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Armada Hoffler Properties, Inc. (AHH)

Q2 2015 Earnings Call

CORPORATE PARTICIPANTS

Louis S. Haddad
President, Chief Executive Officer& Director

Michael P. O'Hara
Treasurer, Chief Financial Officer

Eric L. Smith
Secretary, Chief Investment Officer

MANAGEMENT DISCUSSION SECTION

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

As a reminder, this conference call is being recorded today, Tuesday, August 4, 2015.

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

Please go ahead.

Michael P. O'Hara
Treasurer, Chief Financial Officer

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

Those of you familiar with our company will notice that Julie Trudell, our Vice President of Investor Relations, is not with us this morning. Julie recently accepted a position as a Senior Vice President of Investor Relations in the health care space where she had previously worked for many years before working at Armada Hoffler. We wish her well in her new role. I will serve as the contact for any investor or analyst inquiries for the time being.

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

Lou Haddad, CEO

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

The press release announcing our second 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 September 4, 2015. The numbers to access the replay are provided in the earnings press release.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, August 4, 2015, and will not be updated subsequent to this initial earnings call.

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

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

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

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

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

Louis S. Haddad

President, Chief Executive Officer & Director

Thanks Mike.

Good morning and thank you for joining us.

As you can see from this morning's press release, we've had another tremendous quarter. Activity across the broad spectrum of our business model continues to accelerate. Increased third party construction profits, robust multi-family leasing, stabilization of nearly 300,000 square feet of development projects and accretive capital recycling through acquisitions and dispositions, have once again enabled us to raise our earnings guidance for the year.

Two years ago at our IPO we told investors that the benefits of being diversified and integrated would ultimately be self-evident in our results. We are glad to continue delivering on that promise.

I will now cover a few highlights from last quarter and some of the recent developments in our business. Mike O'Hara will then discuss the quarterly results in detail.

We are pleased to report another solid quarter with FFO per share of 22 cents and Normalized FFO per share of 24 cents, which was higher than anticipated as we did not expect to reach this run rate until the third quarter of this year. We have raised both the bottom and top ends of our guidance range. We now expect 2015 full-year Normalized FFO of 88 to 91 cents per share. Positive changes in our outlook for third-party construction profits, G&A, multi-family leasing and interest expense contributed to our guidance revision, which Mike will address in more detail.

At quarter end, occupancy across the core portfolio was 95.3 percent, which continues to be within our targeted range. Notably excluded from this occupancy figure are both Encore and Liberty Apartments, which are both still in lease up. As of our call today, occupancy for both of these assets is in excess of 80 percent, which is slightly ahead of our expectations. We had forecasted a temporary drop in occupancy at the Cosmopolitan due to the initial lease up of the adjacent Encore property. However, the Cosmo has maintained occupancy in the high nineties throughout the process, thereby providing even further evidence of the tremendous market strength of Town Center. When you also consider the perennially-full Smith's Landing property and the handsome profit on sale from the Whetstone project in Durham, you can understand how extremely pleased we are with the performance of the multi-family sector of our business.

Our success in leasing and the strength of our overall portfolio is evidenced by an increase in quarterly GAAP and Cash Same Store NOI – 3.2 percent and 5.4 percent respectively – compared to the second quarter of 2014. You will note that this makes four consecutive quarters of significant same store sales growth.

Staying on the theme of our portfolio assets, we continue to actively manage our portfolio in the context of asset quality, risk management, geographic diversification, and management of our balance sheet.

As we previously announced, we completed the sale of Whetstone Apartments in Durham, North Carolina during the second quarter for approximately 35.6 million dollars, representing an implied cap rate of 5.7 percent on pro- forma rents and a profit well in excess of 20 percent. This 204-unit apartment community was delivered in late 2014 and sold at a very attractive spread despite being in the early stages of lease-up.

We utilized a portion of these sale proceeds after quarter end to purchase Socastee Commons, a 57,000 square foot, Bi-Lo grocery-anchored retail center located in Myrtle Beach, South Carolina, in a 1031 tax-deferred transaction. We purchased this asset for 8.7 million dollars including the assumption of 5.0 million dollars of debt for an implied cap rate on current NOI of 7.25 percent. This center is 100 percent leased as of today. In addition to providing a positive yield spread on the proceeds from the Whetstone sale, this purchase represents our first portfolio asset in South Carolina as a publicly-traded company. Much like Virginia Beach, Myrtle Beach is a vibrant mid-Atlantic destination which we believe provides a great climate for retail sales growth. We have previously owned assets in this robust market and we expect to see additional opportunities for development, construction and acquisitions in the near future. There is a small amount of developable land associated with this center and we are exploring how best to monetize it and further enhance the impact from this acquisition.

We have also entered into a definitive agreement to acquire Providence Plaza, a 97% occupied, 103,000 square foot mixed-used complex located in the South Park sub-market of Charlotte, North Carolina for 26.2 million dollars. The property, which will be purchased with the remainder of the proceeds from the Whetstone disposition, was constructed in 2008 and is comprised of 54,000 square feet of office space and 49,000 square feet of retail space across three buildings. The buildings include a four-story 70,000 square foot office building with ground-floor retail and two separate retail buildings along with a two-floor parking garage of 256 spaces.

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

In addition to the stabilized NOI of approximately 1.9 million dollars and a going in cap rate of 7.25 percent, this site also included an undeveloped tract of land of approximately one acre that is zoned for multifamily development. We have already begun our efforts to determine how the value of this additional land can be best monetized for our shareholders and will keep you updated on our progress.

Recycling the capital from the Whetstone asset into Socastee Commons and Providence Plaza, inclusive of the wholesale to retail value spread created by our development process, achieves a number of our goals simultaneously. We maintain the institutional-grade asset quality of our portfolio while providing FFO and NAV per share accretion and improving our geographic diversification through our expansion into North and South Carolina. In addition, we have the opportunity to leverage our development expertise through the additional opportunities at, and around, both properties.

Keeping with the theme of recycling capital, we have engaged a brokerage firm and are actively soliciting offers for the sale of the Oceaneering Building located in Chesapeake, Virginia. Given the level of buyer competitiveness for credit-quality single tenant assets with long-term leases, combined with our belief in the inherent risk of holding such assets while lease-term burns off, we believe it is in the best interest of our shareholders to sell the Oceaneering Building into the current environment and re-deploy equity generated by our development engine to create additional shareholder value. As with Whetstone, our expectation is a profit margin of 15 to 20 percent, which will also be excluded from FFO.

Rounding out our acquisition activity, we announced after quarter end the acquisition of Columbus Village, a 65,000 square foot retail property located adjacent to the Town Center of Virginia Beach and anchored by Barnes & Noble, along with ULTA Beauty, Five Below, f.y.e. and LensCrafters. The center is currently 100 percent leased with strong upward pressure on renewal rates. Even more importantly, this five acre parcel is a prime target for redevelopment. To this end, we have already begun discussions with the City of Virginia Beach on how best to integrate this asset into our public-private partnership. While Hampton Roads is not the focus of our acquisition platform, clearly the strategic nature of this property fits squarely into our investment philosophy and should create significant long-term value for our shareholders.

Mike is going to provide additional details on this transaction in his remarks, but I would like to point out that Columbus Village is another example of a property owner vetting our business model, underwriting the value of our properties, and ultimately taking a significant equity position in our company – in this case in excess of 1.2 million operating partnership units, valued at 11.00 dollars each – in exchange for all of their equity in this asset.

Shifting gears from the portfolio to the third party construction business, we are very pleased with the outlook for this segment of the business over the next few years. In addition to the development projects that are underway, the 170 million dollar Exelon engagement continues to proceed as scheduled and is tracking towards completion in the second quarter of 2016. Our recent announcement that Armada Hoffler Construction Company was contracted to build two new hotels at the Oceanfront in Virginia Beach, Virginia is just the latest evidence of the lucrative nature of our third party construction business which, just as it has done many times in years past, produces profits at the higher end of our historical range as the economy continues to improve and as opportunities to build projects for both long-term and new clients expand.

In concluding my remarks today, I will now update you on the activities of our development company. As you may recall, we delivered four development pipeline projects during the first quarter of 2015, which included more than 200,000 square feet of fully-leased office space consisting of:

- Two build-to-suit office buildings for the Commonwealth of Virginia, which are 100 percent leased for 15-years.
- And the Oceaneering Building, which I discussed earlier.

We also delivered Sandbridge Commons, a new 70,000 square foot shopping center in Virginia Beach anchored by a Harris Teeter grocery store. With leasing nearly complete, we are about to launch another phase of small shops at the center.

This leaves Johns Hopkins Village and Lightfoot Marketplace as the remaining undelivered projects in our pipeline. These two represent over 90 million dollars of investment and both are proceeding on budget and on schedule. We have a number of exciting opportunities that will more than fill our pipeline proceeding through the pre-development stage. We are confident that these will be ready to be launched later this year.

While it would be premature to announce these projects by name, I can reiterate the attributes that we are targeting in new product for our portfolio:

- Class A assets with a high barrier to entry.
- Diversification, primarily targeting the Raleigh-Durham, Charlotte and Baltimore markets.
- Strategic expansion at Town Center.
- Maintenance of our traditional 150-200 basis point development spread through public private partnerships, cost control through our operating companies and premier site selection.
- Joint Venture opportunities utilizing our unique ability to co-develop and construct.

We look forward to culminating negotiations on several of these opportunities over the next two quarters and updating you accordingly.

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

Michael P. O'Hara
Treasurer, Chief Financial Officer

Thanks Lou and good morning.

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

This morning, we reported FFO of 22 cents per share and Normalized FFO of 24 cents per share, which was better than our expectations. This was due to increased profit from the third party construction business and robust multi-family leasing.

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

Our current quarter FFO also excludes the gain from the Whetstone sale. This is the third quarter in a row in which we had a gain on sale. As we have discussed in the past, asset sales will continue to be an element of future shareholder value creation.

We had another strong quarter of same store NOI growth. Same store NOI was positive 3.2 percent on GAAP basis and positive 5.4 percent on a cash basis compared to the second quarter of 2014.

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

- Greentree Shopping Center
- Oceaneering
- The two Commonwealth of Virginia buildings, and
- Sandbridge Commons shopping center

At the end of the quarter, our core operating portfolio occupancy was 95.3 percent. Office came in at 94.6 percent, retail at 95.6 percent and multifamily at 96.5 percent. These occupancy numbers include the five development properties just added to our core operating portfolio.

In our Portfolio Summary, on page 14 of the supplemental, you will see that we have summarized all properties – our core operating portfolio as well as those from the development pipeline that are delivered but not yet stabilized – in one place. We added a new column this quarter noting which properties are unencumbered.

On the construction front, we reported a segment gross profit, in the second quarter, of 1.8 million dollars on revenue of 47 million dollars. The construction company had an excellent quarter and was one of reasons the quarter was better than expected.

As we announced earlier, our construction company will serve as the general contractor for two ocean front hotels that include over 300 rooms, a parking garage and retail space. We expect to start construction late summer, and while the first phase of any construction project always carries the most variability from a timing standpoint, we expect construction efforts to be in full-swing in the back part of 2015 and construction completion is expected in the spring of 2017. This assumption is included in our construction company gross profit guidance.

At the end of the second quarter, the Company had a third party construction backlog of 195.5 million dollars.

Now turning to our balance sheet.

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

We refinanced Smith's Landing with a new 21.6 million dollar, 4.05 percent fixed rate loan that matures in 2035. In addition, after quarter end, we closed on a 50 million dollar construction loan to fund the Johns Hopkins Village project.

Since the inception of the ATM continuous equity program last quarter, we raised 3.8 million dollars of gross proceeds at an average price of $10.50 per share. The ATM program will be one of multiple options at our disposal to raise capital to fund our development activities. We expect to continue utilizing this program to raise equity at a similar pace, assuming favorable market conditions.

As of June 30, our fixed rate debt, including swap locks, was 55 percent of our total debt and including interest rate caps, 83 percent of our debt was fixed or hedged.

As you can see from our outstanding debt summary on page 11 of our supplemental, we had total outstanding debt of 387 million dollars including 83 million dollars outstanding under the 150 million dollar revolving credit facility. Our debt metrics continue to be in line with our corporate goals.

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

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

This morning we raised 2015 full-year Normalized FFO guidance – now 88 to 91 cents per share – from our previous guidance of 86 to 90 cents per share. We are increasing guidance due to the performance of third party construction business, multi-family leasing, lower G&A expenses and the interest savings due to changes in the LIBOR forward yield curve.

Our 2015 estimates are predicated on the following:

GAAP NOI in the 53.3 million to 53.8 million dollar range, including approximately 8.0 million dollars from development pipeline projects.

Third party construction company gross profit in the range of 5.4 million to 5.9 million dollars.
General and administrative expenses in the 8.1 million to 8.4 million dollar range.

Interest expense in the 13.3 million to 13.8 million dollar range. The mid-point of the range reflects the assumption factors in the LIBOR forward yield curve which anticipates increasing LIBOR during the year.

And, 41.1 million weighted average shares and OP units outstanding which includes the units issued for the acquisition of Columbus Village.

This guidance excludes any impact from future acquisitions–with the exception of the second Whetstone replacement property, dispositions, or other capital market activity with the exception of continuing the ATM program consistent with the second quarter assuming favorable market conditions.

Before we turn to Q&A, I would like to make a few comments about the third quarter. After quarter end, we closed on the Myrtle Beach shopping center which was purchased using part of the proceeds from the Whetstone sale. We expect to close on Providence Plaza, the second swap property, towards the end of this quarter which is later than we expected.

I'll now turn the call back to Lou.

Louis S. Haddad
President, Chief Executive Officer & Director

Thank you Mike.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press "star 1" on your telephone. If your question has been answered and you wish to withdraw it, you may do so by pressing "star 2". If you're using a speakerphone today please pick up your hand set before entering your request.
Thank you. Our first question this morning is coming from the line of John Guinee with Stifel. Please proceed with your question.

John W. Guinee
Analyst, Stifel, Nicolaus & Co., Inc.

Q

John Guinee, here. Thank you. A couple questions. First, obviously, you are hitting on all 8 cylinders now. Congratulations. If I look at the acquisition list, I think Providence Plaza was a 1031 exchange; Myrtle Beach 1031 exchange; Columbus Village OP unit deal; Dimmock Square and Colonial Heights OP unit deal. The two assets in Maryland, were those OP units, 1031s or neither?

Louis S. Haddad
President, Chief Executive Officer & Director

A

It's a combination of the two, John. Thanks for the question. One of the assets involved OP units, the other was acquired debt free. Eric, is there anything to add to that?

Eric L. Smith
Secretary, Chief Investment Officer

A

No. One of them used the Sentara proceeds, 1031 proceeds, so in line and consistent with the other examples that you are familiar with, John.

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

Just one clarification. On one of those centers, the seller actually changed their mind at the last minute and actually took back stock instead of OP units because they wanted to trigger their tax.

John W. Guinee
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then the second, what have you done since the IPO on your dividend and what's your dividend thoughts right now?

Louis S. Haddad
President, Chief Executive Officer & Director

A

We went from -- at the IPO we started with a $0.16 per quarter dividend. We raised this past year to $0.17 per quarter. As I think you can tell, our payout ratio is dropping nicely. We are going to try and keep that in a range, and as it drops I think you would expect that one of the ways we are going to return value to shareholders is to evaluate raising the dividend again.

John W. Guinee
Analyst, Stifel, Nicolaus & Co., Inc.

Great, okay. Hey, thank you very much.

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

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

Q

Maybe a multipart question. I think year to date you've spent about $40 million on acquisitions and on dispositions; and following on John's question, obviously realize there are some 1031s in there. But you have $75 million left to spend this year and you're talking about a building pipeline.

Can you kind of talk about various funding sources; how much do you plan to sell in the second half; how much can you tap on the ATM and what your thoughts are to continue to help support the growth of the business?

Louis S. Haddad
President, Chief Executive Officer & Director
A

Thanks, Dave. I'll try and take that one at a time. As Mike and I mentioned a couple of quarters ago, we have a long history of selling these single user assets from time to time, and we had a half a dozen or so of those in the portfolio. With the announcement this morning of what we are doing with Oceaneering, I think you can expect that to be one of the vehicles that we will use for funding going forward.

With regard to the ATM, basically we expect, as Mike said, to stay in that range that we've been in for a quarter or so. We want to be very cautious with it. It's a $50 million program. We'd like to think that the remaining $46 million, is going to be a lot closer to our NAV, but we are going to be averaging in on A cautious basis as market conditions allow.

With the new projects that are lining up, we've got some really exciting stuff; we can't wait to talk about it. There are opportunities through joint ventures to help us with funding there. Mike and I are very confident where the balance sheet sits today. There is a tremendous amount of NOI yet to come online that are going to keep our metrics in line. So we feel pretty comfortable with where we sit.

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

And maybe a follow-up to that from Mike with regard to current capital. I guess assuming no dispositions or no ATM issuance, how comfortable are you on the capital front in terms of what your runway is for spend here in the second half and early 2016?

Michael P. O'Hara
Treasurer, Chief Financial Officer
A

Dave, we are comfortable with it. You can see what kind of NOI and EBITDA growth we are getting here. So that obviously is going to support more debt. And as we've said, we like the core debt, core EBITDA, to be in the 6 times something range and total debt to EBITDA in the 8 times something range. That's where we currently sit. And the way we look at things at the growth and EBITDA and the development spending of what we've released so far, it is not that big for the rest of the year. So we are comfortable where we sit today.

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

Okay. I think in your prepared comments, you said something about a G&A benefit to earnings. Is that just better cost controls or is that more capitalized overhead, or did I not hear that right?

Michael P. O'Hara
Treasurer, Chief Financial Officer
A

No, we have lowered the range and when we put out our G&A budget at the beginning of the year, obviously we had to make some assumptions what we were going to do with legal, accounting and personnel. And it's not -- we are coming in lower than the higher that we would have expected.

Obviously, the big pieces for us and what's been driving the higher G&A over the past year is mainly accounting, and as we start the Sarbox compliance ramp up. So that's the biggest piece we had to get our hands around and keep control of.

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

Q

Last question for me. And Lou, I ask every quarter, but I will ask again. In terms of Main Street office, the traffic you are seeing there, I know this is a project you are hoping to have a couple years' worth of inventory out of, but I'm sure the rest of us would like to see it leased up. So what's the update on that?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Dave, as we have talked many times before, that building is positioned as the premier building in the 1.8 million person MSA, and as such it's going to take rent payers at the ultimate high of the market. We've targeted three or four firms that have rollovers in 2016, that we feel very comfortable will ultimately locate in 4525.

We have had a tremendous amount of tours go through. But as we said before, this is a building that 80% or so of the market cannot consider; that it takes those firms that need the presence and see the value in being in the best address in town. So we feel pretty good about where it sits.

We also just this past, I guess, couple weeks ago, the last of the ground floor tenants opened Tupelo Honey Cafe. So the retail now with all 30,000 feet is off and running and doing great sales.

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

All right, great. Thanks for the update.

Operator: Thank you. Our next question is a follow-up coming up from Craig Kucera of Wunderlich Securities. Please proceed with your follow-up question.

Craig Kucera
Analyst, Wunderlich Securities

Q

Thanks. I know you mentioned you were brokering Oceaneering for sale, and right now it seems that you are getting some of the more attractive interest and bids coming on your multifamily. You had an unsolicited bid for Whetstone.

Does it make sense to sell out of multifamily given the current environment, reinvest into retail or mixed use, or do you want to maintain your multifamily exposure?

Louis S. Haddad
President, Chief Executive Officer & Director

A

That's a great question, Craig. I'm glad you brought that up. We talked a lot at our IPO as well as on our subsequent road trips about our need to stay diversified. When you do the niche that we are in, the public-private partnerships, and when you approach cities about remaking their skylines, a big part of that is multifamily. Heads in beds are required in order to attract retail and office and basically a general sense of place.

So in the case of the two assets at Town Center, for instance, those are integral to the success of the overall 1 million square feet that we have for lease here. So it's unlikely that our core multifamily work, that we would get rid of that. I suspect it would command quite a number. But the short-term gain would be offset by what we view as long-term value disruption.

So I don't see that happening. However, as you can see by our short history, we are not afraid to redeploy capital in non-core assets. So to the extent that those are multifamily projects, which is quite possible, then I think you will see further dispositions in the future as we take advantage of that market that you mentioned.

Craig Kucera
Analyst, Wunderlich Securities

Q

Got it. And then also I wanted to get a little bit more detail on the structure of the Columbus Village acquisition where you had a buyer not taking dividends for a number of months.

Are you finding that structure common where the seller is willing to avoid income for a while, or do you think this is probably more likely a one-timer?

Louis S. Haddad
President, Chief Executive Officer & Director

A

It's really -- I can answer your question in a number of different ways. I don't think it's typical for people to take millions and millions of dollars in stock or OP units as you look across the broad universe of REITs. I think that -- and if I may be so bold -- we have a tremendous reputation in this region that has been built over 35 years from the inception from Dan Hoffler.

There's a lot of people that want to be a part of that story and feel very comfortable with us managing their wealth. You have seen that manifest itself a few times, and now you're seeing it in a big way at Columbus Village. This is someone that did a tremendous amount of research on our Company, actually some of it surreptitiously, sending some money managers in to interview us.

So I don't think it's typical, but I think you will see it continue with us in this region. It's a great tax planning tool, but tax planning only works if you feel comfortable with the investment that you are making. You have to make the money before you've got to worry about paying the tax, right.

So I see that continuing for us. I think it's a great venue for us, and actually we've got several things in development that may involve additional taking of stock.

The way this was structured, just so everybody knows, as you might expect we've created quite a market around Town Center for the adjacent real estate. So you are talking about cap rates that are in the low 6%s and sometimes high 5%s. We bought this center with an eye towards redevelopment. We feel very comfortable that we will ultimately be able to get this well into the 7s once we do redevelopments. In fact, we were paying the owner to not take advantage of the immediately available upside. All of the tenants that are in there are looking to re-up for a long-term basis at a significant bump. We are effectively paying -- paid the owner to not do that. And part of the rationale of the delayed dividends was to give us the time to evaluate whether or not we could do something even better. And if not, we will just take advantage of what was being offered.

Craig Kucera
Analyst, Wunderlich Securities

Okay, great. Thanks, appreciate the color.

Louis S. Haddad
President, Chief Executive Officer & Director

Okay. Well, thank you all for listening to the call. We appreciate your interest in our Company, and we look forward to updating you on our activities and results in the coming quarters. Take care.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's teleconference. You may disconnect your lines at this time and have a wonderful day.