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Armada Hoffler Properties, Inc. (AHH)

Q1 2017 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 first quarter 2017 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, May 2, 2017.

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 first quarter 2017 earnings conference call and webcast.

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

- Lou Haddad, CEO
- And Eric Smith, our Chief Investment Officer, who will be available for questions.

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

A replay of this call will be available shortly after the conclusion of the call through June 2, 2017.

The numbers to access the replay are provided in the earnings press release.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, May 2, 2017, 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 am now turning the call over to our Chief Executive Officer, Lou Haddad… Lou…

Louis S. Haddad
President, Chief Executive Officer & Director

Thanks Mike.

Good morning everyone and thank you for joining us today.

Today we reported first quarter 2017 results of 26 cents of Normalized FFO per share, which is in line with our expectations, and our per share guidance for 2017 is unchanged. As we said at the beginning of the year, we remain very focused on delivering the tremendous growth expected from our development pipeline. With delivery commencing a couple of quarters from now and meaningful earnings growth thereafter, we believe these top-quality assets constitute significant value creation for our company. To that end, I have several exciting updates to share with you regarding our development projects.

Let's begin with the latest additions to our pipeline and work through to those closest to completion. Last month, we announced the 100-million-dollar development of two student housing projects on the historic Charleston peninsula. Land assemblage and the lengthy entitlement process were performed by our local partner, Spandrel Development, and we expect to break ground this summer. Market research indicates there is currently a shortage of over 5,000 beds for this type of housing. We will deliver over 600 new beds within one mile of the College of Charleston and in close proximity to five other schools in this sought-after district. With these two projects, we will be the largest developer and owner of off-campus student housing in Charleston and we look forward to becoming a major player in this high barrier-to-entry market.

Next is our new office building at Brooks Crossing, which is essentially a 100,000-square-foot build-to-suit for Huntington Ingalls, a Fortune 400 company. The design for this 100 percent pre-leased building is well under way and we expect to break ground by the end of summer. This state-of-the-art facility will house nearly 600 employees when opened in the 4th quarter of 2018. This building should be a great catalyst for further development in this public private partnership with the City of Newport News.

Our Harding Place project in downtown Charlotte is well underway and we are very pleased with the occupancy and rent growth that the sub-market continues to display.

The construction of Phase VI of the Town Center of Virginia Beach is now in the vertical stage and is tracking for a delivery next summer. This infill block will have a variety of entertainment options as well as exciting new retailers and loft-style apartment homes. The Town Center of Virginia Beach continues to be our flagship project and we are currently pursuing further expansion of this preeminent development.

The Point Street and Annapolis Junction multifamily projects in Maryland are both on track to be delivered later this year. Given their prime locations and compelling market dynamics, we are excited about these projects and fully expect to exercise our at-cost purchase options.

Perhaps most significant is the leasing progress at One City Center in downtown Durham. Recently, we entered into an LOI for a large block of the remaining office space. Assuming lease execution, this commitment, along with the Duke University anchor lease, will ensure that the building opens in the summer of 2018 with office occupancy of at least 90 percent.

All told, the total cost of the projects in our current pipeline approaches 440 million dollars. Given our history of delivering healthy wholesale to retail spreads of around 20 percent, we expect that these projects alone will add some 90 million dollars to NAV or well over a dollar per share on a fully diluted basis over the next few years.

Remember, this does not include many other exciting development opportunities that we continue to explore in virtually all of our existing markets as well as new areas within the region. However, I believe it is important to note that we continue to be very selective and decline the vast majority of opportunities presented to us. The standards we use to evaluate whether to deploy our precious capital on a new project remain, and will continue to be, exceedingly strict. All of these decisions are considered in light of our position as far and away the largest equity holder in the Company.

In addition to this robust development activity, we are very pleased with the performance of our existing portfolio. Although there will be very little impact on the current year, the new 40-thousand-square-foot tenant at 4525 Main combined with the existing Town Center tenants who relocated, upgraded and expanded into this building, will bring occupancy to over 93 percent. We have achieved our goal of holding rents at this, the premier address in the region.

Nearly as significant, these relocations created vacancy in lower price point space elsewhere in Town Center that appeals to a wider variety of prospective tenants. To this end, four new tenants are poised to sign leases that start to backfill second-generation space.

We are well on our way in bringing office occupancy at Town Center back to its historical levels in the mid- to high-nineties. On a separate note, we feel confident that once the necessary disruption caused by the construction of Phase 6 is mitigated, the multifamily component will return to its normal mid-nineties occupancy levels.

The rest of the portfolio continues to perform well. In particular, our retail assets continue to increase in both occupancy as well as same store sales. As most of you know, our concentration for this sector is in high-volume, well-located, grocery-anchored shopping centers. We have always avoided malls and department stores – and limited our exposure to big box retailers. This strategy has served us well for nearly four decades and in our target markets in the mid-Atlantic and Southeast. We feel that the high-quality, food-anchored model will continue to be strong for the foreseeable future.

In this regard, we are actively pursuing the expansion of this line of business. Recently, we entered into an agreement with S.J. Collins, a seasoned developer of high-quality, grocery-anchored retail centers, to deliver a Whole Foods center in Decatur, Georgia. We are hopeful that this relationship will lead to more opportunities with both this developer and exclusive retailer.

Lastly, our construction company continues to exceed even our lofty expectations, both from a cost-control and schedule basis on our own projects as well as producing profits at the high end of our historical range in the third-party business. Many of the complex projects we take on and financial structures we employ are made possible by this unique expertise we enjoy relative to our peers.

In closing, our business model has served us well for nearly four decades. With a growing stable of trusted and like-minded development partners, we have been able to increase our development run rate without compromising our core underwriting criteria – premier locations, credit-quality anchor tenants, accretive returns, and healthy wholesale-to-retail spreads. The sheer volume of opportunities allows us to select only the most attractive projects to diligence and then only a fraction of those are pursued in earnest. With this combination of opportunities and execution along with the performance of our properties, it should be easy to see why we're so optimistic about the continued growth of our Company.

At this time, I'll ask Mike to walk through the details and key assumptions underlying our 1st quarter results and 2017 guidance.

Michael P. O'Hara

Treasurer, Chief Financial Officer

Thanks Lou

Today I want to cover the highlights of the quarter, thoughts on our balance sheet and additional details on our 2017 guidance.

This morning, we reported FFO of 27 cents per share and Normalized FFO of 26 cents per share which met our expectations. The construction company results beat expectations this quarter which offset the delay of the Sandbridge out parcel sale until next quarter.

During the quarter, we sold a single tenant asset at a 5 cap which resulted in a gain of 3.4 million. This gain is excluded from FFO, but despite this treatment, and as we have discussed in the past, asset sales and capital recycling will continue to be an important element of future shareholder value creation.

This quarter represents the 11th consecutive quarter of same store NOI growth. Same store NOI was positive 1 percent and positive 2 percent on a cash basis as compared to the first quarter of 2016.

At the end of the quarter, our core operating portfolio occupancy was 94 percent, with office at 88 percent, retail at 97 percent and multifamily at 93 percent. Office occupancy is lower than our historic range because as discussed last quarter, two tenants are expanding and relocating to 4525 Main Street from other Town Center office buildings. 4525 Main Street is not currently included in our core operating properties. These relocations began to affect office same store NOI this quarter which will continue in 2017.

This quarter, we made a change to the Property Portfolio section of the supplemental package. In prior supplementals, tenant ground leases were segregated from the property in which they are located, and excluded from the occupancy and average base rent calculations. In most cases, the ground lease tenant is the anchor tenant for the center. We are now including these ground leases with the property, which we believe is less confusing. For example, previously the Hanbury Village Harris Teeter ground lease was listed in the ground lease section and not listed as the anchor tenant for Hanbury Village. With this change, retail occupancy increased with the ground lease included in occupancy and this also lowered average base rent. Under the previous calculation, retail occupancy would have increased from 95.8% to 96.1% and now under the new calculation it increased from 96.1% to 96.7%.

On the construction front, we reported a segment gross profit in the fourth quarter of 2.3 million dollars on revenue of 64 million dollars. This is another strong quarter for this segment of our business. The construction company typically contracts on a guaranteed maximum price basis inclusive of a savings split with third party owners. The amount of the total savings and corresponding savings spilt is usually not determined until the construction is close to completion. This quarter, profit from the savings split on a 180-million-dollar contract was recognized. With this strong quarter, we are raising the guidance for this segment.

At the end of the first quarter, the Company had a third-party construction backlog of 157 million dollars.

Now turning to our balance sheet.

We continued to take actions to enhance flexibility and strengthen our balance sheet including increasing the capacity of the credit facility, hedging our interest rate exposure, selling assets, and continued use of our ATM program.

We used the ATM program last quarter to raise 3.5 million dollars of gross proceeds at an average price of $14.17 per share.

At the end of the quarter, we had total outstanding debt of 528 million dollars including 82 million dollars outstanding under the 150-million-dollar revolving credit facility.

In January, we added four properties to the credit facility borrowing base to increase the capacity by 25 million dollars to a total of 275 million dollars.

We continue to evaluate our exposure to higher interest rates and look for opportune times to enter into hedges. At quarter end, 97 percent of our debt was either fixed or hedged. During the quarter, we purchased a 2-year, 50-million-dollar interest rate cap at 1.5 percent to replace the cap that matured on March 1st.

During 2017, we continue to position the balance sheet for the development pipeline and associated growth through:

- Opportunistic asset sales. In the first quarter, we sold a single tenant asset at a 5.0 cap for 4.6 million dollars. In addition, we have another single tenant building under contract with expected closing during the third quarter. The proceeds from these sales will be used for balance sheet purposes. We continue to evaluate our portfolio for opportunistic sale candidates.

- Next, the continued use of the ATM program which we believe is the one of the most efficient manners for us to fund our growth and development activities.

- And finally, increasing the capacity of our credit facility by 25 million to 275 million dollars.

Now for an update on our full-year 2017 guidance that we issued this morning. We expect 2017 Normalized FFO in the range of 99 cents to $1.03 per share, which is unchanged from our initial guidance. As previously discussed, we believe that 2017 is a year of execution and positioning the balance sheet for the development pipeline and future growth. In addition, with no NOI contribution this year from new development projects, the mid-point of the 2017 guidance is flat with 2016. This is similar to 2014, prior to the delivery of the IPO pipeline. Once the pipeline deliveries began in late 2014, Normalized FFO per share increased by 23 percent over the subsequent two years.

Now, the details of the 2017 guidance.

This updated guidance is predicated on the following assumptions:

- Disposition of a single tenant asset during the third quarter with the proceeds being used for balance sheet purposes.
- Raising 53 million dollars through the ATM program. This is an increase from last quarter to fund additional development activities.
- Interest expense is calculated based on the Forward LIBOR Curve.

The 2017 guidance of 99 cents to $1.03 per share is predicated on the following:

- Total NOI in the 73.7 to 74.2 million-dollar range,
- Third-party Construction Company gross profit in the 5.6 to 6.3-million-dollar range.
- General and administrative expenses in the 10.6 to 11.0-million-dollar range.
- Interest income from our mezzanine financing program in the 6.7 to 6.9-million-dollar range. This is an increase from last quarter. As Lou mentioned, we entered into an agreement with a Whole Foods developer. The initial step with this developer is funding equity on the project under our mezzanine loan program. At the end of the quarter, the aggregate balance of these mezzanine loans was 61 million dollars.
- Interest expense in the 18.0 to 18.5-million-dollar range.
- And, 57 million weighted average shares outstanding.

Now I'll 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 "#". 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 Dave Rodgers from Robert W. Baird.

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

Q

Hey, Lou, I just wanted to talk about 4525. I know that came together maybe a little bit more quickly than you would have hoped or originally anticipated as you had looked for some vacancy. How much -- how many of the holes do you have to kind of backfill? You said that there are 4 new tenants. Does that kind of fill the substantial vacancy left behind? And just any more details on the lease at 4525, because I don't think it shows up in the supplement yet.

Louis S. Haddad
President, Chief Executive Officer & Director

A

Sure. On the large lease that we talked about last quarter was the 40,000 square-foot lease with a -- I believe it's a 12-year lease that's there. So it's a software company that we're really excited about. It's growing by leaps and bounds here in the area.

With regards to the backfill, Dave, the best way to look at this -- unfortunately, when -- we're kind of trapped by what's in the portfolio and what's in development but not stabilized yet and all that kind of thing. The best way to look at it is Town Center has about 800,000 square feet of office space. Right now there are about 80,000 square feet of vacancy. So our historical norm has been in the mid-90s, so we've got about 40,000-some square feet to lease. A couple of those new -- the new 4 tenants are about 20,000 square feet. I think 2 of them are already in the number that -- the occupancy number that I quoted; 2 of them are not. We have about 35,000, 40,000 square feet of space to lease to get to that 95% mark.

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

Q

And that's in addition to the 4 leases you just talked about?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Correct. That's spread across 5 buildings.

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

Q

Got you. Okay. And then I guess with regard to -- you had talked about Charleston previously and now looking at the Decatur project. Are you comfortable continuing to expand the footprint of the development business and the ownership operation after that? And are you continuing to look at new markets in addition to where you have just added here in the recent past?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Thanks for that question, Dave. I want to make sure that those on the phone know of our history. We are experienced, over the last 4 decades, in 13 states up and down the east coast. The markets that we're talking about now, be they Charleston or Georgia or Central Florida, those are all markets that we're familiar with and have done business in before. So it's really not new for us. It's just -- it was kind of the luck of the draw when we came public that we were very much Virginia-centric. So these are not really an expansion of our footprint from our historical norm.

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

Q

Great. And maybe last question for me. Mike, you talked about dispositions in the guidance. I might've missed the number. You said a third quarter disposition. I missed a number if you said it. If you didn't, maybe give us a little context around the types of assets that you expect to continue to sell. And as the development pipeline continues to grow, could we see that disposition number grow throughout the year?

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

Good morning, Dave. This is another small sale like the Wawa, you know. We're taking a look at the single tenant, one-off type buildings that aren't essential to our business. So this sale is the Courthouse 7-Eleven. It's not a big asset but it's going to be proceeds in the $2.4 million range. The other things we're looking at are the other single-tenant office buildings that we discussed in the past.

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

Q

Okay. But the only thing in the guidance is the first quarter sale of the Wawa and then this small disposition of the third quarter?

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

Correct.

Operator: Our next question comes from John Guinee with Stifel.

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

Q

Couple of questions. One on retail and the other one your Mezz business. You -- you mentioned, Lou, that you've got $400 million in the pipeline on Page 16, of which you have the benefit of exercising purchase options at cost. That's -- and there's a lot of value creation. That's the good news. The bad news is it takes a lot of equity to do it. Can you do this all with ATM equity issuance? Or how do you plan to fund $400 million of purchase options?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Yes. Couple of answers there and then I'll it turn over to Mike for a little bit more specifics. First on, as we've said before, we're not certain that we won't monetize a couple of these assets as well as dispositions from the stable portfolio. Secondly, the ATM is operating very well. We continue to use that. Thirdly, aside from the 2 large mezzanine projects that will be purchased, the rest of the projects are being funded on balance sheet. And so we're keeping within our norms regarding that.

Mike, do you want to add anything to that?

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

Yes. Couple of things on the balance sheet, John. So at quarter-end here, our debt metrics are at the low end of our corporate goals. Our core debt-to-EBITDA is at 6x and our overall debt-to-EBITDA is 6.5x. And where we sit today is, if you take a look at the development projects we've delivered, the mezzanine loans and the City Center joint venture, we're funded 90% of all that equity, including the Decatur Mezz loan. So from that standpoint, we've funded all that. So what we're looking at now are the projects that are coming out of the ground right now. We've got 2 that are just coming out of the ground. We have the other 3 in pre-development. So those are not going to start hitting the balance sheet till late this year. And as we've discussed, we've got until as late as '19 to exercise our options on the other properties. So from that standpoint, John, we feel pretty good about it.

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

Q

Got you. Okay. And the second thing is you basically have done a great job of 1031 exchanging out of single-tenant office buildings into food/drug anchored retail centers up and down the mid-Atlantic. Can you talk about your ability to keep these retail centers full? And potentially, what's happening with rental rates right now in your world of retail?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Sure. John, we've had a really good same-store sales growth in our retail portfolio, as I've mentioned several times before. These are largely grocery-anchored shopping centers that have very high sales volume. And when you have high sales volume, you can keep your small shops full and expanding. We don't see any interruptions in that across the portfolio. So we believe that model's going to continue to be very strong in our markets. And as I mentioned, we're going to look to continue to expand that. I think you still might see some 1031 activity with a couple of projects that Mike mentioned. But that's going to continue to be a focus for us.

Mike?

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

So John, the other thing is the re-leasing spreads this last quarter are really strong. So on retail, our re-leasing spreads were positive 7% on a GAAP and 6% on a cash basis. And included in there, we're seeing some of our tenants pick up the options. Like this past quarter, we had Food Lion, Regal, P.F. Changs pick up their options this past quarter.

Operator: Our next question comes from Rob Stevenson with Janney Montgomery Scott.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Lou, we've had a couple of questions here on retail and just one more here. I mean, as you think about the sort of future funding requirements, how are you thinking about the retail portfolio strategically today as potentially a source of capital? Especially, where is -- where do you think that those assets monetize? And how does that compare to the cost of capital with your raising on your ATM these days? If you wanted to sell a grocery-anchored strip center, I mean, what does that look for you in terms of market pricing and liquidity levels there to be able to do something like that versus -- you know, if the stock price falls and the price on your ATM goes up?

Louis S. Haddad
President, Chief Executive Officer & Director

A

That's a great question, Rob. This is something that we spent an awful lot of time on and we continually evaluate. Right now, as you know, our cost to capital in our world is high. And so, therefore, we always want to evaluate whether or not it makes sense to raise equity and continuing to expand the portfolio versus REIT some of the low cap rate projects that we have in the portfolio. We're going to continue to do that. And I would see – you know, there are so many dynamic factors of what's going on. I would tell you that there are 2 lenses that we look at -- that we've looked at for a very long time. As you guys know, it's my 33rd year here.

The first lens is the right real estate decision, forgetting -- with all due respect, forgetting what the market is expecting and the like. But the right real estate decision is always to upgrade your portfolio. And so any time that we're looking at bringing something in, be it a development project, a mezzanine project or an acquisition, rather than just saying let's add to the mix, we want to look it and see if there are candidates to get rid of at the same point in time to a 1031 or adding to the balance sheet in order to further upgrade the portfolio from a NAV basis.

And secondly, and perhaps even more dear, we are, as I mentioned, far and away the largest shareholder and so we're always looking at dilution as well. There is no -- there's no benefit to us just expanding this company for the sake of expanding this company. The benefit is all in getting an accretive share price, continuing to raise the dividend in a responsible basis so that we can all retire happy someday.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

I guess, said another way, is a well-leased food anchor -- or Food Lion-anchored grocery center ever worth more than right after Food Lion extends its lease?

Louis S. Haddad
President, Chief Executive Officer & Director

A

That's a very good question. Again, you've got to look beyond those numbers into what those sales are doing. The Food Lion centers that we have -- that we continue to operate -- as we mentioned, Food Lion has picked up their options. They pick up those options because there are high sales for Food Lions. When there are high sales, then we get good growth in our small shops. And as Mike mentioned, the re-leasing spreads are pretty favorable. That said, we're continually looking to upgrade the portfolio. And as much as Food Lion has been good to us, that's not a name that we want to have a large concentration in. So you may well see us reap those dollars.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

Okay. Anything that should meaningfully positively or negatively impact same-store NOI growth over the remainder of '17? In other words, should the full year '17 NOI growth be roughly in line with the 1% gap, 2% cash that you guys reported in the first quarter here? Or is there something that we should be mindful of that impacts over the final 3 quarters going to move that around up or down meaningfully?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Thanks again for another great question. So there are 2 anomalies that Mike and I believe are going to affect same-store sales later on in '17. One is in multifamily. As we've mentioned, we've got a pretty significant amount of disruption right in front of the Cosmopolitan Apartments here at Town center. Occupancy fell this past quarter and is now in the mid-80s. We expect that to continue to be a drag until we at least can close in the construction of the new phase, which won't be until fall, if not later. So I think we are going to see some, if not negative, some drag on same-store sales in the multifamily sector due to that one building.

In the office space, there's another quirk in that we took 30,000 feet of tenants out of this same-store sales pot, if you will, and turn them into 40,000 square feet of tenants in a building that is not in same-store sales. When your whole office portfolio is only 900,000 square feet, then you're going to have a meaningful drop, we think, in same-store sales. It's not in office -- in subsequent quarters. So obviously, these are not things that – these are things that are positive for us long term, so we're not too concerned about them. But it's going to look a little weird in numbers for the next couple of quarters.

Mike just got through saying that we had our 11th consecutive quarter of same-store sales increase. We've got a bet here as to whether it's the next quarter or the following quarter that that trend starts to reverse because of what I just said.

Rob Stevenson
Analyst, Janney, Montgomery, & Scott LLC

Q

Okay. And then one quick one for Mike. Are you waiting until '18 to adopt new acquisition cost rules? Looks like you still had a moderate amount of acquisition costs that were expensed in the first quarter here.

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

No. We adopted that in the fourth quarter. We just -- this past quarter, where I think it was like $40,000 of miscellaneous things that came through that we just ran through there without capitalizing that cost.

Operator: Our next question comes from Craig Kucera with Wunderlich Securities.

Craig Kucera
Analyst, Wunderlich Securities

Q

I know in the past you were discussing how the cost of swapping some of your debt had moved around quite a bit and become a lot more expensive. Can you give us an update on how things are looking today? And as you look towards the fourth quarter when you've got another maturity, how you're thinking about managing that and managing your variable rate debt going forward?

Michael P. O'Hara
Treasurer, Chief Financial Officer

A

Good morning, Craig. Yes. We've seen the cap pricing kind of go up and down, depending on what's the latest news. So we'll continue to monitor that and buy the caps when we see the right times. You know, the cap we just bought last -- this past quarter, we thought we got good pricing on that one as well. The other thing we're going to evaluate is we've kept the LIBOR caps at 150, is whether or not, depending on pricing, as LIBOR goes up, do we move those caps up to 175 or so. We have one cap that we've gotten another year plus on, that caps LIBOR at 1%. It looks like we'll be in the money on that one. I've been joking around with Lou, I said we should have bought $200 million worth of that one at the time that we bought that 1% cap. It cost us like $140,000 for that one.

Louis S. Haddad
President, Chief Executive Officer & Director

A

I'll add another note here. As long as the long end of the curve stays flat like it's been, I think you'll see us put a couple of projects away on permanent debt as well. So as Mike had said in the past, we look at the debt holistically and no matter how well hedged or capped we are, we want to keep a nice mix of long-term debt as well.

Operator: Our next question comes from Laura Engel with Stonekey Capital Partners.

Laura Engle
Stonegate Capital Partners

Q

I guess first just a follow-up. I didn't hear -- did you comment on the timing of those new, I think you said 4 potential leases for Town Center, as far as we're well into this next quarter? Can you give us a little bit of an idea on that as far as how long it'll take to wrap those up?

Louis S. Haddad
President, Chief Executive Officer & Director

A

Sure. 2 of them actually have been signed. The other 2 we expect to be signed during the month of May. But -- the but here is that while those numbers will obviously go into our quarter occupancy numbers, we don't expect really any impact in 2017 to speak of due to the refit of the space. So this is all kind of geared towards really hitting the ground running in 2018 with a significant amount of tenants being -- kicking in towards the end of the year.

Laura Engle
Stonegate Capital Partners

Q

Okay. And then you gave some detail discussing the construction company business and the increased guidance. The cost savings that you've mentioned this quarter, is that something you expect to see going forward as far as margins on that business?

Louis S. Haddad
President, Chief Executive Officer & Director

A

That one is a bit of an outlier because of the size of it. As Mike said, it's a -- it was $180 million contract. And so you had some fairly outsized savings. I believe our share was in the high 6 figures. Typically, they're not that large. But -- and we really don't -- or we aren't forecasting another large contract with any kind of meaningful savings for the rest of the year. So that's a bit of an outlier. It's obviously taken our earnings to new heights in the construction company. That company continues to hit on all cylinders. And it seems like every time we increase expectations, those guys increase them again for us.

Laura Engle
Stonegate Capital Partners

Q

Right. No. I agree. And then last thing, I was just going to comment. Decatur, Georgia, right down the road, a super cool town, so that's exciting news. And I'm sure y'all will do well there.

Louis S. Haddad
President, Chief Executive Officer & Director

A

We're very excited about Decatur. And as I mentioned, the relationship with that developer is -- an extremely competent developer that we've known of for several years and have known for several years as well as a great name in the space that we want to be in. So we're hoping to have further announcements in that regard.

Operator: There are no further questions at this time. I would like to turn the call back over to Lou Haddad for closing remarks.

Louis S. Haddad
President, Chief Executive Officer & Director

Thank you, everybody, for your interest in the company and your time that you've spent with us this morning. We look forward to updating you on more exciting activities and results over the course of the year. Take care.

Operator: Thank you. This concludes today's teleconference. Thank you for your participation, and have a wonderful day.