May 9, 2024

Armada Hoffler Properties, Inc. (AHH)

Q1 2024 Earnings Call

Operator

Good morning, ladies and gentlemen. And welcome to the Armada Hoffler First Quarter 2024 Earnings Conference Call.

(Operator Instructions)

This call is being recorded on Thursday May 9, 2024.

I would now like to turn the conference over to Chelsea Forrest, Director of Corporate Communications and Investor Relations.

Please go ahead.

Chelsea Forrest

Good morning. And thank you for joining Armada Hoffler's First Quarter 2024 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, President and COO. The press release announcing our first quarter earnings along with our supplemental package were distributed this morning. A replay of this call will be available shortly after the conclusion of the call through June 8, 2024. 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 here and are as of today May 9, 2024, and will not be updated subsequent to the initial earnings call.

During this call we may make forward-looking statements including our 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 taken 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 and our press release that we distributed this morning and the risk factors disclosed in documents that we have filed with or furnished to the SEC.

We'll also discuss certain non-GAAP financial metrics 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. And thank you for joining us today.

As you can see from our earnings release, it was another strong quarter here at Armada Hoffler.

We continue to see our portfolio produce robust operating metrics. This combined with new properties coming online gives us confidence in our earnings guidance as our operational success offsets the headwinds from higher interest rates.

Before Shawn and Matt give you the details on the quarter and projections for the rest of the year, I'll take a minute to reiterate our longstanding strategy with regard to capital allocation.

As most of you know management is the company's largest active equity holder with a 12% stake. This alignment with external investors gives us a different perspective than that of most REIT management teams and creates a strong aversion to dilution.

While portfolio growth is an important goal over the long-term and capital market activity is an important component of that growth, you have seen us recycle numerous assets at prices well above the stock market's implied valuation. This is the most efficient way to raise capital when Armada Hoffler common equity trades at an unacceptable discount.

The current environment is just such a circumstance. With as many as five new properties coming online over the next 12 months, any necessary equity capital will be primarily raised by selling a couple of assets with significant embedded profits.

We expect these transactions to produce a substantial amount of cash and to be relatively neutral to earnings.

We recognize that leverage will remain elevated through the stabilization of the new properties.

But with growing portfolio NOI and trophy quality assets, we are comfortable at these levels.

We are confident about the quality of the developments, our initial underwriting and the extensive expertise we have in market selection.

I'll now turn the call over to Matt to highlight a couple of the quarterly metrics before Sean for the business update.

Matthew Barnes-Smith

Good morning. And thank you, Lou.

Starting with earnings.

For the first quarter of 2024, we reported FFO of $0.40 per diluted share and normalized FFO of $0.33 per diluted share, representing a 10% increase over the same period last year. AFFO per diluted share increased 17% year-over-year to $0.27 and property NOI for the first quarter increased 9.3% over the same period last year due to a combination of both same store and acquisition-based growth. These year-over-year increases demonstrates our ability to drive consistent earnings growth, which supports a growing and well-covered dividend with a payout ratio of 75% of AFFO.

I'll provide more details on performance, as it relates to our guidance expectations later in my remarks.

Our balance sheet metrics remain consistent with last quarter as we deploy the concluding tranches of our financial commitments on our Harbor Point developments and real estate financing projects.

Stabilized portfolio debt to stabilized portfolio EBITDA is at 6.6x with our debt service coverage ratio reporting 1.7x.

Our weighted average cost of debt remains fixed just above 4% until a portion of our derivatives mature in October of 2025.

As mentioned on previous earnings calls and earlier by Lou, our leverage will remain elevated until the current development pipeline matures.

Our total debt-to-enterprise value today is about 54%, and we expect to eventually bring this into the 40% range with a corresponding debt service coverage ratio in the 2.2x to 2.5x range. With respect to our financial performance in comparison to guidance, I'll walk through each category in our guidance table on Page 4 of the supplemental financial package separately.

For the quarter, property NOI reported approximately $580,000 better-than-expected.

Strong commercial re-tenanting throughout the year, coupled with one-time multifamily expense savings, will add an additional $1 million of NOI above the previously stated midpoint of the property NOI range. The Construction segment profit reported $4.1 million for the quarter, in line with our guidance expectations. The midpoint of this range remains at $13.75 million for the year and we expect the quarterly Construction segment profit in quarter two to be consistent with quarter one and lower in quarter three and quarter four.

Our G&A expense recorded $5.7 million for the quarter and was marginally above our guidance due to timing variances. Quarter one always trends high and we expect to achieve the midpoint of our previously stated G&A expense range.

Interest income reported roughly $300,000 more-than-expected for quarter one due to higher interest on overnight deposits.

For the year, we have reduced our interest income range by $1.5 million due to our partner's intent to exit one of the real estate financing projects sooner than anticipated.

Interest expense for the quarter reported in line with our guidance expectations.

We have, however increased our interest expense range midpoint by $2 million, primarily due to higher interest rates than previously forecasted.

Finally, based on refinancings, expected strategic dispositions of assets and the realization of capital from one of our real estate financing projects, we are no longer modeling any material equity capital markets activity for the remainder of the year. These details, taken in aggregate, result in our NFFO guidance per diluted share range remaining at $1.21 per share to $1.27 per share.

Before I pass over to Shawn, I would like to bring everyone's attention to a couple of updates we have made to the supplemental financial package.

On Page 10 and Page 16, we have added a credit profile and a portfolio profile, respectively. These two dashboard pages represent a range of metrics presenting valuable details on the company's performance. There are several new and re-visualized metrics that we believe will assist you with your evaluation of our company's performance.

Over to Shawn.

Shawn Tibbetts

Thanks, Matt. And thank you all for joining us to review the quarter.

I would like to start out by revisiting our 2024 guidance to ensure that we are all aligned on what is and what is not included in our unchanged guidance range of $1.21 to $1.27.

I will walk you through the high-level components to add color to what Matt has just gone over.

As Lou said, the first significant change is the removal of any material equity capital market activity given the current conditions and that refers to not just our discounted stock price, but also what we are finding to be an aggressive and relatively deep bid for multifamily across several of our markets.

Our assumptions now reflect capital being sourced primarily through an asset disposition later in the year.

Specifically, we are modeling the disposition of a multifamily asset in the fall at cap rates significantly more attractive than where the market is currently pricing our equity.

Our shareholders own embedded value and we intend to prove it. Across all of our sectors, the portfolio is performing well as evidenced by 95% occupancy. This is slightly ahead of expectation through the first quarter. Therefore, the NOI component of our guidance remains consistent with last quarter.

That said, you should expect the year to be front-loaded from an earnings perspective for three reasons.

First, the construction profit component of our income stream will be higher in the first half of the year and then will reduce for the third and fourth quarters, ultimately resulting in a targeted midpoint at $13.75 million of construction gross profit. The second relates to our mixed use development, Southern Post in Roswell Georgia. Unchanged in our guidance is the fact that, while lease up of Southern Post occurs through 2024, the carry cost associated with leasing up such a development will not be a positive earnings benefit realized in 2024.

We do, however expect that 2025 results will benefit handsomely from the asset's performance.

In a few moments, I will review the leasing of this highly-anticipated development, which is progressing well across office, retail and multifamily.

Finally, our partner has signaled the intent to pursue a sale of one of the assets in our real estate financing portfolios sooner than anticipated.

As a result, we are forecasting a reduction in interest income for the second half of 2024. The sale would also result in our capital and accrued interest on that project returning in mid-summer. Although we would have slightly less interest income than previously anticipated, we are pleased that our partners contemplating an early sale transaction.

The sale of a pre-stabilized apartment project at a mid-five cap rate in a market thought to be oversupplied demonstrates the strength of this asset class in our target markets. This potential sale demonstrates our partners' deep capability in the space, the strength of our real estate financing program and our collective ability to execute on successful preferred equity investments.

We do expect to deploy a portion of the return capital into another preferred equity investment opportunity with the same partners.

We are targeting a very attractive project located in another high growth Southeast market. This investment is fully entitled and should commence in the fourth quarter.

We anticipate funding a portion of this year and a balance in 2025, which will provide some offsetting interest income in 2024 and interest income in 2025 and into 2026.

Now as a reminder, I'll touch on what was not included in guidance, specifically the WeWork income projections. Approximately $2 million of annual income associated with the WeWork location in

Atlanta was removed as of December 31, 2023 and was never included in 2024 guidance.

While leasing activity on this vacant space is unlikely to materially affect 2024, it will be a significant opportunity for 2025 and beyond. The Durham location, we were able to renegotiate a reasonable set of terms that keeps WeWork remaining in the property.

WeWork will retain both floors in Durham for the remainder of the year and will receive a discounted rent.

In 2025, WeWork will vacate one of the floors and return to market rent on the remaining space. This is now our only WeWork lease, currently representing less than 1% of portfolio ABR and going to less than 0.5% in 2025.

Let me spend some time walking through our fundamentals across the sector.

In our commercial properties, value creation is realized through consistent leasing activity, releasing space and increased rents and market-leading occupancy statistics.

In addition to the daily management of over 700 tenants, we signed 24 commercial leases including new, extensions and options for a total of 115,000 square feet at re-leasing spreads of 11.5%, while maintaining an overall commercial occupancy of 95% through the first quarter. The office segment signed two lease renewals for a total of 18,000 feet at an average re-leasing spread of 14.2%.

The Retail segment executed 19 renewals and three new leases for a total of 98,000 square feet. The average releasing spread was 10.7%. The weighted average lease maturity of the commercial portfolio is 6.7 years with minimal short-term lease maturities.

We believe that proactive tenant relationship management is key to maximizing NOI and property values.

The multifamily portfolio beat our projections at over 95% occupancy.

We expect this level of performance to sustain throughout the year.

Our multifamily asset management team partners with property management firms, who are experts in the respective submarkets, resulting in strong leasing and therefore sustained occupancy rates in the high 90s. The office product continues to produce superior occupancy results at 94%, well above the high end of the broader peer set. This level of relative success is a direct result of the location of our assets in mixed use ecosystems. 97% of our office space has walkable mixed-use environments.

We intentionally place our buildings, which are generally newer in their respective markets and provide top tier amenities that create demand from investment-grade tenants, who prefer our properties over anything else in the market.

In most cases, our office properties are in a class of themselves in each market with no real competition. This strategy continues to underpin the future growth of our company, most notably in Southern Post and Harbor Point development projects.

Our Construction business continues to produce record results.

While working through a $343 million current backlog, the first quarter yielded profit results consistent with the targeted projections included in our 2024 guidance. The partner firms using our construction expertise continue to identify and execute on opportunities that allow us to demonstrate our capabilities and collect market data for our internal underwriting of further development and construction opportunities.

The development platform continues to also produce results consistent with guidance and we expect delivery of three projects through the end of this year, setting us up to realize the embedded earnings growth into 2025. Although we forecast leasing to continue to accelerate, as I mentioned earlier in the call we will experience carry cost during lease up in the second half of 2024 as we approach stabilization into 2025.

As I mentioned, leasing has been robust at the Southern Post project, especially in the commercial space, demonstrating the strong demand in this new, soon to be trophy asset in Downtown Roswell Georgia, only 14 miles due north of Buckhead.

We are now 71% leased in the commercial space, at rents running ahead of pro forma levels.

Similarly, the apartment rents are slightly above pro forma underwriting and move-ins recently commenced. The apartments are 15% leased and we expect this momentum to continue given the limited supply of high-quality product in the submarket and as we approach the historically active spring and summer months.

The T. Rowe Price Global Headquarters project is looking great, as we approach anticipated move-in later this year. The Trophy build-to-suit project is well situated among our assets on the Peninsula and will bring thousands of professional workers to the site.

We are looking forward to the continued flight to quality that will be experienced by top tier credit tenants inhabiting our ecosystem at Harbor Point. The Allied Department Project is also progressing nicely, and we will be nearing completion in the months to come. This 312 unit high rise apartment building sits at the top of the market, and its parking garage component also complements the T. Rowe Price project. Its views and amenities are virtually Baltimore's best and we look forward to this complementing our other trophy apartment project at 1405 Point Street.

Finally, given our performance, asset quality, value creation machine and continued focus on shareholder returns, we believe that our firm is well-positioned for the future.

We believe our equity is trading at a discount to NAV and we will take any steps necessary to realize that value for our shareholders including asset sales to provide growth equity if the stock market for real estate remains undervalued.

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

QUESTION & ANSWER

Operator

(Operator Instructions)

Your first question comes from the line of Robert Stevenson with Janney.

Please go ahead.

Robert Stevenson

Good morning, guys.

Sean, thanks for the detail.

I guess one question on the leasing side. How should we be thinking about occupancy in the office and retail portfolios, ebbing and flowing throughout the year? Are there substantial move-outs of consequence that is going to cause it to dip and then the new leases signed bring it back up? Is it relatively tit-for-tat in terms of trade outs et cetera? How should we be thinking about that as we work on our models throughout the year?

Shawn Tibbetts

Thanks for the question, Rob. Thank you for being here this morning.

In the retail, I would, to use your term, characterize it as tit-for-tat. There are some 10,000 and 20,000 move-outs and then some backfills.

We have a lot of activity in the space, which we are excited about.

I would say in the office, the main driver of the occupancy at least sitting where it is today is that loss of WeWork or the removal of WeWork, that intentional removal in Atlanta.

We lost 40,000 feet there. Good activity there. As I said in the comments, I'm not certain that we'll get that done this year. But we certainly have some activity down there. We'll see how that plays out. We should view that as relatively consistent in the office.

In the multifamily space, it's a little misleading. We have actually 41 units down at the end of the quarter. That number has shrunk to more like 30, 28 units, somewhere in that range due to water issues and a flood down in North Carolina. The adjusted occupancy, by the way we kept those in the denominator, the adjusted occupancy would have been 96.2%.

We're seeing good activity there.

We are actually seeing trade-outs improve in the trailing 30% over what was the quarter one results.

We're up closer to 1% blended trade out there.

We see strength there and we're looking forward to continued success in the multifamily space.

Robert Stevenson

You mentioned WeWork, the Page 19 of the supplemental with the one lease $1.35 million of ABR.

Is the $1.35 million of ABR the reduced rent level for the remainder of '24 or is that what they were paying previously to coming to the agreement?

Shawn Tibbetts

Yes, Sir. The spot on, the $1.34 million is the reduced rent level essentially through the end of 2024. You will see that number drop down to $850,000 or so in 2025, which obviously will drop them out of the top 20 and that was my comment less than 0.5% of the ABR, if you will.

Robert Stevenson

Okay. That's helpful. And then are you able to currently market the second floor that they're going to vacate to get a jump on to basically have somebody signed ready-to-go in there once reconstruction is done or is it going to be a later this year event so you guys really market that?

Shawn Tibbetts

We have a co-operative relationship with the tenant.

We are able to reasonably get in and market the space. Yes, essentially that space will come back to us January 1, and our hope is to your point have a good activity between then and now.

Robert Stevenson

Okay. You obviously have three big projects, all three are supposed to complete later this year. How are you guys thinking about new starts once those three projects complete? Is stuff heat up? Is the environment not such that you're likely to start anything in the back half of '24 or early '25? How are you guys thinking about development? How should we be thinking about development once these three are completed?

Lou Haddad

Rob, it's Lou. Our expectation would be the only thing that we will embark on the rest of 2024 is the redevelopment of Columbus Village with the old Bed Bath space.

Look for some really nice announcements on that coming up. Beyond that, right now we're not seeing anything that pencils to be worthy of any of our equity. With where construction prices are and interest rates, the spread, we look to have a 150 to 200 basis point spread on launching

a development. And that's what would make those things accretive to the company. Right now that spread is just not attainable.

I shouldn't say it's not attainable in any of the sectors that we would want to launch something at. Believe it or not, there is a number of office build-to-suit opportunities out there and we are just not right now on the appetite of launching any office space.

Robert Stevenson

Okay. That's helpful. And then last one for me. Matt, the mezz that you expect to come out this year, is that Solar City Park two or is that one of the other ones? Just trying to figure out how we should be thinking about money to you and lost interest income going forward?

Lou Haddad

Rob, let me jump in on the actual identification of that property.

We believe, it's probably best for our partner to announce that for a number of reasons competitive and so on and so forth.

But I'll defer to Matt on the second piece of the question.

Matthew Barnes-Smith

Yes. Good morning, Rob.

But yes, your assumptions are correct there.

We will reduce interest income or the expectation of interest income when that property is potentially exited from the program.

As we've had in guidance, we will look to deploy some of that in another or a new real estate financing project later in the year.

But I just would caution that, not all of that money will go straight back out at once and it's going to take a little bit of time for those draw schedules to go through.

We anticipate potentially a small portion of that going back out in the final quarter of the year.

Operator

Your next question comes from the line of Peter Abramowitz from Jefferies. Your line is open.

Peter Abramowitz

Hi. Yes. Thanks for the time.

I noticed you added a chart in there with your multifamily trade out, and I think it's kind of negative mid-single digits this quarter and last quarter on new leases.

Could you just talk about the trend there? What your expectations are for the rest of the year? Whether you have any visibility to an inflection and what's embedded in the guide?

Shawn Tibbetts

Sure. Thank you for being here this morning, Peter. Yes. The blended was 0.1 for the quarter positive. New leases to your point were about 4.5 negative while renewals were 5.2, the positive.

What we're seeing since then and the kind of trailing 30 is about 1% positive trade out blended. That negative on the new leases has shrunk to about 2.5% and then the renewals are up in the 4%, 4% plus range.

We are seeing improvement there.

I think we should be thinking about a year of 95% occupancy give or take and 1% to 2% trade out growth, kind of blended.

We're seeing strength improve there. A lot of this has to do with in the first quarter supply online.

As most people know there are some challenges, some headwinds I would say in supply in the Charlotte market, some in the Richmond market.

But we also are seeing offsetting strength in the Virginia Beach and Baltimore market.

I would say yes, you should probably see low single-digits blended on a go-forward basis, driven by stronger renewals and improving new lease numbers.

Peter Abramowitz

Got you. That's helpful. And then another question on multifamily. You talked about a pretty strong cap rate on the disposition that you're expecting.

I think you have mentioned that the asset is in the southeast, where a lot of the supply issues are happening and I think your occupancy is lower than the rest of your multifamily portfolio.

I guess just trying to get some context around the cap rate there, because it would seem that, the pool of capital is still pretty deep. The pricing is still pretty attractive.

Is it simply buyers or just brushing off the supply and looking through to the next year or two, or just some context around how you can still get the strong pricing despite the supply challenges?

Lou Haddad

Peter, I'll let Shawn answer that specifically, but I want to make sure I reiterate what we said earlier. The occupancy, what looks like a dip in occupancy in those properties down there is solely due to the insurance claim.

We left those units in the denominator and perhaps maybe we shouldn't have, but we wanted to be as accurate as possible.

We expect those to lease right back up once they come back online. There really wasn't a dip in occupancy. Go ahead, Shawn.

Shawn Tibbetts

Yes.

I think what you're referring to Peter is on Page 17, the Southeast Sunbelt looks like it's our dip to 91.1 right in that range. And again there are 41 units not contributing to the occupancy there. To Lou's point, we thought that, given there is an insurance effort moving forward, we thought we should keep in the denominator.

We can cut that either way but again adjusted holistically high level macro, we're at 96.2% when adjusting for those 41 down units.

To your question about the strength, I would say that, the interest in our asset is due to the quality and due to location as is typical with our properties. The strength of that particular asset has been great for us.

But we believe, as Lou said earlier that, and as I alluded to, yielding or harvesting that capital at those types of cap rates is probably the most prudent move for us in terms of capital.

Peter Abramowitz

That's helpful. And then, one more for me. I just want to go back to Lou's comment a minute ago about office build-to-suit. It sounds like you're hesitant to kind of get started on those.

Is that a more a factor of just not wanting to increase office exposure, or is it more about the construction costs? And then, once the tenants understand the premium rents they have to pay they're a little hesitant and the deals won't pencil?

Lou Haddad

It's really the latter, Peter.

We would engage with a credit tenant that would honor the spread we need to make in order to launch.

Today that number is outside the realm of what people are willing to pay.

I expect that will change at some point.

I expect trophy office buildings to go back to normalized cap rates, in a not too distant future or in the next year or two.

We'll be on the lookout, but right now they just don't pencil.

We don't want to -- we've seen some real estate companies play the game of looking at year four or five as far as stabilization and saying that they're making a spread. That's just not a game we've played for 40 years and are not going to start now.

Peter Abramowitz

Got you. That's helpful.

I guess one more while I have you. Any particular markets where those requirements are kind of most active right now?

Lou Haddad

It's really in our ecosystem of mixed use. You can guess. There's still a lot of activity in Baltimore.

We've got a couple of tenants that would love to get into Harbor Point.

We just don't have the room. Here in Virginia Beach, we are still trying to shoehorn in tenants in a 99% occupied building.

But again you just can't launch.

Operator

Your next question comes from the line of Camille Bonnel with Bank of America.

Please go ahead.

Camille Bonnel

Good morning. You had mentioned dispositions are your preferred route to raise capital today. Just wanted to expand on this a bit more. How big do you expect this program will be? What kind of assets are you looking to sell? If you started marketing assets, how has interest been?

Lou Haddad

As I mentioned, we are looking at two, at most three assets for disposition.

I can tell you that, interest is strong.

We are waiting. These are non-core assets that we're waiting on a few brokers' opinions of value, before we decide where to pull the trigger.

But we're getting unsolicited offers on just about everything we own in the southeast of a multifamily variety. Again as Shawn alluded to, quality is everything.

For an investor that's looking for multi-year hold, they're viewing the current environment as an opportunity to pick-up quality real estate at a discount and then operate it for years to come. The growth markets are still where that activity is going to happen.

We'll be making some announcements in a not too distant future on where that stands.

But as you might expect, at the kind of cap rates we're looking at, it's by far the most efficient way to raise capital.

As I said, with as many as five properties coming online and maybe a subtraction of two, the company will be substantially larger next year in any result.

Camille Bonnel

Shifting to the balance sheet. How are conversations with your lenders going on around your extensions? Are there any updates on how you plan to address any near-term maturities? Just trying to get a sense of how far you're looking across your debt expiration profile, when you're doing your capital planning?

Matthew Barnes-Smith

Good morning, Camille. Yes, a lot of interest from lenders initially when we've looked at a couple of the term loans and we have capacity on them to syndicate.

I would say that it's still limited. The lenders are slowly coming back to the market to have those conversations.

It's better than it was last year when I would say that there was probably very limited lending activity, but that has eased up here in the first of the year.

We have a couple of small maturities this year that we're going to pay off at maturity and we had a construction loan that we were able to extend.

We have two one year extension options at a relatively good rate that we pulled the first one year extension option on.

Nothing for us really too much to concern until we get into the end of 2026.

But yes, we're in constant contact with all of our lending partners to make sure that the debt side of the capital is available as and when we may need it.

Camille Bonnel

Okay. When you think about those 2026 maturities, is the idea to wait, or is there opportunity to address those maturities today? I think you've seen mixed strategies across the REITs in terms of how far they're looking out.

Matthew Barnes-Smith

Yes. We are always monitoring those maturities.

As you know as we're transitioning to this unsecured balance sheet, there are very, very limited prepayment penalties on those loans.

At the right rates, of course we would go ahead and refinance or extend those terms out as and when we could.

We would love at some point as we have said to utilize our investment grade credit rating. The rates and the spreads on the treasury are still a little bit rich for our taste right now.

But yes, we will continue to monitor and at the appropriate time, we will take the appropriate action.

Camille Bonnel

Finally, the new leasing activity with retailers have been slowing over the past few quarters.

We've been hearing that, retailers, though, are moving forward with their store opening plans. Just wanted to get more insight on what tenants are saying to you and are they prioritizing certain markets?

Lou Haddad

They certainly are prioritizing certain markets and again back to the growth markets.

We really haven't seen any kind of a slowdown in expectations. Remember, our portfolio is 95% leased. There just isn't that much room to do a whole lot. The vacancies that Sean mentioned, we already have prospects for all of them, actually multiple prospects.

We're not seeing that. But again we think that's market specific.

I'm not sure what's happening in the rest of the country, but we're seeing robust sales really across the board with the people that report sales.

Shawn, do you want to add to that?

Shawn Tibbetts

Yes.

I would just add to that, that, generally speaking, those decisions are driven by rooftops in the immediate vicinity as well as foot traffic and I'm tying that back to well-located properties. Where our ecosystems are driving traffic, people want to be located and typically that's where business is done.

I think to Lou's point, we're seeing good activity. Yes to your point, Camille, we are seeing people actually signing up, which is a good thing, a little bit different than it was, say four years ago. And so, we feel good about that and looking forward to continued success in that space.

Operator

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

Please go ahead.

Bill Crow

Good morning. Lou, just looking back through some old notes and I made it back to 2018 and I'm sure I could have gone back a little bit further. But during the last six years, we've been talking about uncomfortable levels of balance sheet leverage.

During those six years, you had chances to issue equity at or certainly near $20 a share to sell assets, hit the pause button on new investments, mezz commitments, et cetera. Why are we still talking about the balance sheet? I get the dilution disdain, but I also see a stock price of sub $11 certainly reflects leverage levels that are higher than it should be. How do we -- do we ever get it back down or is it just difficult to say no to good projects?

Lou Haddad

I appreciate the question, Bill. And also I want to clear up something that might have been a misunderstanding. Change in fair value of derivatives is excluded from our core results. This quarter, it was positive, last quarter, it was negative, which is exactly why we exclude it.

I want to make sure nobody picks up the fact that we made some money or made some money on paper regarding a derivative.

Bill, as far as your other question, I think we're always going to be on the higher side of leverage. A company of our size that has the kind of development activity that we have is always going to be on the higher side, simply because the most efficient way to do development is with as much debt as possible. Ultimately, when those projects stabilize, you bring them online and you delever.

I think the short-term debt is a reality of the way we sit in the marketplace.

We have delevered with $18 stock and $15 stock.

We have sold assets at 4.15 cap rates and we're going to continue to operate that strategy. Ultimately, with Matt's plan of ultimately going into the preferred bond market, that leverage will come down to where we would like to see it in that 5.5x range.

But again that will simply be on our core portfolio because development is always going to be full leverage.

Bill Crow

Appreciate that. When do you think we can get to 5.5x? Is that two years, three? I mean just give us a target to kind of think about.

Lou Haddad

I think you're a couple of years out. Again I mean we need the macro economy to participate in that. You'd like to see some normalization of interest rates and spreads come in a little bit.

But we're used to the position -- as I've said at the outset, we're comfortable at these levels.

As you probably recall Bill, we've never gone below 93% occupancy. In a great recession in 2008, our portfolio went all the way down to 92%. That's an all-time low.

We don't really have a lot of speculative income to be concerned about where the leverage sits. That said, obviously the market would like to see it lower.

We'd like to see it lower. We're just not going to do it at any cost.

Operator

There are no further questions at this time.

I would like to turn it back to Lou Haddad for closing remarks.

Lou Haddad

Thanks very much for your time and attention this morning.

It's been a great quarter and we look forward to another great quarter in just another couple of months. Take care and have a great day.

Operator

Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you for participating.

You may now disconnect.