Management Discussion Section

Operator

Greetings and welcome to the Armada Hoffler's Fourth Quarter 2013 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. (Operator Instructions)

I'll now turn the conference over to Julie Trudell, Vice President of Investor Relations Armada Hoffler. Please go ahead.

Julie Trudell – Vice President of Investor Relations

Good morning, and thank you for joining Armada Hoffler's fourth quarter of 2013 earnings conference call and webcast. With me this morning are Lou Haddad, CEO and Mike O'Hara, CFO. In addition, Eric Smith, our Vice President of Operations will be available for questions.

The press release announcing our fourth quarter earnings along with our quarterly supplemental package was distributed this morning. A replay of this call will be available shortly after the conclusion of the call through March 20, 2014. 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 remarks made herein are as of today, February 20, 2014, and have not been updated subsequent to this initial earnings call.

During this call, we will make forward-looking statements including statements related to the current and future performance of our portfolio, our identified development pipeline and future pipeline, our construction business, our portfolio performance and financing activities as well as comments on our outlook. We will discuss certain non-GAAP measures including but not limited to FFO, Core FFO and Core EBITDA.

Definitions of these non-GAAP measures as well as well reconciliations to the most comparable GAAP measure are included in the quarterly supplemental package which is available on our website at www.armadahoffler.com. 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 result to differ materially from our current expectations and we advise listeners to review the risk factors discussed in our press release this morning and in documents that we have filed with or furnished to the SEC.

Now, I'd like to turn the call over to our Chief Executive Officer, Lou Haddad. Lou?

Lou Haddad – President and Chief Executive Officer

Thank you, Julie, and good morning. This morning, I will touch on a few of the metrics from our fourth quarter earnings release. Next, I'll provide you with an update on our company with highlights from the year. Following that, I will take a few minutes to review the additional information we've included again this quarter in the appendix of our supplemental package titled understanding AHH. Our goal is to assist in fully understanding our markets, product mix and business model to enable a richer and deeper understanding of our company, value, and future prospects. Before I turn the call over to Mike O'Hara, our CFO, I'll provide you with some insight on 2014.

We are pleased with the quarter and excited about the trend of our business. For the quarter, our core FFO was $0.22 per share, which was slightly better than our expectations. The fourth quarter historically has been our strongest quarter and this year is no exception. The quarter was positively impacted by lower expenses in our stabilized properties due to seasonality as well as additional gross profit from the third party construction business.

Cash same-store NOI increased slightly on a year-over-year basis, despite the year-over-year drop in occupancy, mostly due to restaurant vacancies and a temporary dip in occupancy has the Cosmopolitan that we previously disclosed. We executed leases totaling approximately 105,000 square feet in the fourth quarter. Occupancy increased to 94.4% up from 93.3% as of September 30, 2013.

In November, we were selected as the developer for a new office and manufacturing buildings for Oceaneering International. Let me spend a few minutes on our recent investment. In January, we closed on the previously announced acquisition of Liberty Apartments in Newport News, Virginia. Liberty Apartments is part of a $70 million public-private mixed use development project with the Newport News Shipbuilding division of Huntington Ingalls Inc., the Commonwealth of Virginia and Industrial Development Authority of the city of Newport News, Virginia.

This is another example in our longstanding track record of executing large complex public-private partnerships. We believe this specialized expertise will continue to be a growth driver in the coming years. We acquired Liberty Apartments for $30.7 million, comprised of a combination of Operating Partnership Units, cash and the assumption of debt. The initial rollout of Liberty Apartments was strong, with some 50 units rented and nearly half of the retail space either leased, under letter of intent, or in negotiation.

Their performance confirms the decision by the previous owners, all of whom are Armada Hoffler officers, to delay the acquisition to coincide with the opening of the Apprentice School, which also resulted in lower carrying cost for the REIT during initial lease up. The total consideration for this acquisition was $1.2 million less than originally anticipated in our prospectus due to the value of the OP units issued as part of the consideration. I should also mention that the project was completed on time in September 2013.

Next, let me spend a few minutes updating you on our Town Center Complex including the two restaurant closings from earlier this year. Those current vacancies when coupled with 20,000 square feet of retail coming online in the 4525 Main Street, the new office tower, gives us the ability to accommodate a block of strong retailers who require each other as co-tenants.

We believe in holding this space, while concurrently working with these prospective tenants is the desired strategy, as these retailers, would bring yet another element to Town Center that would be unique to the area. We are in negotiations for all of this space in Town Center.

While we are excited about these prospects, the length of lease negotiations is increasing as caution continues to dominate space requirements at these companies. Since we are working with national chains with multiple co-tenant requirements, our expectation is that these leases will not be finalized until late in 2014.

Should this strategy prove to be ultimately unsuccessful, we intend to build the space with other use as complementary to the existing tenant. This strategic methodical approach to leasing continues to show in our occupancy numbers as we continue to enjoy occupancy in the mid 90% range. We don't get overly excited when our occupancy reaches 97% or 98%, nor do we get overly concerned when it dips into the low 90s. Our focus is long-term growth and stability across our operating property portfolio.

The $175 million development pipeline, which we announced at the time of our IPO is on budget and progressing as expected. The first wave of projects will be completed in the back half of 2014 with the remainder in 2015, we believe these projects will ultimately generate NOI of $13 to $14 million on an annual basis. This would represent NOI growth in excess of 30%.

We also began to enjoy the culmination of pre-development work on the next generation pipeline with the Oceaneering engagement. In the fourth quarter; we began construction on this 155,000 square foot build-to-suit project on 18 acres in Chesapeake, Virginia. We expect to complete the facility in early 2015. We facilitated this public-private transaction among the City of Chesapeake, the Commonwealth of Virginia and Oceaneering International. This build-to-suit development project is 100% pre-leased.

The Johns Hopkins University development project continues to progress with the program now defined and strong interest from retailers for the ground floor commercial space. This mixed-use development will include student housing, retail space, restaurants, and parking. The goal of the completed project will be to complement the main campus and nearby Charles village neighborhood and provide a catalyst for future development in the area. We expect to break ground on the project in late 2014.

I'm extremely pleased with attractive array of opportunities in the pipeline with more announcements forthcoming in the first half of 2014. We're seeing a higher number of opportunities that are 100% occupied build-to-suits with high credit quality tenants. They're fully stabilized upon completion as well as grocery-anchored shopping centers that have historically been the foundation of our stable cash flow. Such projects are expected to increase our development spread as we're developing these at attractive return on cost metrics and these types of assets command lower market cap rates once completed.

We believe the net operating income from the next generation pipeline will begin materializing in 2015. This is slightly faster than our original expectation of a new generation of development projects in the range of $150 to $175 million every 18 months to 24 months. We continue to employ all the tools that are at our disposal to maintain the wholesale to retail spread on our development projects. These levers include structuring land acquisitions managing the design process, acquiring municipal support through public-private partnership, construction management and managing the timing and terms of the leasing process. We executed $6.8 million of new construction contract work in the quarter and $64.7 million for the full year. Construction segment gross profit was $3.7 million for the full year 2013.

To remind everyone beyond the consistent cash flow generated by our third party construction business, having our own captive general contractor enables us to better assess opportunities, control cost and ensure timely delivery of the properties we develop. These benefits go a long way towards mitigating the risk of the development process and protecting the wholesale to retail spreads and create value for our shareholders.

Finally I'd like to draw your attention to the appendix in our supplemental. The section titled understanding AHH. We've provided additional information on the various parts of our business, to help in valuation efforts. The stable portfolio NOI information is broken down in a way to provide the ability to apply cap rates at a more detailed level and with specificity. The identified and next generation pipeline are summarized to show the NOI and equity creation as we execute on these project. We also provide data on the third party construction business to aid in the valuation of this smaller, but positive income stream. This also provides insight as to how we think about balance sheet management as well as how we mitigate external market risks that are beyond our control.

For example, there is a great benefit to our model in a raising interest rate environment. Many REITs may find it difficult to add accretive properties due to the upward pressure of borrowing costs and reduced spreads. We believe our built-in wholesale to retail spreads provide a substantial growth buffer in a tightening environment. Our business model includes multiple options to manage our balance sheet this could include equity raises, asset sales, development pre-sales and joint ventures. The value creation model provides us with the ability to absorb higher capital cost in the short-run and still provide stable or growing FFO and asset value per share.

We view 2013 as a year in which we laid a solid foundation for sustained future net operating income and asset value growth. We accomplished what we set out to do this year including transitioning to a publicly traded company, executing on development opportunities, identifying attractive opportunities for the next generation pipeline and positioning our income portfolio for further growth. But there is much work yet to be done. Execution will remain our focus in 2014 and 2015.

I'll now turn my attention to how we're thinking about the current year. Our success in 2014 will be based on our ability to execute on a number of fronts. Maintain occupancy in the mid 90% range. Execute new leases in both the operating property and development pipeline projects coming online. Build them up on the leasing momentum at Liberty apartments. Deliver our development pipeline projects on time including 4525 Main Street and Encore apartments in Town Center as well as Greentree shopping center and Whetstone Apartments. Execute on strategic and opportunistic acquisitions. Manage the balance sheet to ensure appropriate leverage metrics and position the company for continued FFO and FFO per share growth. Execute contracts for third-party construction work with consistent segment profits. We look forward to updating you on our progress in the coming year.

With that, I'll ask Mike to walk you through some of the key financial and portfolio metrics contained in the fourth quarter supplemental package and then we will take questions you may have about this discussion during Q&A. Mike?

Michael O'Hara – Chief Financial Officer

Thank you, Lou, and good morning. In my comments today I will first review the highlights from the fourth quarter, next discuss our recent financing activity and update you on our balance sheet strategy and finally provide you with some thoughts on 2014.

Let me start with our fourth quarter results. We believe that core FFO is a useful supplemental performance measure as it excludes certain items including but not limited to losses on debt extinguishments, non-cash compensation expense and affects from non-stabilized development projects.

Core funds from operations were $7.1 million or $0.22 per diluted share, which was slightly better than our expectations. The quarter was positively impacted by lower rental expenses due to the seasonality as well as a higher net profit from the construction business.

During the fourth quarter, we executed four new office leases and five office lease renewals, totaling 64,000 square feet and two new retail leases along with seven retail leases-renewals totaling 41,000 square feet. Since the IPO in May, we have leased 227,000 square feet and have renewed 100% of our expiring leases.

As outlined in our supplemental package, the office re-leasing spread were higher by $1.47 per square foot on a GAAP basis and lower by $4.39 on a cash basis.

As we discussed during last quarter's call these leasing spread reflect the renewal and expansion of the 30,000 square feet tenant at Town Center. This tenant renewed their lease and expanded by approximately 10,000 square feet for 15 years. This lease also requires a substantial TI and leasing commissions as you can see in the supplemental package.

We decided the investment in TI and leasing commission is along with the lower current rental rate for a 15-year lease, including leasing additional suboptimal space, best for the long term. The retail releasing spreads were higher by $0.33 per square foot on a GAAP basis and lower by $0.33 per square foot on cash basis.

Same store NOI for the year ended 2013 was negative $1.2 million on a GAAP basis, but overall positive $0.1 million on a cash basis. Office same store NOI increased $0.4 million for the year, retail same store cash NOI was virtually unchanged and multifamily decreased $0.2 million.

The portfolio had positive cash same store NOI for the year despite the drop in occupancy at the Cosmopolitan and the Town Center restaurant vacancies that we have discussed in the past. For 2013, our portfolio occupancy was between 93.3% and 94.4%, but still below our expectation of 95%.

On the construction front, we reported a segment gross profit in the fourth quarter of $1.4 million on revenue of $19.4 million. We executed approximately $6.8 million of new contracts. At the end of the fourth quarter, the company had total construction backlog of approximately $46 million. We continue to expect approximately $4 million in annual segment profit from the third-party construction business.

Now turning to our balance sheet, we continue to execute on our balance sheet strategy to provide the flexibility to fund our growth objectives in the most efficient and cost effective manner while managing upcoming loan maturities. In October, we increased the borrowing capacity of our credit facility by $55 million by adding six properties to the borrowing base.

Borrowing capacity of the credit facility now stands at $155 million. We have in place a $40 million two and a half year LIBOR interest rate cap at 1.5% for the credit facility. In October, we repaid the loan secured by the Bermuda Crossroads, which was scheduled to mature in January 2014. This property is now available to be added to the borrowing base of the credit facility if we choose. In October, we refinanced six loans with Bank of America, three of which were scheduled to mature in 2014. We reduced the REITs loan balances by $1.5 million and removed the recourse component. The six new loan terms are the same and after five years, at a rate of LIBOR plus 2.25%.

The six loans include three loans secured by Broad Creek Shopping Center, one loan secured each by Commerce Street Retail, Hanbury Village Note 2, which is the Walgreen and the Tyre Neck Harris Teeter.

In December, we closed on Smith’s Landing’s loan extension with existing lender. The loan was extended to January 2017 with two 12-month extensions at our option at a rate of LIBOR plus 2.15%. There is now only one loan maturity in 2014, North Point 4, which matures in December with a balance of less than $1 million.

Now, turning to our development project financings. In October, we closed on an $18.5 million loan to fund the Whetstone Apartments in Durham, North Carolina. The term is for 36 months, interest only has LIBOR plus 1.90%, we put interest cap on this loan.

In December, we closed on a $10 million loan to fund the Harris Teeter Sandbridge Commons project. The loan matures in January 2018, interest only for two years at LIBOR plus 1.85%. In addition to these two construction loans, we have a term sheet to finance the newly announced Oceaneering project, the expected term is 48 months, of which 24 months are interest only at the rate of LIBOR plus 1.75%. We are utilizing the credit facility to fund our equity requirements for these development projects and for the Oceaneering land purchase.

At the end of the fourth quarter, we had total outstanding debt of approximately $278 million including $70 million on the credit facility. Our core debt to annualized core EBITDA multiple at quarter end was 6.6 times. Our weighted average interest rate is 3.6% and our average loan term to maturity is 9.2 years. Approximately 56% of our debt was fixed at December 31st, but taking into account interest rate caps approximately 66% of our debt was fixed or hedged. We are evaluating entering into swap locks and/or purchasing additional caps on our variable interest rate loans.

Our goal is to maintain a balance sheet with appropriate degree of flexibility to fund our growth strategies. Maintaining a balance sheet with adequate capacity and flexibility will allow us over time to facilitate access to a variety of capital sources at the most advantageous terms. That said. We remind you that the relative size of our portfolio and development pipeline, as well as our financing model may result in the short-term fluctuations in leverage metrics, which do not incorporate the upside equity creation in our business.

Now let's talk about the upcoming year. We have not given any commentary on the full year 2014, so let me walk you through our initial thoughts. First in 2014, we expect to see our core business FFO results to be similar to 2013. As I mentioned at the beginning of my comments today, when analyzing our business, we focus on core FFO, which excludes among other things, the impact of non-stabilized development projects.

Our core business is comprised of our stable properties and our construction business. This core business is a solid foundation for sustained growth. As you can see on page 10 of our supplemental in our FFO to Core FFO adjustments. Our 2013 Core FFO did not reflect the exclusion of non-stabilized development projects, as we did not have any in 2013.

In 2014 our projects will begin to come online and we'll have adjustments from non-stabilized projects. During 2014, we expect to deliver five development projects, which will cost approximately $150 million and will be excluded from our core FFO results. Projects consists of one office, one retail and three multi-family projects. They are: 4525 Main Street, Greentree Shopping Center, Encore Apartments, Whetstone Apartments and Liberty Apartments. Using history as our guide, we anticipate an 18 month stabilization period for multi-family. And therefore these three multifamily projects will have a negative impact on 2014 FFO results.

We expect a negative drag from these non-stabilized multifamily projects will be in the $1.5 million range for the full year 2014. Again, the impact from these non-stabilized properties will be excluded from our core FFO. Conversely, our shopping centers, office and retail properties are immediately accretive on FFO basis, due to the amount of pre-leasing, we require as part of our underwriting criteria. Because these project completions are back-ended in 2014, they are only mildly accretive in 2014. Again the impact from these non-stable properties will be excluded from our core FFO.

As Lou mentioned earlier, we purchased Liberty Apartments on January 17th for $30.7 million. The purchase price consisted of issuing 695,653 OP unit. The repayment of three million mezzanine loan and the assumption of approximately $20.9 million of debt that bears interest at 5.66% with 30-year amortization with a maturity in 2042.

Consistent with my previous multifamily commentary, this non-stabilized property is in its lease-up phase and will therefore have been negative impact on 2014 FFO. We expect Liberty Apartments impact on the first quarter to be approximately $300,000, which will be excluded from core FFO.

Now turning to G&A, let me give you some insight into our 2014 G&A. We expect G&A for the full year 2014 be in the $7.8 million range, which includes $1.3 million of non-cash comp. We expect the first quarter G&A to be in the $2.6 million range, which is higher than a typical quarter as it is negatively impacted by restricted stock grants to employees and year-end audit and tax fees. The first quarter G&A includes approximately $0.6 million of non-cash comp. In early March, we expect a grant approximately 110,000 shares of restricted stock grants to employees and officers of the company

And now construction.

As you would expect the weather we are experiencing on the East Coast has impacted our construction schedules and expect it to adversely influence the first quarter result. However, we expect the construction company to continue with annual segment profits in the $4 million range.

And finally our dividend.

We announced this morning that the Board of Directors they declared a cash dividend of $0.16 per share for the first quarter 2014. The dividend will be payable in cash on April 10, 2014 to stockholders of record on April 1, 2014.

And now turn the call back to Lou.

Lou Haddad – President and Chief Executive Officer

Thank you, Mike. The market is clearly taking a wait and see approach to our story and consequently we have underperformed the REIT index since our IPO. I believe the current stock price reflects a number of factors, a lack of appreciation for the strength of our diversified portfolio along with little to no value assigned to the development pipeline, a thinly traded stock, the misperception that a substantial portion of our assets are dependent on the military presence in our primary market, and lastly, expectations about possible capital market activity. We believe this is creating an opportunity for investors to enjoy an attractive dividend while the market absorbs our story.

We believe that Armada Hoffler current entry point is even more attractive considering our NAV, FFO multiple discounts, above average dividend yield, and our in-hand forward value creation. This is our transitional year a “prove it” period if you will, and we intend to do just that. Thank you for your time this morning and your interest in Armada Hoffler.

Operator, we would like to begin the question-and-answer session.

Question & Answer Section

Operator

Thank you. Ladies and gentleman, if you have a question at this time (Operator Instructions) our first question today is coming from Dave Rodgers from Robert W Baird. Please proceed with your question.

Dave Rodgers

Hey, good morning everybody. Lou, let's start with you real quick on 4525, can you talk about kind of where that building is in the process right now and your ability to adjust potential tenants up there, there is a traction activity that you have seen on some of those spaces. And then maybe try out the ground floor retail into that comment in terms of the timing of when those leases that would commence with these kind of multinational retail company that you had mentioned, it's a late 2014 signing, is this kind of 2015 – mid 2015 in terms of cash flow.

Thanks, Dave.

Hey, Dave, good morning. Great question, let me try to frame answer based on [indiscernible] as I could talk forever about these big projects that are coming online here, 4525 main continued to progress towards completion. We are almost closed in at these days, and which you got to see that building, it's absolutely beautiful. We're all already getting a number of comments about market place of basically bringing the whole level from office space for the region, so very excited about it. We [indiscernible] we're not ready yet to tour people through pleased with the activity of our tenant interest in the facility, this is much they kick the tires about the market. Where once getting [indiscernible] with currently in place, the rest of the lease-up is going to be dependent upon getting people up in the building and getting them excited. I think that that excitement already started pleased with the activity.

But I want to always keep in mind that this office building will have the highest rents in the region even higher than the building that we're sitting in, our headquarters. It designed so that we could have some space available for the next couple of years -- keeping with the absorption rate we saw our first premier high-rise here and this one will not be any exception.

So, in our minds, there will be a couple more leases that get signed in 2014 that will leave and my hope is that we'll have a couple floors empty at lease into 2015, there is some really nice rollover coming with people that I know want to be here.

With regard to the retail, David, the negotiation is continue to drag. Every quarter I think myself while next quarter we're going to be able to earn out dollars and yet, here we are and were still in negotiation. My expectation for is that leases will be finalized and construction at least commenced in 2014. There may be -- but we'll have an opportunity to get some people in for the Christmas season, but it all depends on how it comes together and like I said in my comments. All of this is depended on one another.

So just getting everybody to agree with the same co-tenancy requirement in a lease, it's a pretty lengthy process. But we've set out and do it this way, the opportunity arose with the restaurant vacancies, we told you that we wouldn't fill them with another restaurant and our leasing people delivered this opportunity and we do not. Now, as I said before, it may not prove to be successful and if it's not then for again in 2014, we will start marketing and fill the space in due course with tenants that complement our existing mix.

Okay, thanks for that color. And then if you go on to -- you prepared comments with regard to the stock price, can you maybe run through the total liquidity profile again like and give us a sense of kind of what sources and uses should be this year --here's a kind of an eminent capital offering that the market maybe break it down?

Yeah. As we have been saying, we believe we have balance sheet in place to handle the first generation of the pipeline without any issues. That we are going to continue our program of going out and getting construction loans, the fund development of these projects as you can see we begin some really attractive terms from agents and that will continue on that process going forward, but I would like to point out that I misspoke in my opening remarks our fixed debt before caps and hedges is 46%.

And just clarification Liberty apartments, the 300,000 you commented, I think it was a negative number. Can you confirm that for the first quarter impact already and can you give us any clarity and kind of what the growth contribution from the Cosmo will be going into 2014 if you did mentioned I missed over apologize.

Mike?

Yes correct actually negative FFO impact from the Liberty Apartments will be 300,000.

As I think you've noted or we noted the occupancy recovery of gotten back into the 90% range had the cause now. I'm expecting that 2014 is going to be somewhat lumpy. The -- between that the weather that we're having now which hopefully will break in the not too distant future and the new projects coming online this summer. I can see that having its ups and downs, but again on it on a temporary basis, until that noise moved out. It's been our experience when we open I knew multifamily, there is a number of people that move across the street because it's new and off course you've let him do that.

So, I could see some lumpiness there, but I think what you're seeing now occupancy wise is reasonable for where 2014 would end up.

Okay, great, thanks for the color there.

Thank you Dave.

Operator

Thank you. Our next question is coming from John Guinee from Stifel. Please proceed with your question.

John Guinee

Great, thank you guys. Nice job. Apologize for the cold here, what was the yield on cost stabilize for Liberty again I don't think I caught that.

John it's our pro forma has that in the high sixes or close to 7%.

John Guinee

And why did you buy it at CMO versus stabilization and incur all the drag. Why didn't you just wait a few quarters so that you wouldn't be dealing with all the lease up drag?

Well, as you know, we've contributed all of our development pipeline at cost in the IPO that was an incredible value to the shareholders. With Liberty apartments that was something that started in 2009. The project was is nearly complete. We didn't have the ability to contribute it as a part of pipeline, because everything needed to be delivered in the public-private partnership before the deed to be arranged where it could be acquired, but it was always the plan from day one within the prospectus that it would be acquired at opening.

Okay. And then down, you've got about a $600 million company, you imply that you think you can start or deliver about $75 million of development per year. So that's a 10% to 15% growth number, and then you also talked about acquisitions is there actually a room in the business plan for acquisitions?

Yes there is John, again if I haven't made it clear before, it's something we're equally excited about as our development pipeline. The same sources that bring us off market development deals, as you guys may have noticed, we don't compete for deals. We basically take orders and we pick and choose which ones we want to [indiscernible]. Those same sources bringing us acquisition opportunities.

And we intend on actually getting those as well, the business model affords us back. Now ultimately, I think the implication of your question is, what happens when our financing, our current financing [indiscernible] which isn't any time soon. And obviously equity will need to come in to the company, as I said earlier we've got a number of different levers to pull in that regard.

To be honest with you, as we speak, we've had people talk approach us about purchasing some of our development pipeline as a source of equity that is obviously completely off market. We've also done a number of institutional joint ventures over the years. Illinois Teachers Fund Union Carbide Carlyle that gives us that opportunity as well. But ultimately this company is going to grow and it's going to grow in a measured way by doing what we've been doing for 30 years, as well as acting on acquisitions that complement our existing portfolio.

Great, thank you.

Operator

Thank you. Our next question is coming from RJ Milligan with Raymond James and Associates. Please proceed with your question.

RJ Milligan

Hey, good morning guys. Lou I was wondering if you could give us a little bit more color on the second generation development pipeline, what types of deals are you seeing there? Are you seeing an increased number of opportunities, and is there any particular property sector where there's a lot of interest in terms of development?

Sure. Thanks RJ. Well, a big chunk of the next generation is what we're already talking about. The Oceaneering project is a $25 million engagement. The John Hopkins project it can be on the order of $60 million to $70 million in a [indiscernible] itself. The remainder is -- we're very excited about. I think we told you guys what we think of neighborhood grocery anchored shopping centers. And, there's a number of opportunities aligning, which we hope to, as I mentioned, start announcing in the first --in next quarter or two as well as build-to-suit.

We are fortunate enough to be in the final stages of negotiation for a couple of build-to-suits with high quality, high credit tenants on a long-term basis, and obviously those things are immediately accretive. It is important to know if I can take a second to expand on something Mike said earlier. In our property types, our office buildings are immediately accretive. And that's because we only do 100% build-to-suit projects or projects that are substantially pre-leased in markets where there is a high barrier to entry, i.e., Town Center. Same thing with retail.

We don't do unanchored retail of any size. We look into you take [ph] back that kind of projects to be immediately accretive if we announce it. With multifamily, there isn't any opportunity to happen to be immediately accretive. If you're in this business, you understand that's the best multifamily projects, you can only move people and so far the absorption is going so much and so, as Mike said that 18 months is going to happen. Sometimes we're a little bit better than that, sometimes a little bit worse, but we basically we put them in the right place with a high barrier to entry, they lease up and they are extremely profitable so. We don't -- we are trying to get use to the whole public companies thing.

We never really focused on what came online first and what was drag in for in six months or what was immediately accretive, because we made the right decision to the right deal, so that it would stabilize and we'd be able to get cash flow on a long-term consistent basis. In our 2014 results for instance, and this is why we strip this out for our core FFO. If, for example, the office tower in the grocery store came online early in the year and the multifamily late in the year, well then you have a positive impact from non-stabilized properties, which would again skew our results and we still would exclude. In this case, we have three multifamily projects coming online before to be accretive stuff gets, and so we will be excluding that.

Okay. Thanks. And Mike, I was wondering if -- I know you guys you don't really necessarily provide formal guidance for next year, but just as you think about some of the components occupancy, and Same Store NOI, could you give some comments as to whether or not you think there'd be slightly positive, slightly negative, or flat to, to where we ended up the year?

Michael O'Hara

Okay. You must be little excited this morning [indiscernible] things went last night.

Yeah. I was, big, big win for Boston College.

Lovely.

Michael O'Hara – Chief Financial Officer

Yeah, we are not yet [indiscernible] this is the way to look at our business where we think will be going with you next year. Our expectation is to be in 95% lease. And that's certainly what we're shooting for, and take somebodies vacancy how we addressed on, some of the stress we have seen on smaller shops, right. And then get those leased up to get those this year -- hopefully before long we can put things in place, we'll start seeing our -- same starting ways up to, to go back positive.

All right guys. Thank you,

Thank you.

Operator

Thank you. Our next question today is coming from Michael Gorman from Janney Capital Markets. Please proceed with your question.

Michael Gorman

Yeah, thanks good morning. I was wondering if you could go back and talk a little bit more about the retail tenants. And I'm curious at Town Center. Have you had discussions already, obviously the co-tenancy is going to be a complicated issue. But in terms of economics, are you and the tenants sort of on the same page in terms of what that's going to look like? And then maybe give us a little bit more color from that perspective?

Sure, thanks for the question, Mike. It has been again asked. If you guys let me on it couple there on it, because it seems to be a swallowing of my life. We are completely on the same page financially. And the [indiscernible] part of myself, but they told me six months ago that we've got a deal. And now, that sad part of myself tells me that we're still some distance away. Basically, if you can think about – think about it in terms of location, term, and rate. We got all that worked out. But the co-tenancy is the remaining issue. And we actually have a couple of leases in hand, but we can't execute them, because they don't show that required co-tenancy yet. But another couple of leases that we have yet to get, so I would tell you, and I don't want to lease to guys. I would tell you that we are very close and that the vast majority of these leases are worked out, but I can also say that we are far away and that if one or two of these dominoes don't fall then -- then the whole thing goes away. We're really excited about it, because remember Town Center here in Virginia Beach commands rents 20% above the market and that's something -- there is a huge duty for us to continue.

With this type of operation, will let us continue to enjoy that spread and that's why we're excited about it. That's why we've decided to take this time. That's why we're packing up on the income we could have and simply filling the space. Because as these tenants roll over, someone asked a question about leasing spreads. Our top-tier tenants in Town Center that came here 10 years ago at $22 are renewing at $29 and $30, and we've got to keep that going. And so that's why we're taking this time.

We're close and yet we're far, I'm hoping we can give you further update on it after the next quarter, but in the long run our backup plan works just fine as well. I hope you guys will be patient with us while we're trying to do something a little bit out of norm.

Michael Gorman

Sure. And I appreciate the color and just -- obviously you can't talk about the specific tenants at this point, but can you just maybe give a little bit of color on what this particular group is going to bring to the center that -- that kind of factored into your decision to -- long-term thinking about how this position in the center versus the shorter-term Back Bay and what they provide?

Sure. This will be a collection of primarily soft goods retailers that will not have another presence in the region. Remember with MSA 1.7 million people, we're talking about strong names with strong followings that don't have a presence in South Eastern Virginia.

Michael Gorman

Got you, great. And then I'm sorry if missed this, quickly, you're just about to close -- close the building of 4525 Main. Can you give an update on kind of what the leasing trends look like at the Cosmopolitan as that construction has progressed and maybe gotten a little less heavy?

Sure. Well, as we reported earlier, we suffered a drop in occupancy this past summer when we were coming out around with the building that caused the drop of 3% or 4% in occupancy. What we're seeing now it's performing consistent with the market. We haven't upped incentives in terms of getting people back in. Again, we have -- we think it's going to be somewhat lumpy early 2014 because we just don't know the full effect of the new property coming online. We're trying to -- it's really interesting, and it's a great opportunity for us when you're sitting here accounts that you basically have the ability to set the market and while that accounts very positive, it also can be negative if you get carried away with yourself. We're trying to position on for as a different price point and different style. And we'll see how successful REIT is. At the same time, we're expecting that there will be some crossover despite our efforts to differentiate the product.

So I think what we'll be looking at in the long term is more that we have 600 units here at Town Center and what's the best way to keep them full and provide the most upward pressure on rent.

Great, thanks, guys.

Operator

Thank you. Our next question is coming from Craig Kucera from Wunderlich Securities. Please proceed with your question.

Craig Kucera

Yes, hi, good morning, guys. I may miss this, but it's the Oceaneering build-to-suit is the expected return on cost on that unit quarter range?

That's closer to 8. Again, you're talking about an $8 billion company, international company and long-term lease, triple-net rent. So that's spread is obviously where if we did sell it the number would start with a 6. So it's -- we're anticipating close to 8%.

Got it. And as far as leasing terms go with the build-to-suits in the next generation pipeline, are those pretty typical with what you're looking at sort of your kind of 10-year triple net lease type of projects?

We are looking at 15-year leases. We really suspect about a 10-year lease with the build-to-suit, particularly for something like Oceaneering, which had some specializations to it from the manufacturing component. And so that [indiscernible] the pipeline is similar, smaller, it will be smaller build-to-suits with the same kind of metrics, very high credit. I think one of that we are working on is a 10-year lease, but that's basically on [indiscernible] shopping center and pretty renewal [ph], so it will be okay there.

Okay. And outside of the Johns Hopkins project, do you see much in the way of diversification outside of sort of the Virginia Beach-Norfolk area or are the opportunities looking at going a little deeper in market?

Great question. We're working very hard to expand our presence both in Baltimore and Raleigh, we've got great [indiscernible] I think everybody on the [indiscernible]. We performed on the enhanced powers worth of construction at the Inner Harbor in Baltimore, our name is well known and well respected out there, which is on top of the opportunity came out of that presence.

We're looking at present at our development company regularly there on a weekly basis, working on a number of opportunities to expand our presence there. And as I mentioned earlier on our earlier call, the Durham engagement with Whetstone Apartments came out of a relationship that we began with Duke University, which has designs on remaking downtown Durham. We're looking for more opportunities there.

I say, we're much more focused outside of Hampton Roads with new opportunities that we are inside Hampton Road. Again, we don't want to mislead you guys. We've got wonderful assets in Southampton Road. We have the best assets in the market period. However, that area is limited and it's not something that's going to sustain us growth-wise over the long term.

So I had my drivers. You wouldn't see a tremendous amount of growth beyond Town Center and beyond Broad Creek Centers in our region and more of the ambitious projects will take carry in that arch from [indiscernible] in Northern Virginia or Richmond here in Northern North Carolina.

Okay, great, thanks a lot.

Operator

Thank you. Our next question is a follow-up from John Guinee from Stifel. Please proceed with your question.

John Guinee

Yes, just sort of clarification, you've got about $28 million of construction payables as a liability on your balance sheet, it doesn't show up on your NAV summaries. Is there an accounting reason for that?

Yeah, John. This is Mike. I think as we’ve talked about in our construction business, the cost is mainly a pass-through. We don't self-perform the work; the stuff is performed by subs. It’s payables – it’s what we owe subs. And our receivables – we’ll just collect that from the owners and pass that through. So that’s why we eliminate that.

Typically in the accounting, you have a corresponding asset to that liability, don’t you?

Correct.

What's the asset now?

So the asset is less than the liability. And this is because of the elimination of the work that we do for ourselves

Okay. And then what's with the $15 million of other liabilities? What’s that consist of?

That's mainly – the big thing in here is – we’ve got…I think we’ve got three ground leases out there. And we have to straight-line those ground leases. So about 6 million of that is the straight lining of the ground leases. And we also have the January dividend accrued.

Thank you.

Operator

Okay. Thank you. We have reached end of our question-and-answer session. I would like to turn the floor back over to management for any further closing comments.

We really appreciate your interest in the company and look forward updating you on these issues and others as well as our activities and results in the coming quarter. Thanks very much.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time. Have a wonderful day. We thank you for your participation today.