Feb 11, 2021

Armada Hoffler Properties, Inc. (AHH)

Q4 2020 Earnings Call

Operator

Welcome to Armada Hoffler's fourth quarter 2020 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, February 11th, 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 fourth quarter and full year 2020 earnings conference call and webcast.

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

The press release announcing our fourth quarter earnings along with our quarterly supplemental package and our 2021 guidance presentation were distributed this morning.

A replay of this call will be available shortly after the conclusion of the call through March 11th, 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, February 11th, 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 adverse impacts of the COVID-19 pandemic on the U.S. and global economies.

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 armadahoffler.com.

Lou will start the call today by discussing our 2021 guidance. At this time, I'd like to draw your attention to our 2021 guidance presentation that we published this morning. I'll now turn the call over to Lou.

Lou Haddad

Thanks Mike.

Good morning everyone and thank you for joining us today. This month, we will mark the 42nd anniversary of the founding of our company. We take a great deal of pride in achieving that milestone, one not often seen in the commercial real estate business. Over the years we've earned a reputation for integrity, consistency, and professionalism, traits that are the foundation of our success.

This past year has seen our company intensely tested in several ways. While the struggles brought on by the pandemic were certainly not unique to us, to some our approach to the crisis may seem somewhat counterintuitive. As this is the 5th major recession we've managed the company through, we've developed strategies that have seen us survive and ultimately thrive through multiple cycles over the decades. Some facets of this plan are fairly obvious; conserve your cash, work with your tenants, reduce operational expenses, and most importantly take advantage of new opportunities. Less visible to onlookers is our dedication to staff in tough times, despite the pay reductions volunteered by our board and executives, all other members of our team received their yearly pay increases on time early last fall. They have also recently received their full, year-end bonuses and several earned promotions throughout the year. Their performance throughout this difficult year has been nothing short of remarkable and that performance must be rewarded. We also escalated our outreach activities to support our community throughout the crisis.

We've learned over the years that the best time to build employee, customer, and brand loyalty is during tough times, when others often abandon those principles. This posture is the main reason why our staff retention has always been stellar. That long-term institutional knowledge and staff dedication has been key to our ability to outdistance our peers after each of the past 4 recessions and why we believe this one will be no different.

In addition to analysts and investors, there are many employees and joint venture partners listening in on the call today. On behalf of our founder and chairman, Dan Hoffler, the board of directors, and executive management, we sincerely thank you for being a part of our team. I'm proud to be associated with each one of you.

While the focus of my comments today will be on our 2021 guidance as presented in the release this morning; I'll first offer a few thoughts on the fourth quarter and 2020. As you can see from our earnings release, we've been extremely active at the company. Over the last few months, we've announced three new development projects, purchased two high-quality multi-family assets and made solid progress on releasing COVID related vacancies. Perhaps most importantly, 2020 saw us maintain high occupancy portfolio wide and collect 94% of scheduled rents since the beginning of the pandemic.
These factors, combined with the continued strength we anticipate in our markets, have encouraged our board to declare a 36% increase to our common dividend, as you may have seen in our press release earlier this week. We appreciate the confidence the board has shown to the management team, both in this action and their solid support throughout the crisis.

2021 is a year where our focus is to substantially increase NAV through our leasing initiatives, improved quality of NOI, and exciting development starts. In short, we anticipate that our activities over the course of 2021 will build a solid case for expansion of our multiple and ultimately lead to significantly higher earnings and dividends over the next several years. As the company's largest equity holder, management remains committed to generating long-term value for all shareholders.

Turning to our guidance presentation, as you can see by the earnings range on page 4, the mid-point of our per share guidance is right at $1.00. As we have relayed to you over the last few quarters, we anticipated a moderate decrease in earnings per share for 2021. While a portion of the decline is due to the temporary effects of the pandemic, the major reason is the repositioning of the company for higher quality earnings over the next several years. This was a conscious decision made in mid-2019 and as you'll see in the subsequent slides; one that sacrifices short term earnings but is on track to produce long-term growth and value.

Specifically, as you may recall, prior to the pandemic we detailed a plan to reduce the percentage of NOI contributed from retail properties through disposition of older centers, increase the percentage of multi-family NOI through development and acquisition, while also decreasing the volume of mezzanine loans thereby allowing us to allocate more resources to portfolio growth, and ultimately decrease leverage ratios over the medium to long term. We believe this results in a qualitatively stronger income stream and higher per share asset value. However, it does reset earnings during the transition. We believe the tradeoff is well worth it.

These factors combined with the return to normal construction profit levels from all-time highs last year and the pandemic related pause in new development deliveries are the main drivers in this year's earnings range. Hopefully, you all feel as we do; that these intentional moves are part of a longer-term strategy that positions the company for even greater returns than those enjoyed by investors for the five years preceding the pandemic.

Before I walk you through the other highlights of our presentation, I am going to reiterate a fact that many who follow our company have correctly pointed out, that we do not fit neatly into the standard REIT box. In addition to a high quality, diversified portfolio, third party construction profits, build-to-suit asset sales and mezzanine interest income, give our platform a unique complexity that can't be wholly measured by traditional REIT metrics. That said, while these ancillary income streams augment earnings and decrease the need for external capital, the end goal of monetizing development spreads in this fashion is to enhance growth in our portfolio income through new development projects and off-market OP unit acquisitions.

Illustrative of this point, as you can see by the information at the top of page 5, [pause] we expect our portfolio NOI to climb by over 40% from 2020 levels when the current development projects are fully stabilized. We believe the FFO per share from this additional NOI will be meaningfully higher due to the millions of dollars earned from mezzanine activity and construction income that we reinvest into the company, thereby reducing the need for outside capital.

Also of note on this page, as we have been projecting, the pie charts showing the NOI contribution of our various property types continues to adjust with concentration moving from retail into multi-family and office. While the non-retail assets that are being added to the portfolio through development and acquisition, are of trophy quality and offer significant long-term growth; I'd like to emphasize that we are also very bullish on all components of our retail portfolio. Neighborhood grocery centers, regional discount chains, and mixed-use retail all dominated by stable, viable tenants will remain as a high-occupancy and growing sector of our business.

Turning to page 6 [pause], you can see that we've also been very successful in diversifying our portfolio on a geographic basis. Upon stabilization of the current pipeline, over half of our property NOI will come from outside of Virginia. Much of it from high-growth southeast markets. This increased geographic diversification is the result of years of goodwill and strong relationships built with strategic partners in these dynamic markets.
Later in the call Mike will detail the performance of the portfolio in terms of maintaining both high occupancy and a sustained level of rent collection. I'll first mention some important statistics on our leasing efforts.

What we've learned over the years is that a solid, high-quality portfolio not only stays full during recessions, but also quickly re-leases at market terms when space becomes available.

Our office and traditional multi-family sectors have maintained mid-nineties occupancy and near 100% rent collection, performance that is indicative of the strength of our assets and their respective markets. However, as you might expect, the retail portfolio did experience some additional vacancies through the pandemic. That said, our retail assets have shown remarkable resiliency as evidenced by our 88% retail rent collection rate during the pandemic.

Last quarter I reported that we already had over 60,000 square feet of new LOI's on Covid related vacancies and with many additional prospects, we hoped to significantly add to that number. I also mentioned that we were working with Regal and Bed, Bath and Beyond to find mutually beneficial solutions to expiring leases in a handful locations.

Page 7 illustrates the value of having well-located real estate when the economy is down. I'm pleased to report, not only that all of those LOI'S are now executed leases, but in total, we have leased 90,000 square feet since our last update, net of the Regal leases. We are also nearing execution of another 46,000 square feet of retail leases. In fact, our expectation, as seen on page 8, is that we will be nearly back to our retail sector historic norm of approximately 95% leased within the next 12-18 months.

The 4 individual assets listed on page 7 had recent lease terminations scheduled that would have left us with a large amount of vacancy had they not been in top locations. As you can see, both of the Regal cinemas have been released to Regal as is, and, even more importantly, we've secured development rights to enhance returns on these parcels with additional mixed-use assets. The Wendover Bed Bath and beyond was released in its entirety on an as-is basis and we are in negotiation with a credit tenant to take the entire space vacated by Bed Bath at North point. In all, we expect significant upside from the new leases in the short term and tremendous additional long-term value from the new development projects on the Regal parcels. 40 years of experience has taught us that quality real estate in strong markets stands the test of time regardless of the sector of our diversified platform in which it resides.

The development pipeline is described on page 9. Beginning with our recently announced joint venture with Beatty Development for the 450,000 square foot build-to-suit for T. Rowe Price's world headquarters which is adjacent to our other 3 assets at Harbor Point on the Baltimore waterfront. This trophy asset will bring some 1,700 employees to this world class development.

As you can see, the remainder of the development pipeline is heavily weighted towards multi-family assets. We also have 3 additional projects in the pre-development stage. These projects are more fully described at the back of the deck.
On the bar graph to the right of the slide we've shown the value we expect to create through these developments using our target development spread of 20%, consistent with our historical average.

Page 10, covers our third-party construction and other real estate services. This division had one of its best years ever in 2020 with over 7.5 million dollars of gross profit. This facet of our business model, unique across the REIT universe, gives us multiple advantages over our peers. Although significant, third party fee income is perhaps the least important benefit of our construction company. Aside from giving us the confidence and control to pursue our in-house development and mezzanine strategies, construction contracting has brought us many new relationships with high quality developers that we may ultimately add to our circle of partners in new ventures. Our expectation is that this year, and for the foreseeable future, third party profits will return to their historical norm. This is a conscious decision as we choose to reserve more of our resources to build upcoming in-house projects, which do not recognize fee income, but more importantly, add to our development value creation spread.

Page 11, shows our mezzanine investment program. As most of you know, this initiative allows us to provide development and construction expertise as well as our strong credit to trusted partners developing high quality projects in return for most of the value creation. As we have reiterated on many occasions, our intent is to gradually decrease the size of this program in order to use more of our capital for NAV accretion through our development platform. As you can see by the trend line, we ultimately expect to stabilize the program in the 80mm range.
One new project to note is the Solis Nexton multi-family project, which is another engagement with our partners at Terwilliger Pappas, who are the developers of the Solis Interlock project and our partners in Solis Gainesville as well. Solis Nexton is in the same fast growing sub-market of suburban Charleston as our Nexton Marketplace lifestyle center. In fact, the assets are a short walk apart and will complement each other extremely well.

Stepping back to a macro look at the business, the top of page 12 shows the trajectory of our anticipated growth year over year as we return to our historical levels of portfolio occupancy and build out the current development pipeline. As you can see, we anticipate a 25% increase in the total income of the company while the combined mezzanine and fee component decreases to less than 10% of the total.

We believe that this income combination solidifies our free cash flow, earnings base, dividend coverage ratio and ultimately supports a substantial expansion of our multiple.

Now I'll turn it over to Mike to give some further detail on our guidance as well as some specifics on last quarter.

Mike O'Hara
Thanks Lou.

Good morning, I hope all is well with you and your families. With the continuing impact of the pandemic on our company, we have been positioning the company for future growth and to take advantage of opportunities we are seeing.

For the fourth quarter, we reported FFO and Normalized FFO of 25 cents per share. For the full year, FFO was a $1.06 and Normalized FFO was $1.10 per share. For the fourth quarter, bad debt write offs were $200,000 which is significantly less than the past two quarters. For the full year, total write offs were $2.8 million which was 1.6% of 2020 revenue. These numbers include 1 million dollars of write offs from the termination of two Regal Cinema leases.

As you see on page 14 of the guidance deck, the portfolio performed well in the fourth quarter with rent collections of 98% portfolio wide with 97 percent of January rent collected so far. Since the pandemic started, we have collected 94% of rent due thru year end, with retail collections at 88%, and office at 100%.

As for multifamily, the pandemic had very little impact on the performance of our portfolio in 2020. We believe it's due to our locations and mix of tenants. Our multifamily portfolio had occupancies in the mid-90s thru 2020 with rent collections of 99 percent. As an example of this performance, in 2020 we wrote off only 73 basis points of revenue as bad debt vs 65 basis points in 2019.

As for deferred rent, the agreements with our tenants have scheduled installment payments thru 2022. To date, we have collected 1.4 million of deferred rent, which is 93 percent of the amount due. There is additional 1.8 million dollars of deferred rent, we expect to collect 1.5 million this year and the remaining in 2022. These numbers do not include the agreed upon deferred rent from the two restructured Regal Cinema leases.

Our core operating portfolio occupancy for the fourth quarter was strong at 94 percent, with office at 97, retail at 95, and multifamily at 93.

As Lou discussed, we are seeing a lot of leasing activity with 90 thousand square feet of signed leases since the last earnings call, with another 46 thousand square feet of leases out for signature. This does not include resigning 100,000 square feet of Regal leases. We are making good progress in getting occupancy back to pre-pandemic levels, but until these tenants are in place and paying rent, our NOI and EBITDA will be lower which will temporarily have a negative impact on our leverage metrics.

As for this impact on NAV, please see our NAV Component Data on page 8 of the Supplemental Package. There is a section on the bottom left of this page with information on management's estimate of the land value from the development rights from new Regal leases and the vacant space as of December 31st. The 90,000 square feet of vacancies listed all have signed LOIs along with an estimated rent amount. We believe these have real value and should be considered when evaluating our NAV.

During the fourth quarter, we closed on the acquisition of two multifamily properties, Annapolis Junction and the Edison which combined adds close to 600 units to our portfolio giving us a total of over 2,600 units. As Lou discussed, these acquisitions continue our plan of increasing the percentage of our multifamily NOI, in our property portfolio.

Later this month, we expect to close on the acquisition of the Delray Whole Foods center. This is another high-quality grocery anchored center being added to our portfolio.

During 2020, we took multiple steps to increase our liquidity position and strengthen the balance sheet. With our common stock trading at discounted levels during most of 2020, we utilized other sources to raise capital. In the past year, we sold nine unencumbered retail assets for total of nearly 100 million dollars.

And in August, we raised $86 million dollars by re-opening our original issuance of existing Series A preferred stock. We believe preferred stock should account for no more than 15 percent of our capital stack. We do not anticipate issuing any more preferred stock for the foreseeable future.

In total, since the pandemic started, we have raised a total of nearly 200 million through asset sales and preferred stock issuance.

In addition, during the fourth quarter with the stock trading at relatively higher levels, we prudently issued stock thru the ATM, raising 12.5 million at an average price of $11.05.

To conclude our repositioning effort, we anticipate closing on the disposition of a Kroger-anchored center in the second quarter for gross proceeds of 5.5 million dollars.

With the capital raised in 2020, we are well positioned to fund our development projects including the T Rowe Price headquarters project. With most of the projects beginning later this year or in early 2022, as is the case for the T Rowe Price project, these capital requirements in 2021 are modest. In addition, we have already funded the land acquisitions for the current development projects. And, as is typical of ground up development, the capital requirements ramp up over an extended period of time.

Please see page 13 of the guidance deck for some information on our debt including fixed charge coverage, weighted average maturity and interest rates. As you can see, the 2021 debt maturities have been refinanced with the exception of Southgate Center which we expected to close this quarter.

Please see page 4 the presentation for our 2021 guidance ranges and assumptions.

Now I'll turn the call back to Lou.

Lou Haddad

Prior to taking your questions, I'd like to take a moment to draw your attention to our ongoing sustainability initiatives. Many of you are aware that we have been a leader in the corporate responsibility arena for over 40 years. Last year, we published our first sustainability report which is prominently displayed on our website. I'm excited to announce that our second report will be posted in early April. In addition to our continued focus on ESG, the report will highlight the enhancements that have taken place over the last year. We are happy to answer any questions you may have regarding these important aspects of our business.

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

Q&A Session

Operator
[Operator Instructions]
Our first question today comes from Dave Rogers of Baird.

Dave Rodgers

I wanted to dive in maybe on the office front. It sounds like retail was active, and multifamily developments are taking off again. But on the office side, can you talk a little bit more about the conversations you're having, maybe particularly either at Ten Tryon to firm up some of the leasing there as well as at Wills Wharf to backfill WeWork?

Lou Haddad

Thanks, Dave. So we're seeing, basically, the green shoots of office leasing starting to come back. Our partners at the Interlock in Atlanta have conducted a number of tours with active tenants in that market. As you probably know, West Midtown in Atlanta is really a hot market. Microsoft just took 0.5 million square feet, a few blocks away from us. So our anticipation is that that's going to lease-up very quickly.

At Ten Tryon, we are still working on a program and a starting date so we really haven't started actively marketing there beyond the anchors that we've already put out there.

At Wills Wharf, again, activity started to pick up. More tours, where we are and still engaged with the 2 anchors that we talked about. We've been talking about for months. Again, things are slow to return to normalcy. But everybody is anticipating getting back.

Interestingly, what we're seeing, as you know, Dave, our office portfolio is pretty much full, we're starting to see a lot of people pick dates for return, full return to the office. I'd say the vast majority of our office tenants are now in some sort of combination of work from home and in the office, but it looks like people will be fully back sometime in the spring for the most part.

Dave Rodgers

Thanks for that, Lou. In your guidance, you also discussed the sale of 1 noncore asset, I think it was the Krogers -- the one Kroger store. In the past, you've talked about maybe selling more and using that to fund some of the growth. I guess, can you talk about your appetite today to continue to sell noncore assets and then maybe the appetite in the market to receive those assets?

Lou Haddad

Well, right now, it's a bit of a mismatch. I mean the market cap rates are really compressed. It's a great time to be a seller, particularly when you have credit tenants, whether it's retail or multifamily, or office, for that matter. But we're pretty much through with what we had planned on selling in order to turn over the portfolio. That doesn't mean that an opportunity won't come up. But, as Mike described, we're a really strong capital position at this point and don't have any outsized needs. That said, never say never. Like I said, it's a great market to sell. So we'll still be on the lookout for opportunities. But I wouldn't look for anything of any wholesale size from us anytime soon.

Dave Rodgers

Great. Last one for me. If we could turn to the mezzanine business. I was curious on the $82 million that you have as a placeholder for your estimate going forward. It's a good number because it starts to come down from where you've been. But I guess, talk about how you kind of get to that as the right spot for the next kind of 3 to 5 years, let's say, for Armada? Is that a percentage of income contribution? Is it just a percentage of the balance sheet that you're comfortable with? And I guess, as you scale the company, I mean how do we think about that as a percentage of some metric that you might be comfortable with?

Lou Haddad

Dave, it's almost all the above with the additive factor of surveying our current partners and what they've got lined up over the next several years with their thinking. As Mike had put out there earlier, we're looking to do shorter, smaller, quicker-term projects that don't take quite as long to get to maturity. So that works out to what is most comfortable, both from a volume standpoint and a risk standpoint, and as you said, size in relation to the balance sheet.

What we need -- look, we're never going to apologize for making money. Through our construction operations and our ability to leverage that into making additional money on development deals that we otherwise couldn't participate in but for the mezz program, we're going to continue doing that. That's a huge advantage for -- in our model. We just don't need it to grow. That's why we've illustrated that it's going to stay relatively stable while the portfolio grows.

As you -- as everybody on the phone well knows, the highest multiple was based on the highest quality portfolio, and not necessarily ancillary income. But that said, we're not going to give it back.

Dave Rodgers

I agree 100%.

Operator

Our next question comes from the line of Rob Stevenson with Janney.

Rob Stevenson

Lou, just to follow up on Dave's question. So is Solis Nexton a loan to own or a loan to make 10% or whatever type of yield for you guys? Is there a purchase option?

Lou Haddad

Appreciate the question, Rob. This was an interesting one. It was originally set up much like the Gainesville project where we ultimately would be the owner. In the midst of that negotiation is when the whale landed, the T. Rowe Price commitment. So we were looking for a way to minimize the stress on the balance sheet and our cash outlay. Fortunately, we've got a trusted partner there who knows what they're doing. So it ends up being a traditional mezz loan.

A second piece of that is that at the kind of cap rate that that's going to bring with the walkability next to our lifestyle center, very difficult for us to buy that at a discount and still have it be accretive. All that said, at the end of the day, it wouldn't be shocking to see that end up as a project that we get to keep. But right now, it's not slated as such.

Rob Stevenson

Okay. And when you're thinking about the mezz portfolio going forward, that sort of $82 million, is that largely -- I mean what is your feeling there? Do you want that to be sort of loan to own? Or is that just going to wind up being sort of funding and making some sort of return on it?

Lou Haddad

Again, it's a -- yes, we'd love to loan to own on all these things because all these projects, the way we underwrite them, we don't take them on unless they're projects that we'd like to own at some point. At the same time, particularly on multifamily, if cap rates continue to compress, our partners can make a lot more money by selling them on the open market. So we're probably not going to go in with predisposed notions of how it's going to go. If we really have our heart set on something, we will lower the rates and then negotiate an option to purchase at a discount later.

But again, as I think everybody has seen, particularly on multifamily, we're now talking about cap rates that cracked 5 like it was standing still, and now they're in the mid-4s in a lot of these markets. Very difficult to compete with that, particularly with the agency money that's out there, at 90%, 95% loan-to-value, that's very difficult for us to compete in that market. And we don't need to. We can just take our profits and go home and develop our own stock.

Rob Stevenson

Okay. And then a question on the Regal and the Bed Bath stuff. So with the Regal, when do they actually start paying rent again? And what is the development rights that you guys have at those 2 assets? Could you give a little bit more detail there?

Lou Haddad

Sure. Two different cases, Rob. In Harrisonburg, they've started paying rent again already. As it turned out, we might have mentioned this on the last earnings call, that movie theater in Harrisonburg is the only movie theater for a 100-mile radius. And so when we terminated that lease, Regal was anxious to be first in line to get back in. And so we're letting them in. It's going to be a ramped lease. Obviously, giving them some time to get fully open, hopefully, in the spring. But the biggest part of that negotiation was the ability, as you see in that picture on Page 7 in the presentation, being able to take 5 of those acres and turn it into a high-quality multifamily asset and sharing parking with the Regal.

Back to -- and here at Town Center, a little bit of a different case. They -- we basically have a very advantageous to them rental rate that will start up this spring as they get slowly open. That deal only goes through the end of the year. And then we mutually will decide, with Regal, whether it makes sense for them to go back to a full boat rent and business as usual, or whether they don't need the site, in which case, it will end up being Phase 2 of our redevelopment of that project. But basically, what we've negotiated is the ability to take advantage of the additional land surrounding the property. And we're not sure which way we go. Right now, we've got alternate plans both for more retail as well as multifamily.

Rob Stevenson

And then with Bed Bath, they're the tenant at Wendover Village, but it's going to go to somebody else at North Point Center?

Lou Haddad

Yes. Well, no, Bed Bath, we terminated both those Bed Bath leases. We had a significant payment in return. It was the Wendover lease went to...

Mike O'Hara

That's already been re-leased.

Lou Haddad

That's re-leased to a different user who took it as is. And actually, we end up, on a net basis, having a better lease than we've got -- than we had with Bed Bath. At -- and the same thing with North Point. That is a different credit tenant that we are getting close to landing there.

And that's -- I was trying to emphasize in my comments and what we've seen over 4 decades. Good real estate is good real estate and you hate to see vacancy. You hate to see people have trouble. But at the same time, the real estate survives and releases quickly in these cycles, and that's what we're illustrating.

Rob Stevenson

And the -- is the -- are the 2 Bed Baths the same tenant? Or are they going to be different tenants?

Lou Haddad

Two different tenants.

Rob Stevenson

Okay. And that hasn't been disclosed as of yet as to who the Wendover Village is?

Lou Haddad

No. We'll put that out quickly with really want the tenant -- as you know, these tenants like to make their own announcements.

Rob Stevenson

Okay. And then one for you, Mike. In the guidance -- so the guidance at midpoint is $1 of normalized FFO for 2021. How should we be thinking about the cadence throughout the year? Is it some of these leases that are non-income paying, that it drops here in the first quarter and then starts building up back through the year? Are there other points in time during the year where there's some vacancy issues or free rent or whatever that winds up dropping the FFO down? What's a good way to be thinking about the cadence throughout 2021?

Mike O'Hara

Yes. Rob, it's going to be pretty even. It's going to start a little lower in the $0.24, $0.25 the beginning of the year and ramp to $0.25, high $0.25 towards the end of the year.

Operator

Our next question comes from the line of Bill Crow with Raymond James.

Bill Crow

Mike, can I pick up there on the guidance? Just looking at Page 9 -- excuse me, 12 of your guidance book. You're showing 2022 income increasing from 2021 levels. Is that -- should we read into that, you think there could be a positive inflection in FFO per share? Or will fundraising result in -- if I look at every number I see out there, consensus is pointing for a down year in 2022 FFO per share. How should we think about that?

Mike O'Hara

No. The way we're looking at things going forward is what's going to be the timing of the releases? How is it kind of come in and the timing and capital needs as we get into '22 and '23. I mean as you can see here, we're showing it's going to be pretty flat for '21 and '22. And so things really start ramping up in '23 as the development projects start to deliver.

Lou Haddad

We don't anticipate going backwards, Bill. I'm not sure why that's in people's models. But it is going to stay fairly flat until these developments kick in and until these leases really kick in on the vacancies. Whether that happens in 2022 or it pushes out 'til 2023, you can see we're saying it's going to happen when things stabilize, and we're going to work as quickly as we can to make that sooner rather than later. But we don't anticipate going backwards next year.

Mike O'Hara

Yes. And the other thing you can see, Bill, is the mix is changing, where you've got less fee income going forward and better NOI. So the quality income is going to improve.

Bill Crow

Perfect, perfect. Lou, I think we're all trying to figure out what's going on in office in response to COVID and densification, dedensification, et cetera. Any changes going on at your -- as you design out the T. Rowe space that might reflect some of those current considerations?

Lou Haddad

We're just getting into that. So whether it's T. Rowe or other office space that we're looking at, I think one thing that I think is a trend we're going to see, and we're starting to see a little bit of it is the big clerical bullpens, I think are going to be a thing of the past and particularly with the ability of that staff level being able to alternate and work from home on occasion. I think we're going to see a lot less of the cubical type style of development. It's too early to tell whether people are talking about smaller offices, or bigger offices and the like. I mean with T. Rowe Price, as you mentioned, they're basically coming out of the same amount of square footage that they're going into. So in their minds -- and we don't have those designs yet on their space. But in their minds, that's -- it's kind of business as usual, but we'll see.

It's going to be interesting going forward. We're -- we've got a good sampling here of around 100 office tenants here, and hopefully, we'll start seeing some trends and some chatter. But we haven't quite -- we haven't seen it yet.

What I have seen over the last 4 big recession shake ups is that, over time, things often return to the center line. And usually, when people are projecting wholesale changes, they're wrong. But who knows, maybe this is the one that that's not the case.

Bill Crow

Okay. And if I could just get your opinion on Baltimore, in general. Your Wills Wharf area is doing very, very well. And if you could just picture in your head what the CBD area will look like after T. Rowe moves out? I mean is that -- are we kind of going down this negative circle here of decline in the CBD in Baltimore? How do you think about it going forward?

Lou Haddad

Bill, look it's interesting. The -- what people will have to realize, and it's not unique to Baltimore, is that CBDs migrate. They expand, they contract and they creep over time. And a great example is where we are in Atlanta, now it's at West Midtown; 10 years ago, West Midtown wasn't a market. So in Baltimore, the way we're looking at it is, it's a migration of a mile or so not an indictment on the CBD itself, but that these things will go where they're going to go. We developed a number of buildings on the Waterfront in Georgetown. And the Waterfront in Georgetown and Downtown DC, as you may recall, was a wasteland 20 years ago. And now it's a hot bid.

So I think I think people need to pull back and not be too concerned about which blocks are doing what, but the fact that a company like T. Rowe Price born and raised in Baltimore stays in Baltimore is a huge win for the city.

Operator

Our next question comes from the line of Jamie Feldman with Bank of America Merrill Lynch.

Jamie Feldman

I just wanted to follow up on a comment you made before. You said you're starting to see tenants pick dates for the full return of the office in the spring.

Lou Haddad

Yes.

Jamie Feldman

Can you talk about what dates they're talking about and what they're basing those decisions on?

Lou Haddad

The earliest -- well, I can't tell you what's going on in people's heads, but I can tell you that the earliest that I've seen is March 1. The -- and I've seen May, I've seen June and not in this area, but we've all read reports about people saying, we'll see in 2022. That hasn't been the case here.

And my guess, Jamie, is that with markets like ours, which are basically drive to the office, get out of your car and go up to your building, it's different than what's happening with where you got to use major commuting lines and mass transit. So I think based on what we're seeing, it seems like sometime in the mid-summer, people will be at full strength, at least here in Virginia Beach. And we'll have to see what happens in the rest of the markets. But I think it's really a mistake to paint it all with the same brush that you might be seeing in the major metropolitan areas.

Jamie Feldman

Okay. And in terms of the March 1 one, can you give more color? Like what kind of company is that? How large? And are they asking you to do anything special in terms of preparing the building for them to come back?

Lou Haddad

No. It's an engineering company. We have a lot of architects and engineers here who are gearing up. As you as you see, those are the first guys to see -- first people to see economic activity. So one of the firms is bringing folks back March 1, but all of them have worked through the pandemic and at a minimum or were staggering people in the office. Very difficult to design infrastructure or buildings completely remotely.

Jamie Feldman

Yes, that makes sense. Okay. But you haven't heard any, like when you talk to some of your tenants, either real estate people or CEOs, they're not saying, we want herd immunity or we want vaccines or x percent of our population? Or there's no -- I'm just trying to get a sense of what they're even based on the decisions on.

Lou Haddad

Yes. We're -- I mean we're just not -- there have been -- we're not privy to it. Haven't really heard the criteria. Ourselves, we're -- right now, we are roughly -- our construction company is fully working. A lot of the clerical people are still working from home. Our accounting group is working from home. Our development group is working in the office. I mean there's a lot of -- basically, what we've done is a model that a lot of people are doing, which is basically giving you the option of working from home and following the rules when you're here in the office. Of course, we -- our expectation is people are following the rules everywhere. But in terms of the social distancing, the masking, no gatherings, no big meetings and all that sort of thing, that still has to be prevalent. And so far, knock on wood, things have worked out pretty well.

Jamie Feldman

Okay. And then I think I heard you -- I heard Mike say that you guys hit the ATM in the quarter. Can you talk more about, a, did I hear you correctly? And b, can you talk more about that decision given where the stock is? And is this something you'll continue to do going forward?

Mike O'Hara

Jamie, yes, we raised $12.5 million at $11.05 a share. Unfortunately, we find ourselves in a new paradigm where our stock is trading, obviously less than in the $11. And when we got it over $11, we decided to sell some in order to enhance our liquidity. We never know what's going to happen in the future, especially when we're doing this and where the economy was going to want the liquidity.

But just to give you an idea, if we were to raise it, and we'd said we're on our way towards like $13 or so, the difference on what we raised between $11 and $13 a share is 170,000 shares. So that's pretty small versus outstanding shares of $80 million.

Jamie Feldman

Okay.

Mike O’Hara

We don't…

Jamie Feldman

And I guess…

Mike O’Hara

We -- we -- okay.

Jamie Feldman

Sorry, go ahead.

Lou Haddad

Go ahead, Jamie.

Mike O’Hara

No, I was going to say, we…

Jamie Feldman

I'll stop.

Lou Haddad

Go ahead, please.

Jamie Feldman

No, I was just going to say, so just how should we be thinking about this going forward? Do you think you'll kind of continue to use it to top off to keep your leverage low, if there's certain -- there's moments in time that you're -- you just need a little bit of capital? Or was that more of a one timer?

Lou Haddad

Jamie, I think it's kind of all of the above. We're seeing a tremendous amount of opportunities in the market. And obviously, we don't -- we can't act on all of them because as you've heard me say ad nauseam as the largest shareholder, we're really careful about dilution. At the same time, yes, we'd love to see that the stock just goes right back to $19, and then we're all fine.

But between now and that time, we'll have some need for equity. And we're going to be very prudent about how we do it and when we do it. I don't expect -- we don't have an expectation of some large capital raise, but some judicious use of the ATM throughout the year is probably going to be the better part of valor.

Jamie Feldman

Okay. And to be clear, I think you said you're kind of done with the retail asset sales, right? So you're just...

Lou Haddad

Pretty much. Again, the only caveat to that is, like I said, cap rates have really compressed, particularly on high quality -- well, anything of high quality, whether it's retail, office or multifamily. So we're not going to turn our noses up if it looks like we can reap some benefit on a noncore asset, but that's not slated right now. That's not what we're thinking.

We actively wanted to sell those 9 centers for a number of different reasons. They're aging, they're what we believe was peak value. Unfortunately, the pandemic caught us. And so we didn't get as much money as we'd have liked. But in our long-term plan of turning over the portfolio, it still made sense. And we didn't mind picking up the $100 million worth of liquidity.

Jamie Feldman

Okay. And then going back to your point -- or your comment that you're not seeing tenants kind of change their space usage but are they talking at all about how many more will work from home? I know you mentioned T. Rowe's clerical staff. But just generally, like do you think there's going to be -- have you seen any announcements among your tenants? Or any body language of how they're going to at least change the way people work?

Lou Haddad

The chatter is that flexibility will be the watchword going forward. Right now, people are really just talking about until the pandemic is over. So I -- we're not seeing people saying, here's the way it's going to be from here on in, at least not yet. Right now, they're just trying to talk about 2021 and how they see the return to office. But ultimately, I know ourselves included, we're going to have to come out with some sort of a policy on flexibility going forward. But I don't -- I think there's a hesitancy to put anything out there until people see the pandemic behind us.

Operator

Our next question comes from the line of Dave Rodgers with Baird.

Dave Rodgers

Yes, just one follow-up for me. And I don't know, Mike or Lou, feel free. On the dividend, it was a nice increase after the fairly sharp cut last year, and I think it all made sense. But on the increase, you mentioned on the call needing some capital. You've also mentioned trying to deleverage over time. So I just wanted to kind of put in context where the dividend is relative to taxable income and why not try to just keep a little bit more of that as much as you can going forward?

Mike O'Hara

On taxability, Dave, we put out the press release last week. I think we were at 65% was taxable and the other was return of capital. So we're in good shape from that standpoint. Actually, putting new buildings in place certainly helps with depreciation, all that from a taxability standpoint.

Lou Haddad

In terms of the level of the dividend, Dave, it -- what we said back as soon as we realized that we weren't staring into the precipice and we started bringing it back, we said it would ramp. It is going to ramp. How quick that ramp is, we'll just have to see.

Obviously, there's a lot of a lot of disparate wants and needs that people have. Obviously, we'd love to hold on to more of the cash. At the same time, we have a responsibility to shareholders. So we're going to be judicious with it. We've got a pretty significant -- a pretty low payout ratio going forward, at least that's our forecast for 2021, so there's room. At the same time, I think all of our shareholders want to see that long-term value creation more than a couple of cents in any given quarter. So just got to keep balancing that act.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Lou Haddad for closing remarks.

Lou Haddad

Guys, thanks for your attention this morning. We appreciate your interest in the company, and we look forward to putting out further updates. And everybody, have a great day, and stay safe.

Operator

Thank you for joining us today. This concludes today's conference. You may disconnect your lines at this time.