ARMADA HOFFLER PROPERTIES

Second Quarter Earnings Call

Thursday August 1, 2019

CORPORATE PARTICIPANTS

Louis S. Haddad
President, Chief Executive Officer & Director

Michael P. O'Hara
Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Armada Hoffler's second quarter 2019 earnings conference call. At this time, all participants are in a listen-only mode. After management's prepared remarks, you'll be invited to participate in a question and answer session. At that time if you have a question, please press "star 1" on your telephone.

As a reminder, this conference call is being recorded today, Thursday, August 1, 2019.

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

Please go ahead.

Michael P. O'Hara
Chief Financial Officer

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

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

The press release announcing our second 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 September 1st, 2019.

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

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, August 1st, 2019, and will not be updated subsequent to this initial earnings call.

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

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

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

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

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

Louis S. Haddad
President, Chief Executive Officer & Director

Thanks Mike.

Good morning everyone and thank you for joining us today. Before we go over our operating results and update you on our other activities, I'll first comment on some macro-level activities that are being undertaken at the company. As most of you know, our senior management team has been in place for many years. We also take much pride in the junior executives and middle managers who are tremendously important to our success and growth strategy. In the past several months we have augmented this strength with the addition of two executives with a wealth of prior REIT experience. First was the hiring of finance director, Mike Salinsky and more recently the addition of Chief Investment Officer, Jonathan Morris. These two gentlemen expand an already top-flight team of real estate professionals. Additionally, and perhaps most importantly, we will soon be issuing a press release welcoming a new COO to the Armada Hoffler family. While our expectation is that our current leadership will be in place for at least the next five years, between these new executives and a stellar group of rising professionals already in place, we are confident that our 40 year track record of growth, profitability and outperformance can continue for decades to come.

Another initiative that is underway is a strategic portfolio review being led by our CIO with support from our President of Asset management, Shelly Hampton and her excellent team. While we've become well known for routinely trimming non-core assets from our portfolio to keep it of the highest quality, this effort is more comprehensive and longer-term in nature than our previous reviews. Early indications are that we will identify several properties over the next couple of months that will be slated for disposition over the course of 2020. We would expect these properties to total in the range of 75 to 125 million dollars' worth of real estate. This group will probably include several of our older neighborhood centers as well as some office space. I'll emphasize here, that this is not a repositioning effort; we are very comfortable with our current assets and our diversified platform. The multi-year performance of our portfolio has been stellar. This is simply a continuation of our long-established recycling strategy that we use to achieve the most advantageous allocation of capital to maximize the growth and stability of the company.

Some of the anticipated proceeds will be used to fund the next development pipeline. Some will be used to purchase higher growth assets through 1031 tax-free exchanges. And as usual, some may be rescinded if we don't feel they are receiving appropriate value from the market. We expect to be able to give you further clarification on the timing and breadth of this initiative with next quarters' results.

Moving on to our current earnings release, most of you have seen that we reported 30 cents of normalized FFO per share this morning, which was in line with our expectations. More importantly, we raised our full year guidance to $1.15 to 1.19 per share. This increase is primarily due to accretive acquisitions in the second quarter and very strong leasing metrics across the portfolio. Please note that the mid-point of the new range represents a 14 percent increase over our 2018 per share results. As we have said in the past and with regard to 2020, our expectation is for the mezzanine program income to decrease while portfolio NOI will continue to increase. This trend, along with the anticipated launch of a new development pipeline and disposition of non-core assets, will most likely result in moderating next year's earnings per share growth into the mid- single digits. That said, we expect robust NAV expansion as we continue to enhance overall portfolio quality.

Though Mike will expand on the important highlights of the quarter, I must emphasize the impressive increase in our same store NOI across the portfolio for the 5th consecutive quarter. Certainly, we do not expect multifamily to grow at twenty percent on a year over year basis; however, we expect healthy growth in the portfolio to continue.

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

The Brooks Crossing office building in Newport News, Virginia was delivered on time and rent has commenced on the entire 100,000 square feet. This asset is 85% occupied by Fortune 500 company Huntington Ingalls Industries with the remainder leased to the City of Newport News.

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

The apartments at 1405 Point, which went from delivery to full occupancy in roughly 12 months, are now 95% occupied. The impressive performance of this project re-affirms our confidence in the entire Harbor Point development.

Construction continues on our adjacent Wills Wharf office building and, despite being several months from delivery, we continue to see robust leasing activity. Assuming final execution of leases in negotiation and letters of intent, the project would be 85% pre-leased and may achieve full occupancy during 2020.

These two properties, along with our purchase of the adjacent Thames Street Wharf office building, give us a critical mass of trophy quality properties at Harbor Point on the Baltimore Waterfront, essentially a high-end city within a city. We expect that the synergy and economy of scale that we can achieve through these three assets will lead to significant yield expansion in the years to come. In concert with our partner, the Beatty Development Group, we intend to continue building out this sought-after location into a world class mixed-use destination over the long term. For a glimpse of our vision for this development, look at page 22 in our supplemental.

The Premier at the Virginia Beach Town Center is 100% leased on the multi-family side with the retail at 75%.

The Greenside apartments in midtown Charlotte continue to lease on track with our projections and stand at 92%.

Construction has been completed on Hoffler Place, our Charleston student housing project, and move ins will commence this weekend. Pre-leasing has topped 85% for the coming school year which is somewhat stronger than we anticipated. We have also come to preliminary terms with a national convenience retailer which we expect will occupy the vast majority of the ground floor retail space. We believe this retailer will give the facility a tremendous advantage over its peers in attracting students.

As we reported last quarter, the second Charleston student housing project, Summit Place on Meeting Street, remains under construction as we gear up for the fall pre-leasing season while simultaneously researching how we might best take advantage of the site being located in an opportunity zone. In any event, the project will be open for the fall 2020 semester. We'll keep you posted as this situation develops. We remain confident in our underwriting and the long-term value of this asset.

The final project in our development pipeline, Nexton Square, a lifestyle center where we hold the mezzanine loan and a discounted purchase option, is also in the Greater Charleston Market. Although final construction completion won't occur until early next year, the first handful of tenants opened this quarter and leasing stands at nearly 80%.

Due to the mezzanine structure on this project and the discounted purchase option that we hold, we probably will use some disposition proceeds from the asset sales I mentioned earlier, in a 1031 tax free exchange for this property.

With the majority of our pipeline delivered or nearing completion, our team is hard at work underwriting our next generation of development projects. Although deal flow is at an all-time high, we remain committed to maintaining our rigorous underwriting standards. This discipline helps to ensure that only the most promising projects are selected for development.

This week we announced the first project in our new pipeline. This 80 million-dollar, mixed-use development is located in Roswell, Georgia which is a fast-growing area within the Atlanta MSA. Positioned in the heart of a thriving downtown district, the complex, named Southern Post, will feature 80,000 square feet of office space, 40,000 feet of retail and 125 apartments along with structured parking. We will be the majority partner in a joint venture with our long-time associates, S.J. Collins and will break ground early next year. We are in negotiations with several office and retail tenants and expect the commercial space to be significantly preleased by that time. Roswell is indicative of the type of projects that will be the centerpieces of our new pipeline. Mixed-use, urban in-fill assets in high-growth sub-markets have been a hallmark of our company for a very long time and the trend towards walkability in live, work, play environments continues to strengthen. We intend to fully capitalize on these opportunities and expect to make additional new project announcements in the coming months.

The core portfolio continues to show robust performance. Of particular note is the multi-family performance at the Town Center of Virginia Beach. Recently, both Encore and Premier apartments reached full occupancy. Also, the upgrade to the units at the Cosmopolitan apartments continues to receive rave reviews from our tenants. Newly refreshed apartments are leasing at a 10% premium to the same unimproved units. With several new fast-casual restaurants including the region's first Shake Shack, retail services and new-to-market office tenants arriving over the next several months, Town Center remains a dynamic and growing destination in the region.

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

Reliable construction timeframes are also a large factor in our teams' selection by third party clients on a repeat basis which solidifies the steady fee income that we have enjoyed for a number of years. The ramp-up on several new construction starts has the profit from this division back-weighted toward the second half of the year. Third party contract backlog stands at 179 million dollars with several new potential engagements in the pre-construction phase.

Remember, Armada Hoffler is first and foremost an opportunistic real estate company that employs multiple strategies to enhance profitability and create value. These have been our central tenets for forty years, and investors can count on this to remain our primary focus. As the company's largest equity holder, management will continue to operate a business model that includes a variety of deal structures as well as OP unit acquisitions, disposition of development projects, at cost purchase options, and stable assets. We are extremely optimistic about the company's prospects for the rest of 2019 as well as our ability to deliver on our promises over a multi-year timeframe. As we begin to look toward 2020 and the number of initiatives we intend to undertake, we feel strongly that our investors will continue to realize great value creation well into the future.

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

Michael P. O'Hara
Chief Financial Officer

Thanks, Lou.

Today I want to cover the highlights of the quarter, thoughts on our balance sheet, and our 2019 guidance. This was a busy quarter, with a lot to cover today.

This morning, we reported FFO of 27 cents and Normalized FFO of 30 cents per share for the second quarter which met our expectations. The largest difference between the two metrics is the non-cash mark to market adjustments relating to our hedging activities.

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

Same store NOI was strong this quarter, with all property types positive. This is the fifth consecutive quarter of positive same store NOI growth. GAAP NOI was positive 6.4% and cash NOI was positive 6.0%. Most significantly, our multifamily same store NOI was positive 21 percent. The majority of the increase relates to our JHU student housing asset where rents were increased by nearly 15% and higher summer occupancy due to transitioning to 12-month leases. The retail increase includes a bad debt recovery of $200,000, but even without this large item, the metrics are still stellar.

The retail releasing spreads were strong again this quarter with cash positive 4.1% and GAAP positive 5.7%. The office releasing spreads are not good, but this metric only includes one tenant. As a part of this renewal, we took back valuable ground floor space that we released to Fidelity Investments for substantially more rent which is not reflected in the metric.

We have been active on the acquisition front with four new high-quality properties being added to our portfolio this year.

Last quarter, One City Center in Durham, which is anchored by Duke University and WeWork, was distributed out of the joint venture and added to our portfolio.

During the second quarter, we added three large properties to our portfolio.

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

In May, we acquired the retail centers in Virginia Beach, Red Mill Commons and Marketplace at Hill Top. The aggregate purchase price was 105 million dollars representing a 7.7 cap rate. This acquisition was an OP Unit transaction, with the owners receiving 64 million dollars in OP units.

And lastly, we acquired the Thames St Wharf office building, located on Harbor Point in Baltimore. There is a slide about this property on page 21 of the supplemental package. The purchase price was 101 million dollars representing a 7.1 cap rate. As Lou mentioned, this property is adjacent to our other two buildings on Harbor Point. This waterfront, class A office building is 100% leased. Morgan Stanley and Johns Hopkins Medical are the anchors, occupying 92% of the building. The leases had an average 7.4 years remaining and include 2.2% annual rent increases.

The total acquisition cost of these four new properties is approximately 350 million dollars. We believe these properties were acquired for below market value and with the high quality of these assets, add to our overall net asset value.

On the construction front, we reported a segment gross profit in the second quarter of 1.3 million dollars on revenue of 21.4 million dollars.
At the end of the second quarter, the Company had a third-party construction backlog of 179 million dollars.

Now for an update on our mezzanine program.

The Decatur Whole Foods center loan was paid off last week as expected. This was a very successful project for all involved. The developer sold the asset at an attractive cap rate and we made a profit of 3.4 million dollars on a loan that was outstanding for 26 months.

The Interlock projects in Atlanta began construction in the beginning of the year with activity now well under way. We anticipate fully funding these loans by the end of the third quarter and expect the balances to remain outstanding well into 2021.

We are still expecting the Annapolis Junction loan to be paid off in the fourth quarter. Our partner is currently evaluating whether to market the property for sale or hold for the long term and refinance it. If the property is sold above a certain sales price, we could realize significant additional fees from the transaction.

We expect the total balance outstanding of this mezzanine program to be in the 150-million-dollar range but may be temporarily higher depending on the timing of the Annapolis Junction payoff.

Now turning to our balance sheet.

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

First, the disposition of a grocery anchored shopping center, for expected proceeds of approximately 25 million dollars, which will be used to pay down debt. This month, we executed a purchase and sale agreement for the sale of the Lightfoot Harris Teeter for 30 million, representing a 5.8 cap rate. We anticipate closing during the third quarter.

Second, we expected the Decatur Whole Foods Center and Annapolis Junction loans to be paid off this year. The expected payments are approximately 60 million dollars. As I just discussed, this is still the expectation.
And, third, we anticipated raising 50 million dollars through the ATM program in 2019. Taking advantage of favorable market conditions during the quarter, we raised 7.6 million dollars at an average price of $16.89 and 39 million dollars year to date at an average price of $15.20. Early next week we will be filing an increase of 75 million dollars to the ATM program. We think it's prudent to have optionality and flexibility to take advantage market conditions.

During the quarter, we acquired the Virginia Beach retail centers which added to equity through issuing 64 million dollars in Op Units which lowered our overall leverage ratios.

In addition, we raised 63 million dollars through our first preferred equity issuance of which thirty million was used to fund the Thames Street Wharf acquisition. We decided it was a good time to add preferred equity to our capital stack. We think preferred is a good source of capital but limited to 10 percent or so of our equity. We now have permanent capital at a fixed cost of 6.75% per year, which we believe will be less expensive than our common over time. We also have a number of new well-respected institutional investors who invested in the company for the first time.

As Lou said, we are evaluating a number of new development opportunities. The first of these to be announced is Southern Post in Roswell Georgia. We expect to close on the land this year, with construction beginning in the first quarter of 2020. We do not expect any other projects to break ground until next year, and, therefore, they will require little capital investment in 2019.

We will continue to manage the balance sheet and leverage as we have in the past, with core debt to EBITDA in the mid - 6 times range. We added several new metrics in the Supplemental Package reflecting the preferred equity, including additional leverage metrics and a fixed charge coverage ratio. In our calculations of core debt to core EBITDA, we will not include the preferred as debt as we consider it equity.

At the end of the quarter, we had total outstanding debt of 956 million dollars including 122 million dollars outstanding under the 150-million-dollar revolving credit facility.

Now I'd like to go through the details of the updated 2019 guidance. The assumptions of the guidance are: The sale of the Lightfoot Harris Teeter center- for anticipated proceeds of approximately 28 million dollars in the third quarter. The Annapolis Junction loan being paid off in the fourth quarter. Raising an additional 11 million dollars by year end for a total of 50 million dollars through the ATM program in 2019, assuming favorable market conditions Interest expense is calculated based on the Forward LIBOR Curve which forecasts LIBOR at 1.9 percent at year end.

Our updated 2019 normalized FFO per share guidance of a dollar fifteen to a dollar nineteen per share is predicated on the following updated components: Total NOI in the 101.6 to 10.25 million-dollar range. Third party Construction Company gross profit in the 4.9 to 5.7 million-dollar range. Interest income from our mezzanine financing program in the 15.5 to 16.1 million-dollar range which is net of 5.4 million of interest expense and also includes the remaining 4.5 million dollars recognized from the amortization of the Annapolis Junction Apartments purchase option that we sold in the 4th quarter of 2018. General and administrative expenses in the 11.8 to 12.2 million-dollar range. G&A was increased this quarter due to adding new employees including the new officers Lou discussed. Interest expense in the 25.0 to 26.0 million-dollar range, which does not include the interest expense related to the mezz program, and 72.3 million weighted average shares outstanding.

After an expected 14% increase in earnings this year, our focus for 2020 will be concentrating on enhancing portfolio quality and increasing NAV.
Now I'll turn the call back to Lou.

Louis S. Haddad
President, Chief Executive Officer & Director

Operator, we would now like to begin our question and answer session.

QUESTION AND ANSWER SECTION

Operator

Thank you. Ladies and gentlemen, if you have a question at this time, please press "star 1" on your telephone. If your question has been answered and you wish to withdraw it, you may do so by pressing "#". If you're using a speakerphone today, please pick up your hand set before entering your request.

Our first question comes from David Rodgers with Baird. Please proceed with your question.

David Rodgers
Good morning, guys. Lou, wanted to start maybe on a high-level perspective at the macro level regarding defense in southern Virginia. Obviously that tide has now turned, maybe back in your favor. Your portfolio is not completely tied to defense obviously, but just kind of the activity that you're seeing. Are you starting to see more of a pickup just in your region overall?

Louis S. Haddad

Thanks, Dave. Yes. We are seeing a lot more activity in the region. It doesn't affect us directly as you mentioned, but we do see that it increases in the restaurants and retailers. I think that the region will continue to grow and hopefully take advantage of this little surge. But we're seeing a lot of positive results out there as a result of the buildup.

David Rodgers
Good to hear. Wanted to move onto WeWork. Obviously now with the move-in in Durham, they move into kind of your top tenant list for office. You've got another lease or two pending with them as well for new construction projects. So can you talk about kind of your exposure there, whether you'd be comfortable adding even more and how you just kind of look at any tenant in the office space with regard to overall exposure?

Louis S. Haddad
Sure. With regard to WeWork in particular, we share the jury is out kind of attitude that the market has generally. We don't want to be too much vested in any particular tenant, particularly one that doesn't have the kind of long-term track record in credit that we all vie for. We most probably will end up having the Durham project up for sale, partially due to the fact that we don't want to have WeWork become one of our top tenants. At the same time though, we have no reason to believe they won't be successful. The space in Durham is nearly 100% leased, according to their numbers it looks fantastic, and activity is really strong. But through an abundance of caution, we really don't what to get too well entrenched with that particular tenant

Michael P. O'Hara
Dave, the other thing we're looking at on financings and certainly the feedback we're hearing from the lenders, that they're fine with WeWork as long as it's 25% or lower of the building which is something that we'll be looking at. We've also been keeping track of what's going on on sales and there was a building in D.C. that was 100% leased by WeWork that recently sold for around $1,000 a foot. So certainly, the market is still positive, I guess at least on a cap rate basis.

David Rodgers
Appreciate all that detail, guys. You talked about 2020 being kind of a mid-single digit FFO growth year. Lou, wanted to ask about the Dick's lease and that's still kind of outstanding. What's your plan for the Dick's space and have you come to a resolution on that lease?

Louis S. Haddad
Sure. As we had anticipated, and somewhat hoped for, Dick's will not be renewing here at Town Center. So we'll get the space back at the first of the year. As I mentioned last quarter, this is a great opportunity for us to do something unique in Town Center that we haven't been able to do. It's kind of like 2 ends of a barbell. On one side we can convert the space to support style back office. We don't have an offering like that in Town Center right now because of the rent structure being as high as it is. So that could add some good quality office space and it certainly doesn't hurt the center to have a few hundred more daytime workers. At the other end of the spectrum, we're in conversations with a number of the experiential entertainment concepts that are out there now which also could bring another type of user to the Town Center. So we're going to take our time and evaluate all the options. With regard to 2020, the project is going to be under- one way or another it's going to be under redevelopment, so we don't expect any income coming from Dick's or coming from that building for 2020 which is somewhat a little greater than a penny drag on earnings.

David Bryan Rodgers
Appreciate that. Then Mike, last question for me, on the guidance change with regard to NOI, how much of that was acquisition/disposition timing and volume relative to your expectations versus how much was better same store core portfolio performance than anticipated?

Michael P. O'Hara
Certainly, the biggest piece is the acquisitions. The Thames Street was probably like $1.5 million -- I'm sorry, $1.5 million in earnings, NOI in the $2.5 million range. And obviously the 2 retail centers are adding. Point Street will add as the year goes on. Wasn't as much in that quarter as it ramps up.

Operator
Thank you. Our next question comes from John Guinee with Stifel. Please proceed with your question.

John William Guinee
Great, thank you. You guys have been busy. Roswell, Southern Point, I was actually in downtown Roswell for a while just a few months ago. When you are looking at 80,000 square feet of office, 40,000 of retail and I guess maybe 900 square feet per unit for the multifamily, it looks to me like you come out at about $350 a square foot. And that's a big number in a market, particularly for the multifamily which is a garden-oriented market. Does that strike you as being top picking the price point for Roswell?

Louis S. Haddad
Thanks, John. Remember, there's also structured parking in that project, so that kind of skews the numbers a bit higher. We expect the property is going to trade at the top of the market, but not significantly above what's in the surrounding market. It's a great small tenant market. If you were down at the downtown, you'd see all the activity there, particularly when they close the streets and thousands of people come for evening entertainment. So we're comfortable with the rents we're projecting. Like I say, they're at the high end of the market, but not meaningfully so.

John William Guinee
Okay, then just a little bit more on your development/redevelopment pipeline. You mentioned that you will acquire Newton Square but you're going to put Durham up for sale next year. Is that correct?

Louis S. Haddad
Yes.

John William Guinee
And then the next question is, what do you think you do with the student housing in Charleston? Can you guys get out at your basis sometimes soon?

Louis S. Haddad
To your first question, like I said, the review that our Chief Investment Officer and President of Asset Management are doing is not complete yet. But as Mike mentioned and I seconded, most probably the Durham high-rise is going to be on that list. I believe it's going to trade as a trophy asset would. The Nexton Square, the intent would be one of the other sale candidates that we develop will be -- Nexton will be a 1031 Exchange recipient of those proceeds. And regarding Charleston, yeah, I'm comfortable we would be able to get out for our basis, but we're not ready to give up the fight at this point. We're strong believers in that market, we're seeing great activity at the project that is open. Really want to go through this school year. Like I mentioned earlier, we're going to kick off the preleasing efforts here I guess it's next month and see how the building is received. That's a fantastic product. So we're not in a mode to simply cut our losses or come out even. We're still happy to own it long-term, same basis that we created it on, and I think we are only going to trade if it turns out that the opportunity zone funds have an appetite to get into a project such as that at a bit of a premium to our cost.

John William Guinee
Great. Then last question, a little bit surprised to see that you were booking the loan modification fees while you've still got half of your original, or all of your debt, out on Annapolis Junction. Is there any chance that nothing happens with that deal and you continue to have a mezz debt position well into 2020?

Michael P. O'Hara
So John, what we are booking is the amortization of the purchase option sale that we sold last year, last November for $5 million. That's what's being amortized. If the sale-- if he sells it and it goes over a certain amount, we can make additional fees, but we won't recognize that until we know that the sale is going to happen if it does.

Louis S. Haddad
Yeah, and those fees are not in guidance. But either way, John, we're feeling really good about the project. It looks fantastic, it is the best product in that little submarket, and it's leasing well. So if it turns out on his refinance efforts that we stay in for a piece, we'd be happy to do so. So we're counting it as a win in either regard.

John William Guinee
Great. Nice quarter, nice year. Thank you.

Louis S. Haddad
Thank you, John. I wanted to mention something else I didn't on Dave's question earlier with regard to what's going on in the market here in South Hampton Rhodes. I neglected to mention what's happening over on the peninsula and specifically Newport News. I mentioned the building that we opened at 100% full. What I didn't mention was the great activity at the Liberty Apartments. That project, there's been a considerable uptick in activity at the shipyard with the two-carrier deal that people probably have read about. That, the Liberty Apartments have been getting some good rent increases as well as full occupancy for the last several months, so we're very pleased about that. We've also, Newport News was the recipient of a new $30 million HUD grant to continue their redevelopment of downtown and we hope to continue expanding our relationship with them. Next question?

Operator
Our next question comes from Rob Stevenson with Janney. Please proceed with your question.

Robert Chapman Stevenson
Good morning, guys. Lou, you normally don't sell your public/private partnership assets. Does selling the Durham project impact your ability to do future deals with Duke?

Louis S. Haddad
I don't believe so. Duke is in the building at a market rent. We've succeeded in meeting their goals for the facility including putting a centerpiece into downtown Durham. We're hopeful that we can continue the relationship. They do have a number of new initiatives although they are a bit longer term, where we hope to be involved. So no, I feel good about -- we feel good about the building irrespective of whether we keep it or we end up transacting on it.

Robert Chapman Stevenson
Okay. Then Mike, does the ATM issuance at the back half of the year hold even if you sell all the assets that you guys are thinking about? Or is that variable depending on what the asset sales are?

Michael P. O'Hara
It's going to be variable depending on the market. Generally, if the stock is trading well, we'll take advantage of it. If not, then we won't. The other thing is, we don't think that we're going to be bringing in that capital until 2020, by the time we go through the process evaluating the projects, getting them on the market and actually closing.

Robert Chapman Stevenson
Is there anything held for sale today?

Michael P. O'Hara
The only thing is the Lightfoot Marketplace. We've got this purchase and sale agreement, the deposit went hard on that last week.

Robert Chapman Stevenson
Okay. Then following up on Dave's question, you have just under 12% of your retail rent rolling next year. Other than the Dick's, is there any material likely or known non-renewals? And any color on other assets where you might have redevelopment plans?

Louis S. Haddad
I don't think so at this time. This is one of those be careful what you ask for. We were hoping to get the Dick's building back and now we got it, so we'll figure out how best to utilize it. I've said in the past we're hopeful that we can get a Bed Bath & Beyond back or two, but that does not look like it's going to happen. We have a few things coming up. We have 3 PetSmarts coming up, another Bed Bath & Beyond. Nothing of any real materiality at this point. We're expecting that they are going to renew, but these are small enough and in centers that are doing great sales, so if they don't renew, feel really good about what would happen in place. So no, I think Dick's was the only thing of any size that gives us concern right now. PetSmart, we're keeping a close eye on. With the IPO of Chewy, they are somewhat flush with cash. I would expect in the future that from everything that I've read and seen, that they may be downsizing. but keeping the bricks and mortar. But that remains to be seen.

Robert Chapman Stevenson
Okay. Then last one for me. Looking at the mezz program, how attractive are deals for you guys without a purchase option? And how are you sort of weighing doing deals that are just straight mezz lending versus the lend to own?

Louis S. Haddad
A couple of things on that that I want to reiterate. One, we're not looking to expand the program. It's a great line of business for us with partners that we know and trust. Secondly, we look at all of those projects as if we're going to own them. And the critical piece for us is whether or not we can essentially get the lion's share of the economics through our participation. And that can manifest itself in a couple of different ways. Where the product is going to trade at something substantially below our cost of capital, then a discounted purchase option won't work because that won't be fair to our partner. So they're going to be free to sell those on the open market and our participation will be simply in getting the mezz interest. Where it is a product that we feel comfortable with the return on cost and where that trade value would be, that's where we negotiate the discounted purchase option with the intent of bringing it on balance sheet. We're comfortable in either place. One because of the real estate that we're underwriting. We underwrite these just as if we were going to own them. And two, because of the strength and expertise of our partners. I hope that answers your question.

Operator
Thank you. Our next question comes from Jamie Feldman with Bank of America. Please proceed with your question.

James Colin Feldman
Great, thank you. I noticed the negative mark to market or leasing spreads on the office portfolio in the quarter. Can you just talk about what drove that and then just going forward, how do you think about the mark to market of your office assets?

Louis S. Haddad
Sure. As Mike mentioned in that, Jamie, there is only one tenant in that pool. And that was basically the renewal of the Art Institute space. It's a 5-year renewal where part of the negotiation was getting back some valuable ground floor space that they had which we turned around and leased to Fidelity

Investments at I want to say about a 75% rent increase to the rate that AI was paying. If I put it all together, the entire transaction was positive on a GAAP basis. The other piece of that puzzle is on the AI extension, we spent somewhere in the $3.00 a foot range on that. And so the choice was not to renew and spend considerably more dollars for higher rent on that upstairs space. So that transaction in itself is mentally positive for us. It's just that the metric can't show all that. With regard to the office spreads, it's mainly those are here at Town Center. What we've seen on the larger tenants is that the rents have escalated after a 10 or 15-year period somewhat above the current market. Not terribly so. And so when we renew, we're typically positive on a GAAP basis and slightly negative on a cash basis. But again, not materially so.

James Colin Feldman
Okay. And then just bigger picture you continue to throw your weight in Baltimore. I mean is that, as you think about sales for next year, is that a market you'd be considering shrinking down either JVs or sales? Or do you actually like growing your position there?

Louis S. Haddad
We really like our position there. And I appreciate the question. I want to try and explain this in a little bit more detail. The issues facing downtown Baltimore are well documented and they are pretty much like the issues facing a lot of inner cities in our country. I couldn't really comment on how that's going to turn out. We know a lot of great people in Baltimore that are passionate about their city and are determined to get it in the right direction and I wouldn't bet against them. But I am qualified to talk about the Inner Harbor East and Harbor Point. We've had a presence there since 1995. We've built what approaches $1.5 billion worth of real estate over the last quarter century. I can tell you that the 7 hotels that we've built, including the Four Seasons in the headquarters Marriott, are all growing on a rev par basis. I can tell you that the over a million square feet of office space that we built commands the highest rents and has the least amount of vacancy in the entire region. I can tell you that the 4 apartment buildings that we've built are stabilized, full, growing and renewal rates are approaching $3.00 a square foot. We feel very good about what's going on there at the Inner Harbor and Harbor Point. We intend to keep building it out. 25 years of growth we think establishes a really nice trend and we intend to be a part of that trend over the long haul.

James Colin Feldman
Would you bring in capital partners though to hedge your interest a little bit? Or no, you think this will all be 100% owned as you grow?

Louis S. Haddad
Right now, it's 100% owned. And again, if it's advantageous to us, we can bring in a capital partner. A lot will depend on the pace of the remaining pieces of the puzzle to develop with our partner there. But with the way things are trading there, I don't think it will be much of an issue to bring in a partner. It's just a matter of whether we want to give up some of the upside. But like I said, we've seen it over the last 25 years, we don't see it stopping. We're seeing great activity on the Wills Wharf project that we're building now and we know that there is a few large tenants looking to relocate in the market in future buildings. The only thing that gives me a little bit of concern is that a lot of other people including Avalon Bay have discovered this gem and I'm concerned about people piling in more multifamily. But I believe our location trumps pretty much anything out there.

James Colin Feldman
I appreciate your comments at the beginning of the call just about the hires you've done lately. Can you just talk more about whether the COO or some of the other hires, what will they be focused on? And then as you think about kind of the next, I know you said the management team will in place for 5 years, but as you think about even longer, do you envision this being a much larger company? Kind of what's the vision here?

Louis S. Haddad
Good question, Jamie. Our initial vision when we became public 6 years ago was that if we did what we had been doing for the previous 3 decades and we stuck to our knitting, are honest with people and stayed as real estate people as opposed to REIT people, we could take that $300 million market cap and turn it into $1 billion in a 6 to 8-year period. And we were able to achieve that and still retain our position as the largest shareholder. Our goal incrementally is that we go from $1 billion to $2 billion. And we need some additional help in order to do that. We've got that externally in that we've got some great development partners that we're now in league with. And internally we felt that we needed some more REIT experience which we've added, and we need more management experience. We hope to have a press release out soon on our COO who is going to be more inwardly focused. He's a management expert. As far as the rest of us being around for 5 years, I wouldn't put a period on the end of that. I meant to say at least 5 years and hopefully it's going to be many more than that given good health. We're having a lot of fun, the market has been good to us, and we intend on keeping it going and making this team bigger and better. We've won several awards as Best Place to Work both on a state level as well as a local level. And it's all systems are go and feeling really good about the future. But I appreciate the comment, Jamie.

Operator
Thank you. At this time, I would like to turn the call back over to Mr. Haddad for closing comments.

Louis S. Haddad
Thanks, everybody. We really 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
Thank you, this does conclude today's teleconference. You may disconnect your lines at this time and have a great day.