldman

I guess just sticking with WeWork and co-working. Number one, are there any spaces that WeWork has not -- has either given back or plans to get back or hasn't started construction that you're waiting for?

Louis S. Haddad

No. We're not seeing any hesitation whatsoever, and they're doing well in Durham. They're preparing, I mean, they're working on construction in Baltimore as well at the Interlock in Atlanta.

James Colin Feldman

Okay. And then the new lease, you guys mentioned -- it sounds like it's not what WeWork it with another provider. Is that a shared revenue lease? Or is that a straight contract lease? And then actually, when you think about the other leases in the portfolio, how are those structured?

Louis S. Haddad

Yes. So that's a great question, Jamie. I appreciate you're asking that because we are not interested in going into business with any of our tenants. Co-working included. So both in Durham as well as in Baltimore and at the Interlock, those are all full value leases. We understand that a lot of those co-working companies are proposing to landlords, the whole shared revenue model. We think our story is complex enough without getting in the business with our tenant. So you won't see us, I guess, never say never, but I'm not thinking you're going to see that appear in our model.

James Colin Feldman

Okay. And then who's the new -- you said you signed a new one with a different provider, who's the provider?

Louis S. Haddad

Yes, it's -- are they -- I'm looking around- it’s a company called Gather. My only hesitation was, I'm not sure that that's been announced or that they have announced it here locally. But yes, the it's a company called Gather. They have several locations. It's more regional rather than national.

James Colin Feldman

Okay. And is there like a conference center component to it or it strictly just office?

Louis S. Haddad

No, they have got some -- they've got some - they are called Gather and they've got some Gather space. So I understand it's a pretty unique booking model. And for us, that is third generation space. And so it's a -- we think, in the midst of almost 1 million square feet of office space here at Town Center, it's a nice feature to have a very low-risk for us.

James Colin Feldman

Okay. And then when you look at your retail portfolio, any additional names on your watch list this quarter? Or any -- you're just kind of watching thinking you may have some vacancy coming?

Louis S. Haddad

Jamie, it's a never-ending story. The -- we don't really have anything new on the watch list, the usual suspects are still out there. And we still get back and beyond. We still have 4 of those. We have 5 of the pet stores and various others. We're not seeing any uptick in that. In fact, sales across the portfolio on the retail side, have all seem to be on the increase. So I think brick-and-mortar is alive and well. But as you know, you've got to constantly look at the portfolio evaluated for risk, but we're not really seeing any issues showing up beyond what you read in the headlines on some of these smaller tenants?

James Colin Feldman

What kind of reserves are in your '20 guidance outlook?

Michael P. O'Hara

When we do our -- when we do our outlook, what we do is we take a look at rollover risk and bad debt and everything like we do across the entire portfolio. We don't do a -- I'm sorry, across the portfolio, we do it on a property-by-property basis. So it's built into what we expect for non-renewals, and et cetera.

James Colin Feldman

Okay. And then you had mentioned probably using the ATM to keep your leverage in check, what's the range that you're comfortable with at the high end?

Michael P. O'Hara

Well, our guidance was $80 million for the year. Certainly, if the stock is trading at higher levels, $19 or so. I'm sure we'll get more...

Louis S. Haddad

We'll look at how much more to get. Yes.

James Colin Feldman

I guess I was just thinking about what's the high end of your leverage comfort?

Michael P. O'Hara

Like I've discussed, that's total debt-to-EBITDA at 8x and staying at 6x on a core basis.

James Colin Feldman

Okay. And then you deliver or- Wills Wharf delivers this year, 68% leased. Can you talk about the leasing prospects for the rest of that space? And then also just can try on kind of how we should what the tenant demand looks like for that project, too? And maybe any other big picture color on that project since it was pretty recently announced?

Louis S. Haddad

Sure. So it will worth. There's -- it feels like every quarter, we should be able to announce the rest of the tenants that are going to be in that building, predominantly because there's a good number of tenants circling around the space. We're not trading paper with anybody yet, which tells us that it will be towards the end of the year before we actually would have the projects in. But there are no shortage of prospects for the -- we've got about 100,000 square feet left there. As I said earlier in my comments, our expectation is that, that building is going to stabilize by the end of this year. Attention, you guys saw the announcement, you might have seen, there's a lot of speculation in the press about who the anchor tenant is and you can take a look at that. But we feel very good about the Charlotte market. But between the rollover space in Charlotte as well as the increase on a daily basis of the population and companies coming in, we think Ten Tryon is going to be a home run. We just got to get -- we got to work really quickly and get the thing underway so that everybody knows it is real before we do any speculative leasing.

James Colin Feldman

Okay. And what do you think the delay is in getting Wills Wharf leased up?

Louis S. Haddad

I don't know that it's a delay. It's just we're dealing with large creditworthy tenants who have processes that take a long time. Between the RFP processes and all the hands has got to go through, it's a frustratingly long process. There's also I think there was some hesitation earlier and people wanted to actually kick the tires and see this space, and we could only have tours over the last couple of months that people could actually get up on those floors.

Operator

Our next question comes from the line of Barry Oxford with D.A. Davidson.

Barry Paul Oxford

Going back to the WeWork, and is the parent company on that on the lease? Or is it just a entity that is in the space? Again, in all 3 of those instances, we have a corporate guarantee on behind the leases.
Okay. Okay, great. When I look at your all switch, moving a little bit out of retail and more into kind of apportion office. Is that just more a function of kind of your portfolio or is it what you're seeing in the marketplace as far as risk-adjusted returns and growth?

Louis S. Haddad

It's a little bit of everything, Barry. The -- a few years ago, when Mike alluded to, the transaction we did, which had our retail portfolios well, and that was when we pulled out of -- we sold about $140 million worth of worth of office space and bought 11 centers at the time. And the move there, again, was negative to earnings, higher on credit, which obviously would move your cap rate that people are looking at when judging your portfolio. Now it's more a function of where the opportunities are. The company has long been a specialist in these mixed-use assets like we have here at Town center. And those opportunities are coming faster than retail opportunities or at least high-value retail opportunities. So I think that's why you're seeing a skew that way. And everything is also seems to want to have a multifamily component in it. So the whole the whole movement towards a live work play environment is exactly where we -- that's our wheelhouse and has been for 30 years. And it's just manifesting itself more and more as cities start to identify and there's lesser emphasis on the suburbs. So I think it's an overall market move, and we're well positioned to capture it.

Barry Paul Oxford

Okay. Great. And then last one is -- I know it's hard to look into 2021. But is it safe to assume that the dispositions will flow substantially in 2021?

Louis S. Haddad

Yes. This is -- we've been talking about how the company has been able to make it through good times and bad because we keep our portfolio fresh. We evaluate it constantly for what doesn't belong there any longer or where we think we can achieve peak value. This effort this past year, over the last 6 months was larger than usual. Again, a number of those older centers were coming towards the end of leases and into option periods. And not that they are bad projects, I think they're great assets. But we saw the opportunity to upgrade and, again, move to cap rate, move the multiple in the stock by upgrading the portfolio. I don't think you'll see, and again, you're right, it's hard to crystal ball it, but we don't have much more in the portfolio that we would want to sell. Obviously, everything is for sale for a price. But as far as us pushing the envelope to try and turn over the portfolio. I don't see that kind of effort into 2021. I think this was the big push, and then we'll be sitting tight largely.

Barry Paul Oxford

Right. Then by definition, then, would you guys be more reliant on issuing equity in 2021 or not necessarily.

Louis S. Haddad

Not necessarily. Again, as Mike mentioned, the pipe -- the development pipeline is stacking up again. We're going to fund that through the ATM largely this year. I would suspect our ATM activity would continue into next year. Got willingness to talk market still is good to us. So it's a pretty steady flow for us. And again, as the development pipeline that we've recently delivered stabilizes and those rent because we get those rent increases, I think there's going to be plenty of room for for debt as well.

Operator

Our next question is a follow-up from the line of John Guinee with Stifel.

John William Guinee

I forgot to ask. Mike, going back to the mezz program and including your purchase option or exit fees. Are you able to book those as GAAP income and run it through NAREIT defined? Or is there a spread here between normalized and NAREIT-defined with these exit fee amortization.

Michael P. O'Hara

As far as we know, that's fine, running through a redefined FFO because of the nature of the income, it's being booked as interest income, like all the other from a GAAP perspective.

Louis S. Haddad

Yes.

John William Guinee

Yes, it's just another way of running through merchant profits for merchant building development profits through. Okay. So second question, Edison multifamily deal near the state capital in Virginia, 6.8 cap. Can you explain the nuances there? There's -- we were just at NMHC, and we all -- we do understand cap rates on multifamily and 6.8is a unique cap rate?

Louis S. Haddad

Yes. We're very pleased with that transaction, as you might expect. So I'm glad you asked the question, John, because, unfortunately, it's not a short answer. This is a project that we developed, the development of it started pre-IPO we have an external partner that brought it to us and a tax credit deal and where we sold sold tax credits and the ownership of those tax credits needed to stay in place for a period of time that has expired at the end of last year. So there wasn't any opportunity to bring it into the fold. But as we were getting close to the ability to sell it, we approached our external partner about the opportunity of taking OP units. Protecting their cash flow and their taxes in return for a better cap rate. We were able to cut a deal with them. And they'll be receiving all their equity in OP units. And then we told our old partners who are still executives here that they had to live with the same deal that our external partners had agreed to. And so consequently, again, as the largest shareholder, will be increasing our stake in Armada Hoffler by taking more OP units when that transaction comes in. But -- and it just kind of shows the power of using your stock and particularly stock that's done well in order to purchase assets, tax protection and cash flow means a lot more of these guys than getting a big, big paycheck and paying a lot of taxes. So that's why we were able to negotiate a very favorable cap rate.

John William Guinee

Any near-term CapEx plan for that project?

Louis S. Haddad

No, nothing out of the ordinary. It's a historic rehab. We love the project, it's been full since day 1. And as you might expect, the upkeep is more than in a new build, but it's all in the numbers that we're forecasting. And John, that should help move the cap rate from 2015.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Haddad for any final comments.

Louis S. Haddad

All right. Thanks for -- I must apologize for the length of the call today. It's always a tough one when we get into guidance, we try and be as transparent as we can and as complex as our model is, it takes a little while to go through it. So I appreciate everybody's patience. Thanks for listening and your interest in Armada Hoffler. Have a great day.

Operator

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