November 2, 2021

Armada Hoffler Properties, Inc. (AHH)

Q3 2021 Earnings Call

Operator
Welcome to Armada Hoffler's third quarter 2021 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, November 2nd, 2021.

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

Please go ahead.

Mike O'Hara
Good morning and thank you for joining Armada Hoffler's third quarter 2021 earnings conference call and webcast. On the call this morning, in addition to myself, is Lou Haddad, CEO.

The press release announcing our third 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 December 2nd, 2021. 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 2nd, 2021 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 liquidity position, 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, particularly in light of the COVID-19 pandemic and any related economic uncertainty. 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 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 Mike. And thank all of you for joining us today.

As you could see from this morning's earnings release, the positive momentum of the company continues to accelerate. Leasing activity across all sectors of our portfolio is at the highest velocity we've seen in years and occupancy in our stabilized assets stands at over 96%. The development pipeline is well-stocked and proceeding rapidly, significant, off-market acquisition opportunities are on the horizon, third-party construction engagements are shaping up to become high volume contracts later this year, and most

importantly, we are in a strong cash position with access to additional capital from the potential disposition of non-core assets.

All these factors have combined to enable us to again raise our full year guidance. And, as you saw from last week's press release, the Board raised the dividend for the third time this year. This performance, as well as other opportunities arising in the near term, give us confidence that the company's metrics will support an equity value at pre-pandemic levels in the not-too-distant future.

As most of you know, ours is a diversified, vertically integrated model. This platform has served us well through 40+ years and virtually every macro-economic condition. While it has been instrumental in limiting the downside from the 5 recessions we've navigated in that timeframe, it is times like these, when opportunities abound in virtually every sector of our business, that our company truly shows its value. In particular, mixed-use, planned development, which constitutes a large portion of our portfolio, have shown sustained growth coming out of each of the last several recessions. Environments where customers can live, work, shop, dine and be entertained without moving a vehicle, continue to outpace surrounding assets, and provide people with the occupational flexibility that so many desire coming out of the pandemic. Our public-private partnerships, most notably the Virginia Beach Town Center and Baltimore's Harbor Point continue to thrive and expand.

Let's briefly discuss each component of our business model and the activity we're experiencing in each of them.

Apartment leasing and occupancy continue exceed all reasonable expectations. Our 2300 conventional multi-family units are now over 97% occupied. The Same store NOI increase of 12% on these properties only begins to tell the story of the desirability of these assets and their locations. Rent increases in new leases signed in the 3rd quarter averaged over 9%. With the continued migration to high-value properties in the sought-after markets of the mid-Atlantic, coupled with a shortage of housing, our expectation is that 2022 will be another strong year for these assets.

Retail leasing tells a similar story. Last quarter we reported that our expectation was that retail space percentage leased would be back in its traditional mid-ninety's by early next year. That target has already been achieved, and we expect further gains in 2022. Since our last update, we have leased nearly 45,000 square feet. Several new retailers are on their way to our flagship property, the Town Center of Virginia Beach, led by a new retail concept that is the first in the region. It's important to note that many of our tenants who report monthly sales eclipsed comparable 2019 sales through the summer; several of those report that they set all-time records for the period, further supporting our thesis regarding the growth potential of high-quality assets in mixed-use environments.

As the new tenants occupy and begin to pay rent, we expect the retail portfolio will eclipse pre-pandemic same store NOI levels sometime early next year. As we have said on numerous occasions, there is no substitute for well-located real estate regardless of the asset class.

Moving on to office, as most of you know, our stabilized office portfolio is essentially fully occupied at nearly 97% and we have very little in the way of lease expirations next year. The first material expiration is the 46,000 square foot lease expiring at the Thames Street office building in April of 2023. We already have a handful of prospects and expect to seamlessly backfill the space in relatively short order. The only meaningful current vacancy is at Wills Wharf, the office building in lease up that we delivered at Baltimore's Harbor Point at the outset of the pandemic. Last quarter we reported that tenant activity was starting to resume as covid

restrictions lifted. We announced two substantial leases with Transamerica and RBC. Today, we are pleased to announce that Morgan-Stanley Wealth Management has leased 35,000 square feet in the building. This brings Wills Wharf to 70% leased with good prospects for the remaining space. We hope to announce further leasing later this year. You may recall that we terminated the 70,000 square foot lease with WeWork prior to opening the building. Since then, we have backfilled that space with TransAmerica and Morgan Stanley with better than the previous financial terms and better credit. We believe that this activity, along with the commitment from T. Rowe Price to adjacently locate their world headquarters, confirms Harbor Point, a true mixed-use master planned community, as the premier relocation destination in the region for top tenants. These developments, along with the continued strength at our Town Center office locations are further evidence of the view we maintain; that quality tenants in secondary markets will continue to seek out top quality buildings in prime locations with access to residences and services. It's been our experience that vibrant mixed-use environments will continue to sustain office occupancy over the long term.

Although the full impact on earnings of new office and retail leases as well as the robust rise in multi-family rents, won't be fully reflected until well into 2022, we are very encouraged by the trajectory of our portfolio.

Turning to development, we continue to execute on our $470 million pipeline despite the well-documented supply chain and labor challenges. This circumstance emphasizes the considerable advantages of having in-house development and general contracting capability as well as seasoned joint-venture development partners. By way of example, the two multi-family projects currently underway remain on their budgets and ahead of their scheduled delivery dates. In fact, current projections have both projects delivering about 30 days earlier than previously committed. Solis Gainesville began pre-leasing last month and the first move-ins are scheduled for January.

At Chronicle Mill, delivery has been accelerated to late summer of 2022. Based on the activity in these submarkets, we anticipate faster than normal lease-up at both facilities. These assets, when combined with our new apartment development in Harrisonburg, Virginia that will commence next spring, will soon add some 700 units to our traditional multi-family portfolio, bringing the total count to over 3,000 units. Additionally, we have development control and optionality with respect to our Town Center Regal property, another prime apartment site. We believe that this sector of our platform alone has a value of over a billion dollars. We also believe that investors will ultimately reap tremendous growth and value from this very significant portion of our diversified business model.

This leads me to our 3 student housing properties. As we have said on several occasions, we view these assets as non-core, and they will ultimately be used as a ready source of inexpensive capital to fund development and acquisition opportunities. Occupancy at these properties was significantly impacted during covid and thus we don't expect full re-stabilization to occur for at least another school year. That said, the assets are now over 97% occupied albeit at lower than proforma rents. However, given the attractiveness of today's cap rates, we have opted to transact on these properties and ultimately exit this category.

Our expectation is that the Johns Hopkins facility will be sold later this month. The two College of Charleston assets are on the market, and we would expect to transact early next year. Collectively, we expect a modest gain in total. More importantly, we expect to recycle this significant amount of capital in better yielding, higher growth opportunities that we have identified and intend to transact on in the near future.

The balance of the announced development pipeline, the mixed-use Southern Post in Roswell, Georgia, and the joint ventures at Harbor Point on the Baltimore waterfront continue on track to break ground around year end. In addition to the T. Rowe Price world headquarters, the program for the companion building is

substantially settled. This building will feature 300 apartments, 15,000 square feet of retail space and 1300 parking spaces.

Though the pipeline is robust, as I previously mentioned, we continue to receive many new prospective engagements. The amount of activity in our markets, coupled with our 40 year track record, have yielded many more opportunities for high- value projects across our diversified platform. We will continue to evaluate these for selective inclusion in our pre-development process.
This brings me to our construction company. As most of you know, this division of our company primarily serves to lower costs and shorten schedules on our development properties. That said, the division contributes meaningful fee income with third party engagements. It had perhaps it's best year ever in 2020 with $7,700,000 in third party, gross profits. This year, due to a delay in construction starts as many of our clients postponed projects until later in the year, we anticipate ending the year at the low end of our historical range.

Fortunately, all of those anticipated projects are now moving forward. The effect of the delays has simply been to move more work-in-place and therefore profits, into next year. This activity, coupled with new engagements that should be solidified later in the year, will most probably see this division back to the high end of our normal range, if not beyond, in 2022.

As we relayed to you with our guidance presentation from last winter, we believe that 2021 is a year when our activities would substantially increase NAV through our leasing initiatives, improved quality of earnings, exciting development starts, and de-emphasis of the mezzanine program. In short, we anticipate that our execution will build a solid base for higher earnings and dividends over the next few years and ultimately lead to a significant expansion of our earnings multiple. We believe that we are well on the way towards delivering on those goals.

Although there are too many factors that remain unsettled to offer exact guidance for 2022, our expectation is that, with the exception of the mezzanine program as previously stated, virtually all segments of our business will show healthy increases next year. We expect these trends, combined with off-market acquisition opportunities we are targeting should lead to higher earnings next year. As the company's largest active equity holder, management remains committed to generating long-term value for all shareholders.

Mike O'Hara
Thanks Lou.
Good morning. This was another strong quarter for the company. Starting with earnings, FFO was 27 cents per share and Normalized FFO of 26 cents per share.

Our stabilized operating portfolio occupancy for the third quarter was at 96 percent, with office at 97, retail at 95, and multifamily including student housing was at 97. Student housing occupancy is back to pre-pandemic occupancy levels which exceeded our expectations of 92%.

Same store NOI numbers reflect the momentum we are seeing in leasing as Lou discussed. Overall same store NOI was positive 10.5 percent on a GAAP basis and 8.7 percent on a cash basis. Multifamily continues its amazing performance with same store NOI including student housing positive 19 percent on a GAAP and cash basis.

Releasing spreads for the quarter were positive 12.6% on a GAAP basis and 7.5% cash with retail positive 13.3% GAAP and 8.4% cash.

As for office, there was one 1,400 square foot renewal during the quarter and only 5,500 square feet year to date. With an office portfolio of over 1.3 million square feet, this metric is not a true reflection of this segment.

We have seven development projects in various phases of development. Wills Wharf, which is complete with only tenant buildout remaining, two under construction, and four in preconstruction, as is the case of the T Rowe Price headquarters. This building and the associated mixed use project are structured as 50/50 joint ventures. With this structure, both projects will be non-consolidated joint ventures and, therefore, off balance sheet, with the JV also being the construction loan borrower. The current estimate of our equity requirement for the two projects is 60 million dollars but we are expecting this to increase as the design is being finalized.

Our share of the cost of the seven development projects is 467 million. Costs incurred as of September 30th were 184 million, leaving 283 million to complete. We expect to fund this through expected construction loans of 191 million and 92 million through the credit facility. The projects in predevelopment are expected to start construction late this year and early next year, therefore, the cash funding requirements run through the end of 2022.

With our current liquidity position, along the expected proceeds from the JHU student housing sale this month, we will be in a strong liquidity position to fund these projects. In addition, the extended ramp of the cash requirements, together with the strategic use of the ATM program, we are well positioned to fund these activities. As we have demonstrated in the past, we may continue to sell non-core assets, including the potential sale of two Charleston student housing properties to fund our growth.

This past quarter, we refinanced the Thames St office building, which was the largest 2022 maturity. The new loan is for five years, with a fixed interest rate at 2.35%. The other 2022 maturities are 2 shopping center loans totaling 20 million dollars. We intend to pay off these loans and add the properties to the credit facility borrowing base.

Our debt is a mix of fixed and variable interest rates, with 58% fixed and 42% variable. As discussed in the past, we maintain variable rate debt on multiple properties, so we have the option to recycle and sell assets to raise capital when necessary. As you know, once a property has fixed rate debt the prepayment penalties can be punitive and materially affect the property's value. That said, we have a hedging program as insurance if interest rates increase. Currently, we have LIBOR interest caps of 50 basis points for 96% of our variable rate debt. Our average interest rate on all our debt is three percent. Our fixed rate debt has an average maturity of 7 years at an average interest rate of 3.5%.

With the performance of the company including occupancy and leasing activity, we have increased our 2021 guidance for the second consecutive quarter.

Our 2021 normalized FFO per share earnings guidance is raised to $1.05 to $1.07 per share. Please see page 6 the supplemental package for the details of our 2021 guidance ranges and assumptions.

For some insight into 2022, we are expecting Normalized FFO earnings per share to increase due to a combination of higher NOI from 2021 leasing activity during the year, leasing and tenants occupying at Wills Wharf, full year impact of acquisitions, development project deliveries, and higher construction profits.

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

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 handset before entering your request.

Q&A Session

Operator
[Operator Instructions]

Our first question today is coming from Dave Rogers of Baird.

David Rodgers

Lou, Mike, thanks for all the information during the prepared comments. I wanted to ask first about the acquisition pipeline. I think, Lou, both in the press release as well as in your comments, you mentioned several times the off-market pipeline was really growing for you guys. So, I guess the thought there -- or can you give us your thoughts, sorry, regarding kind of that pipeline? How quickly you can close and maybe how deep that is for you guys?

Lou Haddad

Sure. Thanks, Dave. So, as I think everybody knows, we have two property types that lead the way for us. One is our mixed-use assets, particularly in these planned community developments as well as grocery-anchored and discount-anchored shopping centers. Right now, that pipeline is full. I mentioned that we look to be transacting on all 3 of the student housing facilities and redeploy those funds pretty quickly. We're seeing great activity in that Dave. Again, it's a result of being around for a very long time, having a number of people that we've done business with over the years and people wanting to be part of the team. So, our expectation is that between now and the end of the year, you'll see an announcement or two on both the acquisition and disposition front.

David Rodgers

Where is pricing for retail assets, I guess, versus pre-pandemic? And I guess maybe a second one to that is, it doesn't sound like you really need to do 1031, so are you really funding the acquisitions directly with the asset sales? Or should we think about that as somewhat fungible?

Lou Haddad

Yes. I don't think we need to do 1031s with what we're talking about for dispositions. Like I said, most probably, we're looking at a modest gain amongst those 3 properties on the whole. The cap rates for retail as well as you probably all well know, multifamily have compressed meaningfully across the board in terms of high-volume retail centers. I'm not sure what might be happening in malls or power centers, but in the types of assets that we look at, high-volume grocery-anchored centers are at a premium versus pre-pandemic. Even office space, office with long-term leases in desirable locations, those cap rates are compressing as well. So, it's a challenge on one hand and on the other, it's a great opportunity.

David Rodgers

Great. Last for me is, can you update us on -- and maybe this is Mike, I don't know, but maybe the Interlock? Both the asset itself, the progress there, as well as kind of your investment and anticipated payoff there?

Lou Haddad

Yes, I'll start and then Mike can give you a little of the statistics. So, the asset is open and operating. It's doing great particularly on the retail side, great sales. The assets are over 75% leased at this point and so our partners are evaluating right now the best method of maximizing their profits. And that may be a sale sometime in the back half of 2022 in which case, most probably our loan would be outstanding until then. And the other way they might go is to refinance and partially pay us off in order to buy more time to get more stabilization and particularly some trailing data on the parking garage there, which is a huge moneymaker and a big part of the story. So, we suspect that they'll make that call over the next 60 days or so, and then we'll be better able to forecast what it looks like. As you know, we are -- we really can't meaningfully resize that mezzanine program until that loan comes out of it, but our expectation is, one way or another, it's going to be significantly shrunk, if not all the way paid off sometime in 2022.

Operator

Our next question is coming from Rob Stevenson of Janney Montgomery Scott.

Robert Stevenson

Just a follow-up on Dave's question. How -- what are you guys looking at today in terms of incremental mezz investments? I know that you guys want to sort of shrink that business, but are you guys contemplating making some investments in the interim here, especially if you're looking like you're going to get paid back on Interlock? How should we be thinking about as we head into 2022 is the -- how that book of business would either decline if Interlock gets paid off all or part, and you guys' ability to backfill or desire to?

Lou Haddad

Yes, Rob, as we've said in the past, we're targeting -- limiting that program to about $80 million. Obviously, there needs to be some overlap in order to have it be contiguous such that we are now looking at a couple of smaller multifamily projects with partners that we've done business with over and over in the past, and so our expectation is that we'd be deploying some mezzanine money sometime through the first half of 2022. But right now, it appears we'll be able to succeed in getting the program to the size that we like. And again, we still love the program. We chose to downsize it because we wanted to use more of our capital for building NAV in our own properties. But at the same time, given the development expertise, our construction company, and the fees that come out of it, we're going to continue on with the program, albeit at a smaller level.

Robert Stevenson

Okay. When does the new Morgan Stanley lease in Wills Wharf commence? And what will that take your current 3.4% of ABR to with them?

Lou Haddad

It's going to commence until late next year, right?

Mike O’Hara

They just signed the lease, so it's going to be a good 6 months before they're in, and I don't know the calculations on hands on the ABR.

Robert Stevenson

But they will be substantially your largest tenant at that point in time as they already are, right?

Mike O’Hara

Correct.

Lou Haddad

Yes. This is a different group. But yes, so I mean it's a -- obviously, it's the same company, but this is -- we're excited about Morgan Stanley bringing more divisions to our asset for sure.

Robert Stevenson

Okay. And then what are you guys thinking about the Regal space at Columbus Village? Will that stay movie theaters? Will that stay with Regal? Is that a redevelopment play at this point with that lease expiring next month?

Lou Haddad

Yes. Well, we know that it is a redevelopment play, so it's not a question of if but a question of when. And the bigger question there is whether we want to wait, and to wait -- we also get back the Bed Bath parcel, which is adjacent in a little over four years. If we can put those two together, we've got 10 acres for a major multifamily development. So, Rob, we're debating whether it makes sense to go ahead and do a mid-rise next year on the Regal portion or to wait until we get both parcels back.

But I can tell you, we obviously are in a catbird seat in either way. Regal wants to continue operating. It seems like they're doing fine. And so right now, we have a month-to-month lease that either of us can cancel and I think we're just going to let it float like that until we make the call. We are anxious to add to the multifamily totals here at Town Center, and we can do that in one of three sites, the Regal being one of them. And actually, we could do all three, obviously, but the decision will be which one comes first and we just don't have that decision yet.

Robert Stevenson

Okay. And then last one for me. Given your comments about selling the student housing assets and looking at some potential retail acquisitions, how should we be thinking about the way that the -- that you guys and the Board are thinking about the sort of retail office apartment mix going forward today? I mean, pre-COVID, you

guys had a pretty defined targeted goal for where you wanted to take those mixes, especially with the development pipeline delivering, et cetera. Has that at all changed given pricing and what you guys are seeing the opportunity and rebound in retail? Are you willing to go higher percentage than you were 18 months ago in terms of the portfolio mix in retail? Has it not changed at all and it's just how you get there, et cetera? How should we be thinking about that and how you guys are debating that internally?

Lou Haddad

Sure. So, one, I just -- I want to emphasize that we've never been formulaic in our approach, it's been more opportunistic. We put the general guideline out there that we wanted to reduce the percentage of retail which at that time was roughly half of the portfolio. We wanted to bring that back into 1/3 or so and that's still our thinking. But at the same time, every grocer that we deal with is in expansion mode and are showing record sales. So, I wouldn't be opposed and we're actively talking about whether or not we're going to expand that grocery portfolio.

At the same time and I want to emphasize this, we've seen once again -- like I said earlier, this is our fifth recession, we've seen once again how mixed-use assets come through these recessions. And we think it's only going to -- only accelerate now that people are much more conscious about times they spend commuting or in worst case, actually commuting on public transit versus being able to do multiple things with their lives in the same location. So, I'd say, Rob, that we are more focused on additional mixed-use assets both from a development pipeline standpoint as well as an acquisition standpoint. So that should end up yielding the mix roughly in that 1/3, 1/3 and 1/3, but we certainly aren't going to just try and hit a target artificially rather than be opportunistic.

Operator

Our next question is coming from Jamie Feldman of Bank of America.

James Feldman

I was just hoping you could provide some more color just on Baltimore office demand. What do you think in terms of the pipeline, the remaining space you have? And then maybe just more broadly across the different submarkets there?

Lou Haddad

In terms of our remaining space, Jamie, we're looking forward to Wills Wharf leasing effort being concluded here in a fairly short order. What's left is basically two floors in the building. We've got four tenants right now that we're actively engaged with and so our expectation is to have another announcement by the end of the year. If you're familiar at all with that market, you know that the waterfront is where migration is going to. And, in particular, Harbor East as well as Harbor Point, that's going to continue to be healthy. The firms that make Baltimore home want to stay in Baltimore. The city also has considerable effort underway in order to attract more people to the city and if they come, they'll be coming to the waterfront. It's also significant to note, something that happened a couple of quarters ago, that the governor announced that they were going to be bringing 3,300 employees into downtown to take up some of the old CBD space. That's well over 1 million square feet. It's going to be occupied by state employees. While that won't directly affect our development, it certainly helps the entire submarket. So, we're very bullish on Baltimore. And in particular, at Harbor Point, we're looking forward to more office, more retail and more multifamily.

James Feldman

All right. That's helpful. And then as you think across your property types, can you just talk about where you're pushing rents the most? Where you can give the most pricing power? And I guess, you can include the concessions and TIs on the office side.

Lou Haddad

Sure. On the -- well, right now, it's far and away, it's on the multifamily side. Basically, we're -- I think the last report I looked at last week had us at 98% leased. And as I mentioned earlier, averaging a 9% increase over the last quarter in the leases, so that's where you have the most pricing power. Again, in our assets, this isn't -- I assume this isn't nationwide, but in our markets, that's what's on fire. In terms of office, we're seeing good increases in what -- again, we don't have much space available, but for instance, the one vacancy we've got coming up, if you can say that 18 months from now is coming up, we are talking with several tenants and our expectation is that we're going to refill that space at Thames Street office at a fairly significant increase over the current rate.

So again, I don't -- it's probably not the conventional wisdom out there, particularly with folks that are dealing with great gateway cities. But in our markets, the best assets seem to be continuing to attract the top tenants. And if you think about it, it makes sense. If you do need office space -- and I think we all recognize that footprints are going to be somewhat reduced -- but if you're a top tenant that is looking to attract top staff and you do need office space, it's got to be in a good location or else you're going to fall behind. And so that's why we're going to stick with the A locations in the top-quality buildings.

James Feldman

Okay. And then I guess finally for me, so you still have WeWork as your third largest tenant in the supplemental and office. What do you think changes with them going forward in your portfolio? Do you think they shrink over time? Do you think they grow over time? And then do you think they -- just from a competitive perspective, is there some overlap with what you're trying to do for your tenants with what they're trying to do?

Lou Haddad

Again, we've only got one tenant -- one WeWork lease, and that's in Durham, North Carolina. And then as you know, they just went public, and they seem to be doing fine. We think that -- and again, we're not any more present than anybody else. But before the pandemic, people were thinking that high single-digit or low double-digit amount of Class A office space was going to be co-working space. Personally, we believe that once the pandemic, thank God, will be in the rearview mirror whenever that happens, that that percentage probably is true. I think people will continue to look for the flexibility of short-term leases. I think a lot of people that are working from home will want to have an office to go to on occasion. And so, I think it's going to be -- it's going to have a niche in the marketplace. We have another co-working entity here at Town Center that's in about 30,000 square feet, and it's wonderful. They've attracted 4 companies that hopefully -- that are trying to get initialized in the area. And once they do, hopefully, will be a candidate for office space in one of our buildings. So, I think it can work hand in glove. But again, it's just not going to be a major piece of our portfolio. That WeWork lease, as I recall, was a 15-year lease, so it expires sometime in the next decade. So, it's really not on our radar screen.

James Feldman

Okay. You mean you don't want to create some of your own flexible lease products or whatever is in your portfolio you'd rather outsource?

Lou Haddad

Yes, I think we'd rather outsource it, Dave. We -- our model is complicated enough without having to report on how we're doing on a monthly basis with single user tenants. No, that would -- if we continue to add to that, it would be with an operator who does that for a living. But again, I look for it to be in the mid-single digits of any healthy portfolio.

Operator

Our next question is coming from Peter Abramowitz of Jefferies.

Peter Abramowitz

Most of my questions have been asked, but just had one on development here. I noticed you had -- it looks like -- an increase to your investment at Harrisonburg, the multifamily development there. Anything that was driving that? Is there anything related to cost increases? Or is it just kind of a change in the scope and the scale of the project?

Lou Haddad

Yes, Peter. Actually, I appreciate the question, gives us a chance to crow about our team. We've got a -- We got a cracked development team on the multifamily side, and they've been working and working and working and found a way to include a significant number of extra units on the property. And so it's -- what is it, Mike, 40?

Mike O'Hara

Probably about 228 units and 266 units in the current design, Peter.

Lou Haddad

They picked up 38 units there, so we're very excited about that.

Peter Abramowitz

Got it. And any change in how that impacts your development yields? And then any general commentary on how kind of the current environment in terms of cost pressure is impacting your underwriting?

Lou Haddad

Well, obviously, there's cost pressures out there. It's -- and this is another reason why we're so excited about what our team did there because we're adding 38 -- we're adding 15% more units with exactly the same land cost, so it takes the sting out of some of the construction increases. Again, we're not any more present than

anybody else, but what we're seeing seems to be a stabilization, albeit at a high level, starting to stabilize of construction materials and labor. And hopefully, that will hold. I don't know that anything is going to be retreating anytime soon, which again, makes us even more bullish on development because as you know, replacement costs are going to be going through the roof.

Operator

Our next question is coming from Bill Crow of Raymond James.

Bill Crow

I wanted to follow up on Jamie's question about Baltimore. Investors tend to take markets with a broad brush and not necessarily breaking into submarkets. And I think, at best, Baltimore is, I thought, is neutral. And I'm just wondering how much more capital you could see putting into the market?

Lou Haddad

Bill, we intend to fully build out Harbor Point over time and consolidate our investments there. The -- it's very similar to what we're doing in Virginia Beach. I don't think Virginia Beach is on the top 10 list of investment for investors nationwide by any stretch. At the same time, it's an extremely stable historical location, as is Baltimore. It's always going to have a strong tenant base. And if you have the A location with the top assets, they're going to stay full and continue to grow. We've seen that over 20 years here at Town Center of Virginia Beach. We've seen it over the last effectively 20 years at Baltimore's Inner Harbor and we don't have any reason to believe that's not going to continue.

The one caveat I would do -- I would say to that is you've got to be careful about adding too much space because you can't confuse full buildings with more demand coming from the outside. And so fortunately, both at Harbor Point as well as Town Center Virginia Beach, we control the available land, and so there's not going to be a danger of overbuilding for -- we are very good, for instance, right now, we have two tenants that are asking us, as well as the city of Virginia Beach, to launch another high-rise development here at Town Center. We may do it but we're not going to do it until we feel comfortable that the remaining space from -- as opposed to that anchor, is going to be filled at an advantageous rate for us. We have no desire to grow base up in the air only to discount it later. We've been really good and diligent about doing that in the past. We're going to continue doing it here as well as in Baltimore and I think you'll see that those buildings will stay full.

Bill Crow

Could the argument be made though that investing more in Baltimore, in Town Center, you say that there are markets that are off the radar of grid for most investors? Does that necessarily lead to the best cost of capital going forward? The investors may not award you for what you're doing in those markets as much as maybe some other markets or more geographic diversification?

Lou Haddad

Sure. Again, Bill, we want to keep the boat in the middle of the channel and that's why we have strong efforts going on in Charlotte and Raleigh and in Atlanta as well as a couple of others, and so we want to keep that balance. At the same time, we want to take advantage of our strengths and our strengths are these master planned communities where all three asset types feed on one another. The best thing I can say there, and

again, it's my belief more than anything else and it's something that the Board and our Chairman, Dan Hoffler, as well as our executive team all share is that investors are not going to be able to argue with results. And the results are increasing rents, increasing NOI, increasing earnings and increasing dividends. And as long as we can keep that story front and center, I think they will recognize, at least I'd like to think that they will recognize, that we know we're doing in those markets that we're well-versed in.

Operator

Thank you. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Lou Haddad

Everybody, thanks very much for your attention this morning. We hope that you'll take the time to go through our supplemental. We're very proud of our results and what's going on at the company. And we also -- to be back in touch before the end of the year with more exciting announcements. Thanks again and have a great day.

Operator

Ladies and gentlemen, we thank you for your interest in Armada Hoffler properties. You may disconnect your lines to log off the webcast at this time and enjoy the rest of your day.