May 4, 2021

Armada Hoffler Properties, Inc. (AHH)

Q1 2021 Earnings Call

Operator
Welcome to Armada Hoffler's first 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, May 4th, 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 first 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 first 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 June 4th, 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, May 4th, 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.

This morning we posted first quarter results with 26 cents of normalized FFO per share, which was in line with our expectations. More importantly, as you see in our earnings release, leasing continued at an accelerated pace, with overall portfolio occupancy nearly back to the mid-nineties' percentages, which is our historical norm. We anticipate new tenants taking possession by year end, with lease revenue returning to pre-pandemic levels early next year. Simultaneously, the rent collection percentages have returned to near 2019 levels and bad debt write-offs continued to level off. While we are very pleased with these results, they barely begin to tell the story of the momentum building within our company.

As we relayed to you with our guidance presentation last quarter, 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 earnings multiple and ultimately lead to significantly higher earnings and dividends over the next few years. As the company's largest active equity holder, management remains committed to generating long-term value for all shareholders.

Later in the call, Mike will walk you through some of the specifics from the first quarter. I'll use my time today to briefly, detail some of the recent developments that we believe will ultimately accelerate the accomplishment of our longer-term objectives.

On numerous occasions we have discussed that our mezzanine lending program will be gradually reduced to approximately 80 million dollars in size. We had anticipated that the two major projects in this program would have loans outstanding until the end of 2022, thereby reducing our ability to meaningfully resize the program until that time. We still project that the Interlock commercial loan will be outstanding for that duration; however, due to favorable market conditions and the rapid pace of unit absorption, our partners at Terwilliger Pappas have decided to market the Solis Interlock asset. We now anticipate that loan to be paid off in the third quarter. The projected return of 33 million dollars of capital, inclusive of nearly 10 million dollars of earned interest, will enhance our flexibility to take advantage of other opportunities that are appearing on a regular basis.

Since the fall of 2019 we have made clear the goal of rebalancing the percentage of our NOI that is derived from retail assets. Ultimately, the portion of NOI from retail will decrease due to the predominantly multi-family and office make-up of our development pipeline. We have also made it clear that we expect to focus the retail sector of our business on high-quality grocery and discount anchored centers, both through development and acquisition. During the first quarter, we closed on the acquisition of a Whole Foods anchored center in Delray Beach, Florida. Additionally, we have identified a few off-market acquisition opportunities in the retail area. As you might expect, these potential acquisitions would fit nicely with the return of capital from the Solis Interlock payoff.

Last quarter I reported that we already had over 90,000 square feet of new leases on vacant space and an additional 46,000 square feet in final negotiations.

There is no substitute for well-located real estate regardless of the property type. As a case in point, I'm pleased to report, we have executed nearly 60,000 square feet of new leases including the Bed Bath and Beyond vacancy at North Point which is now leased to Burlington. As a reminder, we had agreed to

terminate two of our Bed Bath leases in order to recapture the space at those centers. We can now report that both spaces were almost immediately re-leased with minimal investment and a nearly 7% aggregate increase in NOI.

In addition, we have another 50,000 square feet of retail space at lease.

Given the velocity of activity around our assets, our expectation continues to be that we will be ostensibly back to our retail sector historical norm of approximately 95% leased within the next 12 months.

Substantial progress is also being made at Wills Wharf, our office building at Harbor Point in Baltimore that was delivered at the onset of the pandemic. Tenant activity has resumed, and we now are in final lease negotiations with two credit tenants, totaling 40,000 square feet, that will shortly bring total occupancy to 60%. As you might expect, the announcement of T Rowe Price bringing 1,700 employees to Harbor Point and the governor's decision to locate several state facilities in the central business district, thus bringing an additional 3,300 employees in close proximity to our collection of assets at Harbor Point, will serve to further enhance the value of all our properties at this location.

The development pipeline is largely unchanged from last quarters call. All commencement and completion dates remain intact. As you may recall the four projects underway total nearly 250 million dollars and are heavily weighted to the multi-family sector. Given the robust market for these types of assets in the Southeast, we expect to eclipse our historical 20% spread between cost and value on these facilities.

Those totals do not include our recently announced joint- venture with Beatty Development for the 450,000 square foot build-to-suit for T. Rowe Price's world headquarters and its complementary mixed-use development. These two, world class, state of the art facilities are adjacent to our other 3 assets at Harbor Point on the Baltimore waterfront. Our team is fully engaged, and we anticipate groundbreaking on the complex prior to year-end.

Moving on to construction, that group continues to perform at the extremely high level we have come to expect over these many years. This facet of our business is also generating the same sort of momentum that we are seeing company wide. The team is successfully wrapping up several large third-party projects in the next few months and expects to break ground on two more engagements for a long-standing client later this quarter.

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, the perspective we have gained in navigating what is our 5th major recession have allowed us to use the strategies that have seen us survive and ultimately thrive through multiple cycles over the decades. Conserving cash, working with tenants, reducing operational expenses, taking care of our people; all these approaches set the stage for the most important part of the equation, taking advantage of new opportunities, and ultimately outperforming our peers in the subsequent recovery. We fully anticipate demonstrating that outcome over the next few quarters.

As you saw in the press release yesterday, the board has continued to increase the dividend given the momentum that we see building in the company. We believe robust leasing, off-market acquisition opportunities, development progress, new construction contracts and additional free capital will justify this and subsequent increases.
Now I'll turn it over to Mike for an update on the quarter.

Mike O'Hara

Thanks Lou.

Good morning, I hope all is well with you and your families. This quarter we refreshed our supplemental package. We think you will like the changes and find it easier to navigate.

For the first quarter, we reported FFO and Normalized FFO of 26 cents per share. Rent collections continue to be strong at 99% portfolio wide including retail collections of 98%.
Bad debt write offs were $270,000 which is approximately the same as last quarter.

With bad debt write offs stabilizing and rent collection near 100%, it appears that our tenants and our company are successfully handling the impacts of the COVID-19 pandemic.

We have collected 92% of existing deferrals due and expect to collect all remaining deferrals outstanding. See page 28 of the supplemental package for more information on our rent deferrals.

Our stabilized operating portfolio occupancy for the first quarter was at 94 percent, with office at 97, retail at 94, and multifamily including student housing was at 92. Our conventional multifamily was 96 percent occupied with the student housing at 85 percent. The student housing property, John Hopkins Village, is the outlier at 74 percent. It's COVID related decline in occupancy along with the expiration of our five-year real estate tax abatement, were the main contributors to the negative 9.5% same store NOI. We expect this property to be back to 100 percent leased this fall with the university back to in person classes.

As Lou discussed, we are seeing leasing activity pick up across all our property types. In total, we have leased over 150,000 square feet since last October. This does not include re-signing 100,000 square feet of Regal Cinema leases. We are making good progress in getting tenants in place, but until all tenants are paying rent, our NOI and EBITDA will be lower, which is having a temporary negative impact on our leverage metrics.

Releasing spreads were positive overall for the quarter at 6.1% GAAP and 0.6% cash.

If you look at the performance metrics of our portfolio including occupancy, rent collections, re-leasing spreads, and how quickly the vacated space re-leased, it reflects the high quality of our real estate.

As Lou discussed, we are focused on growing NAV. Page 8 of the supplemental package has the component data for calculating our NAV. When evaluating our NAV, please see the section on the bottom left of this page with additional information to consider when valuing the company. These include management's estimate of the land value from the development rights from the restructured Harrisonburg Regal lease and the vacant space as of March 31st. The 73,000 square feet of vacancies listed are all at lease along with an estimated rent amount not including CAM. We believe these have real value and should be considered when evaluating our NAV.

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 total, since the pandemic started, we sold ten unencumbered retail assets for total of 106 million dollars, including the disposition of the unencumbered Kroger-anchored center during the first quarter for gross proceeds of 5.5 million dollars.

These asset dispositions combined with the 100 million raised through preferred stock issuance last year, we raised over 206 million in cash. And to reiterate, 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 addition, this year we prudently issued stock through the ATM program, raising $14.6 million at an average price of approximately $13. These combined capital raising activities put us in a position to fund our development projects including the T. Rowe Price headquarters. With most of the projects beginning later this year or in early 2022, as is the case for the T. Rowe Price project, capital requirements in 2021 are modest. In addition, we own the land for the all the projects in the development pipeline. As is typical of ground up development, the capital requirements ramp up over an extended period of time. With the modest capital requirements this year, we believe using the ATM program is the most efficient method to raise capital to the extent necessary, assuming favorable market conditions. Alternatively, we could sell additional non-core assets to fund future developments.

We are excited to be part of the development team for the new T Rowe Price headquarters building and the associated mixed-use project. Our ownership in these projects is expected to be 50%, with both projects structured as non-consolidated joint ventures and, therefore, off balance sheet. The current estimate of our equity requirement combined for the two projects is 60 million dollars. This capital requirement and the corresponding investment in the joint venture are likely to be the only impacts on our balance sheet.

Last month, we closed on the refinancing of the last 2021 debt maturity. We have now started addressing our 2022 maturities.

Our 2021 per share earnings guidance is unchanged with Normalized FFO of 98 cents to $1.02 per share. Please see page 4 the supplemental package for the details of our 2021 guidance ranges and assumptions.

Now I'll turn the call back to Lou.

Lou Haddad
Before taking your questions, I would like to take a moment to draw your attention to our ongoing sustainability initiatives. Last month, we published our 2020 sustainability report, which can be found on our website. We are excited to share the enhancements that have been taking place over the last year.
Operator, we would now like to start our 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 comes from Dave Rodgers of Baird.

Dave Rodgers
Thanks for the added disclosures this quarter. Lou, you talked quite a bit about the tone, or you talked about a lot of leasing, and I guess I'm curious about the tone and the focus of the leasing activity that you are seeing. We hear, in office, that it's all about high quality buildings and everybody upgrading. And you're pretty full in office. So, I guess when I look at the impairment at Socastee and the Bi-Lo departure there. Is there any trading going on in the multifamily and/or the retail business that you're seeing that would give us a better sense of where that leasing direction is headed?

Lou Haddad
We're seeing that, really, portfolio-wide, and based on the amount of activity that we're seeing at Wills Wharf, I think it's going to continue for quite a spell. On the retail and multifamily front, cap rates continue to compress. And so, you're seeing an awful lot of leasing take place in a short period of time. People are rushing to fill vacancies, again, in the higher quality centers.

I foresee this continuing through the summer, maybe through year-end, but we are rapidly running out of space. So, I think I can confirm your thesis on what's happening out there. I'm not sure that, that is true in the gateway markets, and I'm not sure it's true in B quality assets, but in terms of the best located real estate and the highest quality buildings are seeing no lack of activity.

Mike O'Hara
Yes, Dave, just one thing on the office leasing, just on our releasing spreads, show negative cash for this quarter, that was one tenant that renewed for 2 years, it's 4,000 square feet. I think it's a good indicator on what's happening.

Dave Rodgers
Great. That's helpful. I did miss some of the early part of your answer. I don't know if it was mute or just my phone. So, if I ask something repetitive, I apologize. Mike, I guess I'll ask about the initial repayment at Interlock. I thought, at some point, you were going to get an initial payment back from your partners there. Maybe that did happen, it looked like the balance just continued to build. So, was there any difference or change in the way that your mezz loan at the Interlock has been treated, or your plans for that?

Mike O'Hara

Yes. So, there's 2 different loans here. One is the multifamily piece with Terwilliger Pappas that Lou talked about that we're expecting that to be market and sold and have that loan paid off, paid off early.

On the other, the commercial mixed-use piece, there are some parts of that, or some townhome parcels we're trying to contract, and we're expecting those to start closing and have some of those parcels paid off here, starting later this month or early next month. We did loan some more money on that project, has been some changes in the senior loan of which we're working with our partner on that as well as the lender.

Dave Rodgers

Okay. That's helpful. Last for me is on the student housing, you did talk about Johns Hopkins and the other projects, I guess I'm curious on the leasing pace for next year. I imagine there's quite a bit of a question as to whether or not the schools will open and how quickly, but what are you seeing in the lease space for your student housing assets, as you think about the fall lease up?

Lou Haddad

Dave, it's a little slower than is typical, and I think there's some hesitancy based on the obvious. Hopkins has announced that they're doing fully in-person classes come fall as is we expect the College of Charleston. So, we expect things to be normalized come next school year, starting in August.

Operator

Our next question comes from Rob Stevenson with Janney.

Rob Stevenson

Just to follow up on Dave's question. Lou, are you having to provide any type of different out in the lease if the college goes remote, given that this is the first time that any of this stuff has really been experienced?

Lou Haddad

We're not. All the leases are 12-month leases that we're doing on those 3 assets.

Rob Stevenson

Okay. So, if these colleges go remote, then the student can stay or whatever, but there's no ability for them to stop paying rent until it goes back to being in person, or anything like that.

Lou Haddad

Correct.

Rob Stevenson

Okay.

Lou Haddad

And I think, hence, that's why I think you're seeing, again, nationwide, you're seeing absorption at a slower rate. But like I said, based on virtually every college talking about full in-person classes, our expectation is that the fall semester is going to look a lot like 2019.

Mike O'Hara

Yes, what we're hearing is the students are ready to sign leases, but the parents are not because they got burned last year. So, there's been a slowdown in getting the parents to sign leases.

Rob Stevenson

No, I mean it's perfectly understandable. I mean I just didn't know whether or not the market had changed to, basically, have some sort of remote out, or pause, or whatever, on these leases in order to

accelerate that leasing, especially if you didn't think that it was a likely event, that colleges would go remote again.

On the mezz portfolio, how should we be thinking about that? How aggressive are you guys? You added Nexton, but how aggressive are you guys in back-filling that? Because when I look, the guidance was basically flat for versus last quarter in terms of the expected income in 2021 on that. Are you expecting when Interlock goes and part of the mixed-use gets paid back that there's going to be another one in addition to Nexton, that's added into that pipeline. How should we be thinking about that?

Lou Haddad

Yes, our expectation is that 1 to 2 projects will be added sometime in 2022 to continue the program at the rate that we'd said, we've set a target of roughly $80 million to being our threshold for it. And of course, that's only a guideline. We're not going to turn our noses up to good business and we're certainly not going to do substandard business just to hit a target, but that is our expectation. Our partners are very active. And as you might imagine, the multifamily is very active. We don't anticipate any issue with refilling that pipeline.

Rob Stevenson

In terms of that, how are you guys thinking about just straight out 11%, 12%, 15% loans versus the loan to own. When we look forward, are you guys really only interested in loan to own, or are you more than happy to take 12% or 13% transactions where you have no real ability to get to the asset?

Lou Haddad

It's a great question, Rob. And it's really both. What we want to do is participate with well-heeled partners in great real estate. And to the extent that our ability is limited to only be able to get that interest income because of the exit cap rate that our partners can achieve, then so be it. As we've said, for probably as many years, we underwrite each of these as if we're going to own them, and we certainly would love to own them. But as you know, sometimes that exit cap rate is just so far below our cost of capital it just doesn't make good sense.

Rob Stevenson

Okay.

Mike O'Hara

There's a couple of the things, Rob, when you look at the return, some of these loans, its simple interest, some are compounding, and most of them also have a minimum amount of interest that needs to be paid somewhere between 2.5 and 3 years. So even on an early exit, we're looking to getting the full amount.

Rob Stevenson

Okay.

Lou Haddad

Also remember we're also as a rule, the rule of thumb is if you want our money, you're also using our construction company. And so, there's typically a construction fee involved as well.

Rob Stevenson

All right, speaking of that, what are you guys seeing in terms of the materiality of construction costs increases on future projects? I mean have you guys bid out T. Rowe and the other stuff in your pipeline now and what is that versus what it would have been 1 or 2 years ago?

Lou Haddad

Yes, I think we wouldn't be the first to tell you that the prices are going crazy right now with what's in our pipeline. The 2 projects that are in the ground now, Gainesville and Chronicle Mill, everything's been fully bought out and materials are either onsite or are in route. And that's been since last fall and early winter. So, nothing really, no real effect there with regard to the 2 that we haven't started yet, we really don't need materials until early next year. So, the hope and expectation are that things will normalize a bit. With respect to T. Rowe Price, no, that is that project is in design now. Where we're seeing the biggest increases as you might expect is in residential type construction, the multifamily side wood-frame. I think everybody knows wood has tripled if not quadrupled in price from a year ago. Again, hope and expectation is that we'll normalize before we need any wood.

Fortunately, on the T. Rowe Price project, most of what we do is high rise, concrete construction, which is less affected. However, we're seeing material increases everywhere. And this is where it's helpful to have your own construction company because we stay really close to the market. We have multiple lines of subcontractors to utilize as well as a network that's more regional than local to bring in what we need for properties.

Rob Stevenson

And how about on the labor side? How much inflation are you seeing there? Are you seeing good availability as well?

Lou Haddad

We're not having a lot of trouble on that side yet. Again, I imagine if you're in home building, it's getting really difficult, but for large scale projects, we're not seeing the issue there. It's really on the material side. Now again, things are getting tighter all the time, but our expectation is that with the premier projects we're doing which will be the largest contracts in their regions, we feel certain that we'll be able to attract what we need to expedite construction.

Rob Stevenson

Okay. And then last one for me, you talked about being in negotiations on some leases at Wills Wharf. What is the pipeline behind that look like to get that asset sort of fully felt at this point?

Lou Haddad

Sure, like I said, our expectation is we'll be at 60% here shortly, which leaves around 100,000 square feet. We're 90 to 100,000 square feet to lease. Really good activities surrounding the asset. Maryland has been a little bit behind Virginia and the Carolinas in terms of reopening, but now it is reopening and they're getting a lot more tours, a lot more activity. I'll tell you; we are extremely excited about what's going on at the Baltimore waterfront. You heard me mention earlier, the state is bringing some 3,300 employees into the CBD, which is certainly going to help downtown Baltimore and tangentially help the

harbor by not having problems next door. And with T. Rowe Price, essentially committing to a long- term lease with 1,700 employees, the activities just really picked up. And so, our expectation is that behind that 40,000 square feet is a like amount that we hope to sign prior to the end of the year, if not sooner.

Rob Stevenson

And is the Hilton open? And if so, how's the utilization there?

Lou Haddad

The Hilton's open. As a matter of fact, I had brunch there this past Sunday, restaurant was full. I think again, they're slowly building back, not dissimilar from what we're seeing at the other hotels that tangentially are in our properties. So, for instance, the Westin here, they're still on the wrong side of 50% occupancy, but that is building and should continue to build. The PPP really helped the hotel industry. So, we're not seeing the kind of duress that you normally would see with those kinds of occupancy numbers. So again, expectations are later on this summer, if not fall, that they'll be normalized.

Operator

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

Jamie Feldman

I guess starting with T. Rowe, following up on the construction materials question. I mean do you have any protections in that? How does it work if prices do go up materially?

Lou Haddad

Jamie, all I can tell you is that we are fully protected against price increases. And I just have to leave it at that. I don't want to give the details of the lease, but it's incumbent upon all of us to keep prices to a minimum as it's helpful for everybody, but we're not at any risk there.

Jamie Feldman

Okay. I guess just generally with the increases, do you see changing any of your price structuring like cost plus or anything like that as opposed to fixed pricing or anything you think will change here if we do see this kind of sustained rise?

Lou Haddad

Again, our construction company works collaboratively with owners where we really don't bid for projects. We work with owners and architects to come up with the best designs to expedite construction. And so, it's more of a team approach. Now ultimately, if things continue to go where they're going, then we're going to see delays in projects. I mentioned that our construction company is going to break ground later this quarter on a couple of projects for a long-term client. Those projects were supposed to start earlier this year and they haven't started mainly because people are wrestling with costs. And again, our guys are working with the owner and the architects in order to try and get the best value for their dollar.

The thing that is happening on the other side, Jamie, that you're probably well aware of is that cap rates are compressing. So, you're still able to maintain a spread, but at some point, the expectation would be that rents aren't going to keep up with those costs. That's what our system is all about, right? Once that demand goes away on the rent side, then you'll see enough projects die. And when they die, hopefully prices come back in line.

Jamie Feldman

Okay. Those are helpful thoughts. You had mentioned the Regal Cinema leases or one of them at least being backfilled. And I appreciate the added disclosure this quarter. Can you just walk us through? Because it looks like you've got them expiring from '21 to '24. I know there's only one listed on the through '23 table, but can you just talk us through all those leases and where they stand and what vacancies you may still have coming?

Lou Haddad

Sure. So, with the 2 Regal Cinemas, the one in Harrisonburg, as we reported earlier, in bringing Regal back in, we negotiated our ability to do a mixed-use development on the property, which we are moving forward with. And again, hope to break ground first quarter of next year. Regal there, they're going to open in the middle of May. And that lease is at their full pre-pandemic rent level. The Regal here at Town Center is different. We're kind of in a wait and see mode. They're going to open that one in the middle of May as well. We've only made a deal for minimal rent from now through the end of the year. And at the end of that period, we and Regal are going to decide if they can go back to full rent and or if we decide it would be better for us to go ahead and take the building back and do the multifamily project that we had previously talked about.

So, we're somewhat in the catbird seat there. We're good with either outcome, but we're going to see how well the movie theater business does. It's a different situation here at town center. There are a half a dozen theaters nearby versus in Harrisonburg, from what we understand, it's the only movie theater within a hundred-mile radius. So, we suspect that one's going to stay a movie theater forever.

Jamie Feldman

Okay. That's helpful. And then you guys had mentioned the mark to the office leasing spreads weren't really a good example of where things really stand. Can you talk about your mark to market on both office and retail? I know the portfolio is a little all over the place, but just any thoughts there.

Lou Haddad

It's somewhat difficult, Jamie, on the vacancies, particularly the COVID-related vacancies. Where we are spending considerable tenant improvements with higher credit tenants, we are getting higher rents than what we were getting prior to the pandemic. Where someone is willing to come in essentially as is, we're giving a discount on the rent. And it's really all over the board, it's almost everything in between. I think the best thing we can say about those vacancies is that our expectation is that NOI on those properties will be slightly above where it was in 2019 once everybody's paying rent, which we expect to be early next year. So again, our portfolio, remember our whole business model guys, our portfolio grows at one and a half to 2% a year if you look at it on a decade-by-decade basis. Our primary source of growth is through that development pipeline.

Jamie Feldman

Okay. So, you said you expect NOI higher than 2019. Does that include the development?

Lou Haddad

No, I'm talking about just on the stable portfolio.

Jamie Feldman

Stable portfolio, and you're saying office and retail combined?

Lou Haddad

Yes. Yes.

Jamie Feldman

Okay.

Lou Haddad

And then hopefully a bit higher than that on the multi-family. Now if you saw our guidance presentation, our expectation is when the development pipeline stabilizes, you're going to see a bit of a hockey stick formation.

Jamie Feldman

Right. Okay.

Lou Haddad

But that is a '23, '24 story.

Jamie Feldman

Okay. And I just want to clarify, you made a comment that the ATM is the most efficient way to raise capital going forward. Are you saying as of now, you're happy tapping the ATM for future needs?

Lou Haddad

Go a little bit deeper than that. We have fairly minimal capital needs and so therefore it is by far the most efficient way to get that. I wouldn't say we're happy. We weren't happy when the stock was trading at $19 so we sure as heck aren't happy when it's trading at $13 or $14. But for the minimal amount of equity that we need and the ability it gives us the dollar cost average in as small as the requirements are, it is by far the most efficient way. Mike, do you want to add to that?

Mike O'Hara

And if the stock doesn't continue to increase, we'll do what we did last year as a sample though, look at selling more assets. And one thing we always look at with the ATM or raising is what's our cost to capital and is the money being put to work that is still lucrative, especially in development projects. And when we're seeing the answer is yes.

Jamie Feldman

Okay. And then my last question is just on WeWork, any changes in their -- your plans for them in your portfolio? Or will they grow, will they shrink or just stay where they are?

Lou Haddad

I'm pretty sure they'll just stay where they are, Jamie, they're doing fine. As you know, they consolidated into our high rise in Durham. And so, it is the WeWork in that market, and our expectation is they'll be fine there for 15 years. Our partners at the interlock in Atlanta have them on one floor, which I think is being built out now. Our expectation is that they're going to be defined, we don't have, I think I've said this before, pre-pandemic, everybody was touting that coworking space was going to be 10% to 15% of the overall market, class A office market. And then of course the pandemic hit, and it was going to be zero. My guess is things will go back to the center line within 1 or 2 years and coworking will be an active ingredient. Now whether or not that particular name does well, it's anybody's guests. But I think that kind of arrangement is going to be here to stay for a small but significant part of the office market.

Operator

Our next question comes from Dave Rodgers with Baird.

Dave Rodgers

Lou, just tying in your comments for the demand around high quality projects and obviously starting a couple of construction projects and your construction business, I guess what's the backlog of activity in your own development pipeline beyond what we're seeing? So, you've got $240 million in process, $138 million complete and leasing, 10 trillion still sitting out there as an opportunity. So, I guess, are you still looking to backfill that pipeline or are there more adds to that? Do you think, here in the next 6 to 9 months and in terms of the own development pipeline?

Lou Haddad

Dave, we're okay with adding more. We're being extremely selective at this point. That $240 million does not include $400 million or so that we're working on with T. Rowe Price and its companion development. So, we're going to be awfully busy. We're seeing more opportunities than we could ever execute on. So, we're going to continue to try and fill more holes, but we're going to be extremely selective. Our hope expectation would be over the next 12 months to add a project or 2 to that development pipeline, but we're really looking for the home run opportunities at this point.

Dave Rodgers

All right. And then Mike, maybe just a follow-up on the deferral. You have the write off category and then the abatements. I guess just in terms of having a deferral already in place and then abating it, I guess one, how is that different than the write off? And I guess, should we think of that as more of a blend and extend as you're negotiating leases? Maybe just some added color on that abatement number.

Mike O'Hara

Yes. So, we added approximately 400,000 to the deferral agreements this past quarter, and some of those had abatements in them. And on the write-offs, obviously the ones that have been in place, we're working with the tenants to try and keep it going and written off some of those deferments.

Operator

There are no further questions at this time. I would like to turn the floor back over to Louis Haddad for any closing comments.

Lou Haddad

Thanks very much for your attention this morning. Look forward to updating you over the next couple of months and reporting on next quarter. Have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a great day.