November 2, 2023

Armada Hoffler Properties, Inc. (AHH)

Q3 2023 Earnings Call

Operator

Good morning, ladies and gentlemen. And welcome to the Armada Hoffler third quarter 2023 Earnings Call.

(Operator Instructions)

This call is being recorded on Thursday November 2, 2023.

I would now like to turn the conference over to Chelsea Forrest.

Please go ahead.

Chelsea Forrest

Good morning, and thank you for joining Armada Hoffler's third quarter 2023 earnings conference call and webcast.

On the call this morning, in addition to myself, is Lou Haddad, CEO; Matthew Barnes-Smith, CFO; and Shawn Tibbetts, COO.

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

A replay of the call will be available shortly after the conclusion of the call through December 2, 2023. 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 November 2, 2023, and will not be updated subsequent to this initial earnings call.

During this call we may make forward-looking statements, including statements related to the future performance of our portfolio, our development pipeline, the impact of acquisitions and dispositions, our mezzanine program, our construction business, our liquidity position, our portfolio performance and financing activities as well as comments on our guidance and outlook. Listeners are cautioned that any forward-looking statements are based upon management's beliefs, assumptions and expectations, taking into account information that is currently available.

These beliefs, assumptions and expectations may change as a result of possible events or factors, not all of which are known and 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 that we distributed this morning and the risk factors disclosed in the 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 armadahoffler.com.

I'll now turn the call over to Lou.

Lou Haddad

Thanks, Chelsea. Good morning, everyone. And thank you for joining us.

Today we reported normalized FFO for the third quarter of $0.31 per share. In line with our expectations and consistent with our full year guidance. As you can see from our press release, the portfolio continues to deliver positive growth in same-store operating income and re-leasing spreads while maintaining company-wide occupancy in the high 90s.

We continue to prove that best-in-market properties yield impressive results in most any economic climate. Shawn and Matt will give you the details on the quarter as well as the current state of operations and financial metrics. I'll take a few minutes to highlight just a few examples of the key advantages to having a diversified business model. Well, there is maybe at the mercy of their particular sector and whether it's externally under pressure or out of favor. Our ability to adapt to changing market conditions across asset classes and business lines, gives us the unique ability to preserve earnings growth while making the right real estate decision for the long-term health of any given property versus accepting substandard outcomes in the name of preserving short-term earnings.

As case in point, we, like all landlords who hold leases with WeWork have been asked to take substantial rent reductions in order to preserve their lease commitments. As you may know, we have 2 leases with this tenant in the total portfolio at the Interlock in West Midtown Atlanta, and One City Center in Durham, North Carolina. Both are new trophy class mixed-use buildings and vibrant urban walkable locations. We have no interest in impairing either of these prime assets for the below-market lease and are very comfortable with prospects for backfill, should we choose to reclaim the space. We're always willing to help our tenants who, despite good faith efforts may be going through a rough patch. That's just good business.

However, we will not compromise superior locations with low-yielding material leases in either office or retail assets. Due to the strength of the vast majority of our holdings as well as our Construction and Development division, we are comfortable to assert that full year 2023

guidance remains unchanged and that we expect continued earnings and dividend growth next year, irrespective of the WeWork outcome or that of a handful of other smaller tenant challenges we face within a few assets. Shawn will give you an update on the robust leasing activity we are seeing across the portfolio in a small amount of vacancy that we possess.

The second area that diversity yields significant advantages versus narrowly focused companies is that of finance. Through a decades-long successful track record in multiple business lines, we've achieved a BBB credit rating and have accrued a large and growing stable of banks that continue to extend additional credit to us. At a time when lenders are shying away from most commercial real estate, we continue to receive increasing commitments, and we are successfully mitigating future risks through derivative purchases.

The end result of which is that we've been able to continue our development activities, initiate the $50 million share repurchase program, and lock in relatively low interest rates on all portfolio debt for the next 2 years. Matt will fill you in on the details of these transactions. Yet another major benefit comes from our construction and development operations with third-party fee income at all-time highs and an elevated level of backlog, our expectation is for 2023 to be our most profitable year ever and we expect similar results in 2024.

These earnings allow us to further flexibility and dealing proactively with potential issues elsewhere without endangering profit growth. Additionally, we expect development activities at our 2 Harbor Point joint ventures to give us a significant source of capital to reduce leverage once they are completed in about a year. This will be especially important as equity prices remain suppressed for the longer term.

Shawn will give you an update on that progress as well as the strong pre-leasing activity occurring at Southern Post. For years, we have been describing the advantages of our business model, vertical integration of the development process, asset class diversification, mixed-use environments and best-in-class properties are all important factors in our platform as well as our value proposition.

While we understand some investors focus on single asset class REITs, our ability to dominate submarkets with multi-use projects is its own unique advantage. This approach to real estate, 44 years in the making, has produced substantial growth over the last 10 years despite the challenges of the pandemic and the current disfavor of the commercial real estate sector, which has impacted property values consequently reducing our multiple and undervaluing our equity.

While this can be viewed as respectable performance by many, it's by no means satisfactory to us. Our goal remains to demonstrate the true worth of superior assets, both property and human, and return the equity value to its previous highs and regardless of the macro environment, while providing solid interim returns to a safe and growing dividend. Before we intend to continue adding to earnings and dividends in 2024 as we wait for the market to recognize superior outperformance.

For the next – over the next 1 to 2 years, in addition to continuing measurable growth, we intend to make strategic moves that should further separate our trajectory versus that of our peers as well as reinforce the flexibility, resiliency and foundational strength of our diversified platform. I'll now turn the call over to Shawn to review the operating metrics.

Shawn Tibbetts

Thank you, Lou. We, at Armada Hoffler remain highly focused on running our playbook by developing high-quality real estate, safely and efficiently constructing buildings, all while operating and managing the stabilized properties with intentionality and purpose. The combination of disciplined execution in accordance with our corporate values serves as the foundation of the Armada Hoffler value creation model. The supplemental package contains a recap of our operating highlights. I would like to call out a few of the noteworthy metrics that are contributing to our continued growth and sustained high occupancy across the portfolio.

Quarter three, year-over-year same-store NOI was positive in all segments and was 4.4% on a GAAP basis and 5.9% on a cash basis. Quarter three year-over-year re-leasing spreads on the commercial portfolio were positive 14.5% on a GAAP basis and 4.9% on a cash basis. Leasing activity was robust during the third quarter. We executed leases on over 120,000 square feet within the stabilized commercial portfolio. It's important to note that less than 3% of our 6.2 million square feet of commercial space is currently vacant, 58% of which has active deals being contemplated.

Our multifamily portfolio continues to perform in a consistent and sustainable manner as a result of the trophy quality and superior location of the assets. Our team continues to grow NOI at a mid-single-digit pace. We intend to replicate this optimal performance as our footprint expands throughout the Southeast over time. The retail portfolio is also outperforming at 98.1% occupancy. As I mentioned earlier in the call, retail has been very active over the past few quarters with continued levels of elevated leasing activity throughout our 4 million square foot portfolio.

Tomorrow, LEGO will hold a grand opening celebration for their new store at our flagship Town Center location. We are capitalizing on this high-profile momentum and are currently in discussions with other credit tenants for space within our Town Center eco system. Although not consistent with the broader narrative, our office portfolio continues to remain highly leased and occupied. In terms of additional leasing activity, we continue to experience strong demand for our trophy office product in the submarkets within our geographic footprint. This flight to quality is tangible in terms of both the occupancy of our buildings and the rents that are collected ultimately adding significant value despite headwinds present in the broader market.

The percentage of office leased sits at 96.1%. Led by Town Center office at 98.9% of the nearly 800,000 square feet. Our tenant watch list has remained consistent over the past few quarters. Lou touched on WeWork earlier, so I will focus on other notable inclusions. The former Bed Bath & Beyond in Durham has also remained top of mind and discussions with a short list of suitors for that space are progressing.

As mentioned last quarter, in the Virginia Beach location, we have used the opportunity cost equation to narrow the programmatic options to best fit our strategy. We are very pleased that out of the over 700 tenants in our portfolio, only 11 are on watch list status. At Harbor Point in Baltimore, we continue to make significant progress toward completion of the T. Rowe Price global headquarters, scheduled to be delivered in the third quarter of 2024. Additionally, Allied, the 312-unit luxury apartment project will be integrated into the Harbor Point ecosystem and delivered in a similar timeframe.

We couldn't be more excited to realize the benefit of completion of these projects. In Roswell, Georgia, we are making significant progress toward completion of the Southern Post mixed use project. 68% of the commercial space is now leased or under LOI with a roster of high-end experiential dining and retail offerings as well as high-credit corporate office tenants and well above pro forma rents. Additionally, the 137-unit multifamily project at Southern Post, Chandler Residences, is already seeing strong demand with a prospect list of over 500 people. These high-quality units are positioned at the high end of the submarket and are expected to be put in service beginning February 2024.

Our construction team is focused on delivering high-quality real estate that will significantly expand our portfolio, thereby serving the long-term strategy of our company and, therefore, our shareholders. We have a robust third-party contracted backlog that is currently over $500 million and our shadow pipeline looks robust.

Our portfolio of preferred equity investments is progressing nicely and we anticipate payoff of these positions according to plan. As discussed previously our partners are best-in-class in the residential space. And we, if given the opportunity, would love to own one of those assets at the appropriate price, especially given their proximity to our target markets in the Southeast.

I will now turn the call over to Matt.

Matthew Barnes-Smith

Good morning, and thank you, Shawn. The team continues to perform extraordinarily well even against the adverse backdrop on the broader macro economy. For the third quarter of 2023, we recorded FFO of $0.31 per diluted share and normalized FFO of $0.31 per diluted share, in line with both guidance and analyst consensus. We maintained our guidance range accordingly at normalized FFO of $1.23 to $1.27 per diluted share.

Our stabilized leverage metric was 6.2x this quarter, which is slightly above our target range due to the debt incurred in connection with our acquisition of the Interlock asset earlier this year. When our ancillary debt is included, leverage is 7.1x consistent with last quarter. As articulated on the previous earnings call, this metric will temporarily increase over the next few periods until the assets in our development pipeline start producing cash flow. The leverage is anticipated to decrease back into our target range as EBITDA continues to grow. Our debt service coverage ratio and fixed charge coverage ratio were 2.5x and 2.2x, respectively, with our weighted average cost of debt maintaining its level just above 4% for the quarter. The team's continued ability to manage and execute our balance sheet strategy and these adverse market conditions will yield benefits far past this economic cycle.

Our liquidity position continues to be strong at roughly $190 million, more than ample to cover the 2023 cash requirements for our remaining development pipeline and our preferred equity investments. This, combined with our well-structured debt maturity ladder means that we can adequately support the team in achieving our portfolio growth objectives.

On the call last quarter, I discussed our 2024 derivative maturities and indicated that we would monitor the environment to ensure we either convert the variable rate debt to long-term fixed-rate debt in the private placement market or layer in new hedge positions when our current set of positions mature. With interest rates expected to be higher for longer, we moved ahead and

replace the derivatives that were expiring in the last quarter of this year and the first quarter of next year. With the intent to maintain that our debt is close to 100% fixed or hedged in the short term.

Our intent is to continually mitigate the risk of rising interest rates in the most efficient manner. To that end, we also entered into 2 short-term swap locks on our portion of the construction debt associated with our joint venture partnerships in Harbor Point. As we mentioned earlier, we may look to exit our positions in these assets at the appropriate time. As you will all recall, in June, our Board of Directors authorized a share repurchase program. In late September, we took advantage of market conditions and initiated the program purchasing back our daily allowable limit for a 7-day period.

During this time, we purchased back a total of nearly 600,000 shares of common stock at a weighted gross average price in the low $10 range. Given the increased uncertainty in capital markets, we intend to continue to monitor the program against market conditions. Whilst our conservative posture is biased towards capital preservation, we appreciate our Board of Directors authorizing this tool to use our discretion. I will now pass the call back over to Shawn.

Shawn Tibbetts

Thanks, Matt. Finally, thank you to our talented team at Armada Hoffler. It is a pleasure to work with a group of individuals who are harnessing the power of a team to continuously create value for our shareholders. On behalf of our Board of Directors and the executive leadership team, we appreciate your focus and attention to detail that ultimately results in quality real estate that is poised to produce value for decades to come. Thank you for all that you do.

Operator, we are ready for the question-and-answer session.

QUESTION & ANSWER:

Operator

(Operator Instructions)

Our first question comes from Rob Stevenson from Janney.

Rob Stevenson

You talked a little bit about WeWork. Are they still current on their rent?

Lou Haddad

As of current -- as of now, Rob, but we're -- our expectation is that there is -- they're going to be asking for concessions. And as I said earlier, we're just not interested in preserving that lease in those locations with the amount of activity that we're seeing.

Rob Stevenson

I mean is there any value to you guys? I mean you guys are -- have done this in the past, but is there any value to letting WeWork play out through bankruptcy, which is in the news that, that's coming pretty quickly here and be thrown into the unsecured pit. Or do you just go to them now ahead of that, let them out of the leases and get the space back now so that you don't have to wait months and months and months for that to play out and just move on?

Lou Haddad

There is value in that, Rob. It's difficult to say. It's a very fluid situation with them, as you might expect. It's difficult to say if that's going to be possible in the amount of time between now and when we believe that they'll file. In any respect, assuming that they continue to operate, then they will continue to owe rent irrespective of bank proceedings.

So, as I said earlier, we're going to make the right move for those properties. There are strong properties in great locations and irrespective of whatever turns out with WeWork our expectation is for growth next year.

Shawn Tibbetts

I'll add. It may not be a one-size-fits-all for the locations, Rob, right? So to Lou's point, we're looking at this property by property. So a dynamic situation, and we're all over it.

Rob Stevenson

Okay. I mean is there an option for you guys directly or with some sort of local partner in those two markets, if you get that space back to continue to operate the built-out space as co-working? Or is it likely to just be all ripped out and re-leased as normal straight-out office to multiple tenants?

Lou Haddad

Both options are on the table. However, I don't believe that there's going to be a rip out option. They're really well appointed. And frankly, there -- doesn't seem to be anything wrong with the co-working model. I think the problem is unique to WeWork or maybe there's a couple of others, but there are several other operators, a couple of which are in our buildings that are doing just fine.

So, we'll see. There may be an opportunity to just keep going business as usual on the co-working side, but there's also some nice tenants in the market that are looking for trophy space. So, in any respect, we're confident of the outcome on the other side of this thing.

Rob Stevenson

Okay. And Shawn, I think you said the construction company shadow pipeline is robust. How much of that is Armada Hoffler business versus stuff for other parties?

Shawn Tibbetts

Yes. So what we're referring to in the shadow is the third-party piece. So, 100% of what I mentioned would be third party. We're still seeing activity out there. Obviously it's not at the same level that it was 2 years ago, for instance. But we feel comfortable maintaining that strong pipeline on a go forward, at least in the short run.

Rob Stevenson

Okay. And are any new developments, even multifamily making sense for you guys to put shovels in the ground at this point given the cost of capital? Or are you waiting to see what '24 brings before making those types of decisions?

Lou Haddad

Yes. Thanks for the question, Rob. As you might expect, we're seeing countless opportunities as smaller developers and landowners are looking for any way to get their potential projects off the ground. As you might expect, we've raised the bar considerably. So unless something is yielding in the high single or low double-digit range we're not going to be pulling the trigger anytime soon.

We're comfortable with the avenues we have for growth for next year. So I think the prudent thing is to sit tight but for a tremendous opportunity that you just don't want to pass up.

Rob Stevenson

Okay. And then last one for me. I think you guys touched a little bit on some of the re-tenanting and redevelopment plays in the portfolio. It sounded like that the Durham Bed Bath is just going to be re-tenanted, but the Virginia Beach one in terms of narrowing the options, is that is -- a whole scale redevelopment some other use for that space, whether it be apartments or something else still on the table there? Or is that just basically a re-tenant and it's a question of whether or not it's broken up into multiple parcel -- multiple tenants or just one at that size, et cetera?

Lou Haddad

Yes. Two different things there. As you know, part of that -- the total parcel of 10 acres with the Bed Bath piece being roughly half or a little bit over half of that, the other being Regal Cinema. Regal Cinema continues to go -- and if that -- at some point, if that becomes available, that would probably be a multifamily portion. But right now, the program is on the Bed Bath site, and we're dealing with a few high-end new-to-market retailers that we'd like hope to be announcing in the next quarter or so. But that will be essentially retail. And whether or not there's any reuse of the box that's there remains to be seen.

Rob Stevenson

Okay. And what about the movie theater outparcel that you were thinking about doing multifamily on? I think is it James Madison? Is that still on the drawing board? Is that just going to be a movie theater?

How is that -- what are you guys thinking about that at the moment?

Lou Haddad

Well, again Regal is going to take advantage of their remaining options. They seem to be doing just fine. As far as the multifamily piece of that, it's victim right now to what we were just talking about, Rob, and that return doesn't justify us throwing another $40 million or $50 million out there. So we'll most probably just sit back and collect coupons for the foreseeable future.

Rob Stevenson

Okay. And then I guess I lied, one -- just one other one. On the mezz portfolio, anything sort of penciling out? And where do returns need to be for you guys to start or to fund a completely new project there with your partners today?

Lou Haddad

So again as you might expect, that bar has been raised as well. And so with our partners unless they have healthy, high single-digit returns that we see in their pro forma that gives us the room to deploy our equity. And ultimately, if we can bring the project on balance sheet then they are going to get funded. Now put that in the same boat with what I was saying earlier that there is a ton of opportunities out there. It's just with rates where they are and costs where they are, the vast majority of them need to stay on the drawing board and not in our portfolio.

Operator

The next question comes from Peter Abramowitz from Jefferies.

Peter Abramowitz

I appreciate the comments on potentially the yield you're hoping for on multifamily developments. I guess I want to ask a similar question on the retail side, if you're seeing anything in the acquisition market and what kind of yields or IRRs would entice you right now and then whether or not you're seeing those?

Lou Haddad

Hi Peter. So, cap rates have widened a bit but the kinds of retail that we'd be willing to transact on are essentially high credit and well-located grocery stores. Those cap rates have moved somewhat. But as you know, unfortunately, our cost of capital has moved materially as well. So there is probably a little bit of spread to be gotten if we were to transact there.

But right now, we're more interested in capital preservation of making sure that we can continue some growth internally as well as raising the dividend and not marginally looking at new acquisitions. Again, much like on the development side, if something appears in one of our target markets that's just too good to pass up or has a redevelopment opportunity or additional value add we can do then you may see us transact. But as far as real solid grocery-anchored shopping centers of the sort that we already own, I don't think you'll see us be a player.

Peter Abramowitz

Got it. And then you've talked about potentially monetizing the T. Rowe headquarters. Just wondering if you've seen any relevant transaction comps in any of your markets for that type of office product and kind of how it impacts your thinking in terms of potentially doing a deal there?

Lou Haddad

Again, thanks for the question. It's interesting. There aren't any transactions of trophy quality building that we see out there. I'd say there aren't any. Maybe there's 1 or 2 somewhere.

But largely, anybody with the kind of assets that those represent is not trying to transact right now. It's absolutely the worst time. So for us, the -- obviously the fond hope is that 18 months from now, things have normalized a bit to where you can get real value out of that type of asset. In alternative, I don't discount the idea that should our cost of capital go in the right direction and the equity price go in the right direction, we may well bring those things on balance sheet. But right now, we wanted to make sure everybody understood, if push comes to shove, that's a great assets to bring cash back on the balance sheet.

Peter Abramowitz

Got it. And then last one for me. You've had some elevated growth on the real estate tax side, particularly multifamily, a little bit on office as well this year. Are you contesting any of those that could potentially be a tailwind for expenses in future quarters? And just kind of how should we think about growth in real estate taxes generally?

Shawn Tibbetts

I think the industry should be thinking about that generally. But yes, we are contesting nearly all of them. I mean it is our practice to assess them one by one and try to make sense of where we should apply our efforts. We have a good third-party vendor that assist us in that regard, and we've had a lot of success there. So obviously municipalities are different up and down the Mideast, Mid-Atlantic coast, down throughout the Southeast.

But yes, we push back on those often and early and have seen relatively good success there. So we plan to continue to do that. Obviously we can't control the macro environment and we -- it's something to watch for, it's something we're focused on.

Operator

Our next question comes from Wes Golladay from Baird.

Wes Golladay

Can you talk about the leasing environment in multifamily. A lot of the peers had some tough quarters and tough outlooks, whether it's supply pressure or fraud. Are you seeing any of that?

Lou Haddad

I'm going to let Shawn answer that specifically. But we are seeing things normalize. People got used to double-digit growth quarter-over-quarter for a while there. We're seeing it normalize back into the mid-single digits. Shawn, are you can be specifics on that?

Shawn Tibbetts

Yes. I think Lou hit the nail on the head. We've been saying for multiple quarters now. We think things go back to the mid-single digits, which they are and that's what we forecast and that's where we sit. Our trade-outs in quarter three were around 4% across the board, which is good.

It's about where we thought we would be. And I think for us, our view is let's maintain high-quality trophy assets, let's be in the best locations, as you know, that's part of our formula, and there's a flight-to-quality happening, especially when the pressure turns on. I think generally speaking, we see strength continued, again maybe not double-digit growth, but we're feeling good about our location, we're feeling good about our product, and our team is doing a heck of a job managing set of products. So we're comfortable with what we've underwritten.

Wes Golladay

Yes. I think a lot of people would take growth at this point. Turning to the 11 tenants that are on the watch list, is there any way to quantify that as a percentage of ABR?

Shawn Tibbetts

I'm glad you asked the question. We did some work on that, hoping someone would ask that question. So Lou talked about WeWork, let's talk about it net of WeWork because that's a separate situation. Essentially, the total ABR is about $2.5 million. So, for us, that's obviously over the 11 tenants, we can handle that.

We can manage that. We'll see some successes there. And certainly, some folks may not make it. However, as I indicated, a significant majority of those spaces, at least the vacant spaces have the opportunity to kind of take up that slack. So we're excited about the activity, both in the retail and the office, frankly, in our submarkets, and we feel good about being able to stabilize that if, in fact, it becomes an issue.

Wes Golladay

And maybe just a little bit more context, when you look at the 11 tenants on the watch list, is that about normal for the portfolio, I guess adjusted for the current size versus the prior years? Is it worse? Or is it better? Just some context on you are having 11 on the watch list.

Shawn Tibbetts

I think we're pretty consistent with where we have been over the past few years. Certainly, folks come and go. Obviously we took the Bed Bath numbers out of our numbers, it's already removed. So we're looking at tenants that on an individual basis or not consequential. But yes, I think in terms of the number, in terms of the size and the magnitude, that's about where we are.

And frankly, that's about where we should be.

Lou Haddad

Yes. Wesley, just to follow up on that. The total value there is in line with what we reserve for bad debt on an annual basis. So it's really not an issue there. And as I said much earlier, we're going to make the right real estate decision. We're just not interested in folks limping along at paying half rent. So hopefully, things will look up for those tenants. And if not, we'll be moving on.

Operator

Our next question comes from Camille Bonnel from Bank of America.

Camille Bonnel

Just one follow-up on an earlier question. Can you expand a bit more on the new versus existing renter dynamics in your multifamily portfolio? And was the decline in occupancy this quarter more seasonal in nature? Or are you starting to see any changes in behavior there?

Lou Haddad

Yes, Camille, again I'll let Shawn answer that specifically, but I do want to mention and part of the other side of the coin, we talk about our 98%, 99% occupancy across the portfolio. We fully expect that, over time, that we'll be back in the mid-90s that those kinds of rates just aren't sustainable just because of the inflow and outflow of tenants. So in terms of the decrease in occupancy in multifamily, somewhat is seasonal. But at the same time, we are not we are not programming in 98% leased for next year. We believe that things will go back to the center line.

And again of course the trade-off is how much we were able to boost rents versus keeping the higher occupancy. Shawn?

Shawn Tibbetts

Yes. I think to add to that, the income is up, right, on an aggregate basis. And to Lou's point, it's very difficult to maintain 98%, 97% in some extend it's inefficient in some ways to maintain that occupancy. We use -- we take the emotion out and we use rent optimization software. And essentially, we are driving to the mid-90s in terms of occupancy, obviously with an eye toward enhancing the NOI.

We're seeing the NOI continue to climb. The occupancy did dip. We would love to have that extra 1% back. We're looking for ways to do that. But I think we're pretty healthy now, and there's the supply/demand kind of balance to ensure that we're running the property as efficiently and frankly, as profitably as we can.

So I think we feel comfortable here. We haven't really seen a dynamic shift other than a market macro. But again you heard me say a second ago, we're nearly 4% on trade out still in the last

quarter, and that's above where we were in the comparative quarter previously. So we feel good about the continued growth.

Camille Bonnel

Actually, just one follow-up on that point. You said you're using AI to help drive the pricing. I guess of that platform, how much of the like inputs are you -- like do you have control over? Or is this outsourced?

Shawn Tibbetts

We use a third-party platform. We can control kind of our desired occupancy level, and it uses market inputs that we do not control that are organic, what's happening in the broader market, broader submarket to be more specific to kind of enhance where does the pricing need to be to hit this occupancy target. We can certainly ratchet that up, but I would imagine there's going to be a trade-off at some inflection point in this current market environment between what rent you can achieve and what occupancy you can achieve. And we feel like in the mid-90s is where we want to shoot for. We do run sensitivity on that.

We're taking a look at that now and trying to understand what's the best kind of mousetrap -- how to best set the mousetrap, maybe it's a better way to say it.

Operator

There appear to be no further questions. I'll return the conference back to the speakers.

Lou Haddad

Thanks very much for your time and attention this morning. We will -- we hope to have further announcements between now and the end of the year, and everybody, have a great day. Take care.

Operator

This does conclude today's conference call. Thank you for participating. You may all now disconnect your lines.