November 5, 2020

Armada Hoffler Properties, Inc. (AHH)

Q3 2020 Earnings Call

Operator

Welcome to Armada Hoffler's third 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, November 5th, 2020.I will now turn the conference call over to Michael O'Hara, Chief Financial Officer at Armada Hoffler. Please go ahead.

Mike O'Hara

Good morning and thank you for joining Armada Hoffler's third quarter 2020 earnings conference call and webcast. On the call this morning, in addition to myself, is Lou Haddad, CEO. The press release announcing our third quarter earnings along with our quarterly supplemental package were distributed this morning. A replay of this call will be available shortly after the conclusion of the call through December 5th, 2020. The numbers to access the replay are provided in the earnings press release. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, November 5th, 2020 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 www.armadahoffler.com. I'll now turn the call over to Lou.

Lou Haddad

Thanks Mike. Good morning everyone and thank you for joining us today. As we all continue to work through the pandemic in our own ways, we express our gratitude to all those who are making a positive impact in the fight and pray for those who have been affected by COVID-19. We are thankful that our employees have remained healthy throughout the pandemic and pray our good fortune continues. We continue to be pleased with the resilience of the company and our tenants and vendors during this uncertain year. While Mike will update you on our results and financial metrics, I am going to use my time today to update you on the progress of our repositioning plan and the long-term value that we intend to create. As many of you know, last fall we embarked on a multi-year strategy

featuring several key initiatives that were designed to increase equity value, create higher quality earnings and NAV, and ultimately move a then current share price of 18.00 or so, meaningfully higher by the end of 2022. Although we could not have foreseen the intervening disruption and precipitous drop caused by the pandemic, the plan, as well as the time frame and end goal, remain the same. While we abhor the human and economic cost of the virus, it has enabled us to accelerate several aspects of our plan. Let's take the various facets of our strategy one at a time, beginning with the goal of reducing our retail segment to less than one-third of property NOI. This process is well underway. Beginning with the sale of seven of our older retail centers last spring and the planned disposition of a few more in the coming several quarters, selling quality centers that have performed well through the pandemic has been and will continue to be a significant source of balance sheet strength with a large portion of the net proceeds likely to be redeployed into new development opportunities. These dispositions notwithstanding, we expect the retail segment of our business to remain an important and growing component of our business model that we believe will increase in value with the market's eventual recognition that quality retailers in prime locations are a durable source of future income. Also, as you saw by our recent press release, we have terminated our two Regal Cinema leases and intend to proceed with mixed-use developments that will feature a large component of multi-family units on these well positioned sites. As we have mentioned on several earnings calls, these properties were designated for redevelopment for quite some time. While we would have been fine with letting the leases run to completion, the terminations enable us to move much more quickly to capture the true value of this prime real estate. We believe that the underlying raw land in both these locations is worth more than that of the previously leased assets. Not to mention, the ultimate value creation of the new mixed-use apartment communities planned for both sites. These redevelopments, from older retail into new multi-family assets will meaningfully accelerate the rotation we desire into higher quality assets. We are already in the preliminary design phase for these properties and expect to commence construction on both by the end of 2021. This brings us to our second goal: increasing the contribution of our multi-family sector to over one-third of property NOI. With the off-market acquisitions of the Edison Apartments and Annapolis Junction, we have added nearly 600 units of stabilized apartments bringing our portfolio to over 2,300, exclusive of our student housing assets. This total, combined with the development of the Gainesville apartments and several other sites in predevelopment including the former Regals, virtually assures us of achieving this goal. In fact, our expectation is that the apartment portfolio will grow to over 3,000 units in the next few years. We are extremely fortunate that our markets are included in the areas of the country, specifically the mid-Atlantic and southeast, that continue to experience strong population growth and an influx of economic activity. For example, in the third quarter, Atlanta alone had absorption of over 8,000 units. One need only look at the high occupancy and financial performance of our apartment portfolio for validation of our belief in these regions. Next, we outlined last fall our intention to reduce the size of our mezzanine lending program over a 24-month period. While we have great faith in the program and its results to date, this reduction is in keeping with our stated intent to allocate more of our investment capital to equity positions on future ground-up development projects. I'm pleased to report that by year end, the only outstanding mezzanine loans will be at the Interlock in the

heart of west mid-town Atlanta. These two loans will run through 2021 to allow for completion and stabilization, with disposition planned for the first half of 2022. It is unlikely that we could bring those projects on balance sheet given the low cap rates prevalent in that market. However, if for some reason our partners cannot achieve full value for these mixed-use and multi-family, trophy assets, we would be glad to acquire them at a discounted price. This flexibility, made possible only through a diversified model, has already allowed us to acquire two top-quality assets, Nexton Square and Annapolis Junction. As for the last remaining loan, we have signed a letter of intent to purchase the Delray Beach, Florida Whole Foods, at a significant discount to pre-pandemic value. Although the decreased mezzanine book should still yield some 15 million of interest income next year, both the size of the program and the income will be meaningfully less than the 2020 levels. With the payoffs of the Interlock loans slated for the first half of 2022, and our desire to only use the mezzanine program on smaller, shorter term assets, the sector should produce interest income in the mid-7 figures that year and probably thereafter. Thereby providing a meaningful, yet lower risk adjunct to our development and construction activities. Perhaps the most important component of our strategy is the commencement of a pipeline of new development projects. As most of you know, the primary driver of growth in our company has been, and will continue to be, the development of high-quality assets at a wholesale cost to be delivered into our portfolio at a retail value. Last spring, we were poised to begin a new pipeline when the pandemic hit. In fact, we had already closed on 3 parcels of land for those announced projects. We prudently paused those developments but preserved the ability to quickly restart the process at a more appropriate time. With the groundbreaking of the Solis Gainesville apartments, we have initiated new development activity which, assuming conditions continue to improve, we intend to ramp up over the next several months. This will entail our previously announced projects and perhaps one or two more. These assets are predominately multi-family in nature with the balance being office and a small amount of retail. All are located in high-growth sub-markets in the Southeast. Also, as I mentioned on our last call, our expectation is that our construction group will ultimately be able to achieve more advantageous pricing than was anticipated prior to the pandemic. These lower costs have been the case coming out of the previous four recessions and preliminary data shows a slight but measurable positive impact this time around. This should only add to already healthy development spreads. Another aspect of our plan was to reduce our exposure to potentially unstable business models, particularly in the retail space. Fortunately, the vast majority of our tenants have proven to be fully capable of surviving the pandemic to date. Obviously, it's too soon to sound the all-clear; however, as you've seen by our 96% rent collection rate in both the third quarter and in October, along with the collection of nearly all the deferred rent due under payment plans through October, our tenants are adapting quite well to the current environment. That said, the termination of the two Regal leases, two Bed Bath leases, as well as WeWork at Wills Wharf substantially mitigates potential material threats to property NOI within the portfolio. In addition, our partner is closing in on the reduction of the WeWork space at the Interlock. Assuming the economy continues to heal at a slow but reasonable pace, we anticipate strong portfolio performance to continue, and ultimately improve through 2021. Additionally, based on the encouraging amount of activity around nearly all of our new vacancies, we are optimistic about fairly rapid

backfill of second-generation space. In fact, several letters of intent are in negotiation now that we expect will turn into over 62 thousand square feet of new leases in the near term. Backfilling these vacancies will demonstrate the strength of our retail portfolio and be a good source of increasing earnings. We also anticipate substantial progress on the lease-up of Wills Wharf over the next 12 months. Although the 2020 capital plan that we envisioned last year is largely complete, the future components will likely accelerate in their implementation. As Mike will describe to you a bit later, the results to date have put the company in the strongest liquidity position in our history as a public company with 200 million dollars of cash and availability under our credit facility. That said, we continue to evaluate options to further increase liquidity and fortify the balance sheet in order to fund future growth. Once again, our position as the company's largest equity holder governs the critical decision of how best to source new capital. While we are pleased with the outcome of raising over 100 million in our preferred offering this past summer as a bridge over the pandemic, we do not intend to issue any more of these preferred shares at least until the value of the common shares return to 85-90% of the whole capital stack. Likewise, we are not interested in selling any substantial amount of common stock at these discount prices, with the possible exception of a relatively small amount of activity on our ATM. Not only is our diversified business model and portfolio a key differentiator among our peers, it provides us with the flexibility to take advantage of rapidly changing market conditions and identify alternative and cost-effective sources of capital. First and foremost, we feel confident in our ability to sell enough high-quality non-core assets to fund the majority of our 2021 capital needs. We will be finalizing our 2021 disposition plan over the next few months, and we are evaluating several assets inclusive of student housing, office, and a few more retail centers. Secondly, we will continue our long-standing practice of teaming up with trusted partners for joint ventures on some of the pipeline projects. The development and construction expertise we bring to a partnership adds considerable value in excess of a simple equity position. Perhaps most importantly, the influence we can exercise on the ground through our operating divisions gives us the confidence to assume a non-controlling interest in some cases, which provides even more balance sheet flexibility. As we have said on many occasions, a management team that is so well vested in the per share value of our company has no desire to expand the size of our asset base without creating significant equity value. Although recycling capital may slow the pace of our growth, the growth that does occur through our development spreads and profits reaped from low cap-rate dispositions, will meaningfully contribute to NAV expansion and should allow for steady increases in the dividend over the coming few years. In short, we believe that our emphasis on value creation over growth will serve investors well in both the short and long-term, much as was the case in the 5 years preceding the pandemic, when our total returns more than tripled those of the REIT index. As we have seen over the last four decades, real estate is a long-term proposition, while quarter to quarter results may get headlines, long term value creation produces durable returns. As I said, we expect that by the end of 2022, much of the development pipeline will be delivered, the existing portfolio stabilized and upgraded, and consequently, core debt to core EBITDA should fall to pre-pandemic levels. The make-up of our NOI and ultimately our earnings will be much more resilient to economic volatility and poised for further growth. In totality, these activities set up 2021 as a transition year for our company

and will have a meaningful effect on 2021 FFO. However, we expect the temporary drag will be once again partially offset with significant third-party construction income as our construction company continues to perform at an extremely high level. Although some temporary effects of our strategy negatively affect earnings, our responsible approach will yield several positives, even in the short term. With our liquidity position at an all-time high, our fixed charge coverage ratio will continue to be very healthy and dividend coverage will be robust with room for potential increases. We believe these metrics should give investors the confidence to align with management while we substantially increase the value of the company, much as they have done over the last several years leading up to the pandemic. To recount a little bit of our corporate history, after the recession caused by 9/11, we emerged as one of the strongest commercial real estate concerns in Virginia. Following the great recession of 2008, we emerged as one of the strongest commercial real estate firms in the southeast. We feel strongly that, once the current downturn is behind us, and we again demonstrate our abilities, we will be recognized as one of the country's strongest small cap REITs. In all, this will be the 5th severe economic disruption that our leadership team will navigate, and I expect the same long-term positive results that we produced in the first four. Now I'll turn it over to Mike.

Mike O'Hara

Thanks Lou.

Good morning, these are certainly unprecedented times and I hope you and your families are healthy. With the continuing impact of the pandemic on our company, we have been busy improving our liquidity and positioning the company for future growth. For the third quarter, we reported FFO and Normalized FFO of 24 cents per share. This includes the write off 1.1 million dollars from the termination of two Regal Cinema leases and an additional 1 million dollars from various other write offs. We are including an additional 500 thousand dollars of bad debt through the end of the year in our guidance. Without the effect of the Regal Cinema write offs, our normalized FFO would have been 26 cents per share. The portfolio has performed well in the third quarter under the circumstances with rent collections of 96% portfolio wide with the same the month of October. To date, we have collected 1.3 million dollars of previously deferred rent. We expect to collect an additional 700 thousand by the end of the year and 1.7 million in 2021, and 100 thousand in 2022. Please see the COVID-19 Update information in the Supplemental Package with detailed information on rent collections and deferrals starting on page 27. Our core operating portfolio occupancy for the third quarter was strong at 95 percent, with office at 97, retail at 94, and multifamily at 96. Over the next couple quarters, we are expecting retail and overall occupancy to be lower by 6 percent and 2.5 percent respectively due to known upcoming vacancies. We came to an agreement with Bed Bath on the future of our four stores. All amounts due per the leases were paid and two of the leases, the North Point and Wendover locations will be terminated effective January 31st, 2021, and we were paid termination fees of 1.1 million. As part of the agreement, we are negotiating a relocation right for the Town Center location. This combined with the Regal termination provides us with 10 acres of prime mixed-use real estate including a large multifamily component. Please see the table on page

28 for more information on known terminations. With the termination of the Regal leases along with the current and upcoming vacancies, our NOI will be lower which we expect to have a negative impact on our leverage metrics and NAV. We are expecting our leverage to get higher until new tenants are in place. However, as Lou said, we are seeing a lot of leasing activity on the vacant space, so the higher leverage should be temporary. As for NAV, the land value of Regal properties is worth at least as much as capping the former NOI. In addition, the other vacant space has true value as we believe it will be released or redeveloped. As Lou discussed, we are in predevelopment on the two Regal sites. Please see our NAV Component Data on page 8 of the Supplemental Package. We've added a section on the bottom left of this page with information on management's estimate of the value of the land and vacant space at September 30. The 90,000 square feet of vacancies listed have active prospects along with potential rent ranges. In addition, it includes ranges of value for the Regal parcels. We believe this is real value and should be considered when evaluating our NAV. The pandemic continued to negatively impact our Same store NOI in the third quarter, GAAP NOI was negative 8.7 percent and cash NOI was negative 5 percent. Multifamily same store NOI was negative 2.5 percent this quarter due to a 68 percent increase in real estate taxes. Our releasing spreads were positive this quarter. Retail was positive 3.6% on a GAAP basis and 5.1% on a Cash basis. There were no office renewals in the quarter. We continue to take actions to increase our liquidity and strengthen the balance sheet. With our common stock trading at current levels, we have utilized other sources to raise capital including asset sales. During the quarter, we sold one unencumbered retail asset and expect another two assets resulting in a total of 106 million dollars of asset sales in 2020. In August, we raised $86 million dollars by re-opening our original issuance of existing Series A preferred stock. The shares were priced at $24.75, a 25-cent discount to par, which is a yield of 6.82 percent. We decided to issue preferred at that time and price due to it being less destructive to NAV and less costly than issuing common. We believed that enhancing our liquidity position in this environment is an important move to position the company for the recession and future growth. As Lou said, we believe preferred stock should account for no more than 15 percent of our capital stack. This preferred raise was for liquidity and a bridge to get through the recession. We do not anticipate issuing any more preferred stock for the foreseeable future. Going forward, we anticipate raising capital primarily through asset sales and, to a lesser extent, through our common stock ATM program, depending on market conditions. In total, since the pandemic started, we have raised a total of a 200 million through asset sales and preferred stock issuance. We now have total liquidity of 200 million combined in cash and availability through our credit facility, which is the highest level we've had as a public company. The credit portion of the credit facility has been completely paid off and recently two unencumbered Harris Teeter centers (Hanbury and Sandbridge) were added to the borrowing base. We are now positioned to take advantage of the opportunities that Lou discussed. With rent collections in the high 90s and our current liquidity, we started our first development project since the pandemic started. The apartments in Gainesville, Georgia. At this time, we have not started any of the suspended development projects but hope to do so over the next several months if the economy continues to improve. As for debt maturities, we have no maturities for the remainder of 2020 and five loans mature in 2021. We are in discussions with the lenders for all five loans and we do not anticipate any issues getting these refinanced.

This morning we issued updated 2020 guidance of $1.10 to 1.12 of normalized FFO per share. This guidance includes an additional five hundred thousand dollars of projected bad debt, selling two properties for 8 million dollars, and acquiring the Edison and Annapolis Junction Apartments. The details of our guidance are on page 6 of our supplemental package. We look forward to finalizing our future capital plan and discussing our guidance for 2021 on our next call in three months. Now I'll turn the call back to Lou.

Lou Haddad

Operator, we would like to begin the question and answer session.

Q&A Session

Operator

[Operator Instructions]

And our first question is from Dave Rodgers with Baird.

Dave Rodgers

Lou, I wanted to go back to something you had said, and maybe I didn't hear it right. But I thought you said in your prepared comments about growing the retail portion of the portfolio. It is becoming an important -- was always important, but becoming even a more important piece of that, but I look at the development pipeline, and I see apartments and office. So I guess I wanted to kind of understand that comment, if I heard that correctly.

Lou Haddad

Sure. No, you heard it correctly, Dave. As you know, our bread and butter is mixed-use developments. Retail is always going to play an important part in those developments and has, obviously, been the synergy of the entire development. We expect that that's going to continue. So that segment of the business is 1 to grow. It's just not going to grow at the same pace as the other segments.

Dave Rodgers

Still looking at retail being a smaller component, which I think is what you had communicated over the last couple of years.

Lou Haddad

Yes, exactly. I think everybody knows a snapshot in time, we sold in 2016, we sold 2 big office facilities for some $100-and-some-odd million and bought several grocery-anchored shopping centers with that money. That kind of threw us into a situation where nearly half of the portfolio was retail, and we've been witling way back to what we

consider a normal mix ever since. But like I said, mixed-use retail is going to continue to be an important part of our business as well as the grocery-anchored neighborhood centers. Just about all the grocers we deal with are in an expansion mode. So looking forward to doing a few of those. It's not going to grow as fast as the larger projects.

Dave Rodgers

Got you. That's helpful. Maybe Lou or Mike, yields on Annapolis Junction and Nexton as you bring them on and kind of how you look at leverage with those 2 particular assets, obviously, coming out of the mezzanine book?

Lou Haddad

Sure. I'll let Mike answer the leverage question. Annapolis Junction is now sitting at 97% leased. We expect that it's going to stabilize again at $6 million, $6.5 million range, once it cycles through its lease-up incentives, which are coming up shortly. Mike, on leverage?

Mike O'Hara

On leverage, we closed on a freight loan, which got some really good terms in rate today, like 2.74%. And we've been working on, as you know, Dave, and we're going to always say, liquidity here over the last 6 months. We've been looking since the pandemic started to position the balance sheet to take on the -- take on this additional debt with the new acquisitions.

Lou Haddad

Dave, on Nexton, we expect we've got to stabilize in the high 7s. We're very excited about that project. And actually, we're very excited about that entire area. You may have reacquainted last month that Boeing has decided that the entirety of the 737 MAX program is going to be handled out of South Carolina, and that's only a few miles from our site.

Dave Rodgers

Okay. That's helpful. And then, I guess, maybe just last for me. You guys have done a great job of creating liquidity here in the last quarter or 2 with the asset sales. But I guess as you look forward, the capacity that you have on the line, it sounds like you're committing a decent portion of that to be the equity of your future development pipeline. So I guess, how do you anticipate handling the re-equitization as those projects come online, if the stock's not there? Would we anticipate just more asset sales, run at higher leverage? How do you think about that kind of over a 2 to 3-year period?

Lou Haddad

Well, Dave, the short answer is we expect the stock to be back where it's supposed to be. Accepting that, that's – that we're in a great position in being able to cherry-pick only the top gains for development. As I mentioned earlier, we're looking at extended spreads. It's doing to the high end than as again traditionally we've been able to achieve. And so we suspect that a number of those are going to be right-sized equity-wise or close to it when they do come online and stabilize. So our expectation is that a lot of the equity you're referring to we created rather than picked up in the market.

Mike O'Hara

Yes. It's also going to take a long time. By the time you start these projects, we've only started 1 at this point in time. Say, we're going to start them over the next 3 to 6 months, 2 years you're going to have development time frame and you're well into 2022 before you really need to be looking at this funding the equity on a stabilized basis on plenty of runtime.

Operator

And our next question is from Rob Stevenson with Janney.

Rob Stevenson

Lou, can you talk about how strong the theaters were prior to COVID? And just like how expensive is redeveloping a theater? I assume that as you're talking about doing mixed-use here, that this is just a bulldoze because I think 1 of the axioms in real estate is, other than location, location, location is once a theater, always a theater. So how are you guys thinking about that?

Lou Haddad

Thanks, Rob. That's a very good axiom. Yes, there is no -- there's no percentage to be gained getting redeveloping a theater. Here in Town Center, it is a bulldozed situation. Interestingly, we actually -- the first part of your question was how well did those theaters do? The 1 in Harrisonburg did extremely well. It's the only movie theater of any size for 100 miles, and it's next to a campus of James Madison University of 26,000 students. So you might expect that, that tenant is interested in trying to continue. And so we're going to try and work out -- it's 10-acre site that just has the movie theater on it. So what we'd like to do is enable them to come back when the theater business comes back, assuming that they've got their financing in line, as well as doing a mixed-use facility on the same site.
At Town Center, you're looking at a relatively cheap redevelopment in that. We're simply bulldozing it and carrying it away. But again, that's interesting. I don't want to get off on a tangent. But we're very excited about that site in conjunction with the Bed, Bath & Beyond. Those 2 parcels together are 10 acres that border on Town Center. The city of Virginia Beach is

very interested in us redeveloping those into more Town Center type activity. As we said, it's going to have a significant multi-family component. So really excited about both of those projects. And looking back to Dave's question, with that land already in hand and the kind of spreads that we think we're going to be able to achieve; I wouldn't be surprised if those are right-sized equity-wise as soon as we get them up.

Rob Stevenson

Okay. And then in terms of the JMU location, does that campus need more student housing? Or is that likely to be mostly retail to support the surrounding area? How are you guys thinking about that in your appetite for student housing, given the experiences of late and as well as the stuff with Hopkins, et cetera?

Lou Haddad

Rob, we're in conversation with the city officials in Harrisonburg. There is a need for housing in that corridor. And whether-- I doubt we would build a purpose-built student housing facility. It could be more along the lines of what we have adjacent to Virginia Tech where we have market rate apartments that happen to have a lot of students in them, as well as faculty and everyday people. So there's going to be a significant multifamily component. The city's very much interested in mixed-use and in walkability in that corridor, and we intend to work with them to really maximize the site. We've got 10 prime acres essentially at ground zero in Harrisonburg. We want to make sure we do it right.

Rob Stevenson

Okay. And then, given your comments before about asset sales being the primary source of capital until the total common comes back to near previous levels. How are you guys thinking about potentially doing asset sales if that market continues to be decent and buying back stock, given where the implied yield is on your existing portfolio of assets these days? At a $9 stock price?

Lou Haddad

So we are not fans of buying back stock. We don't think -- long term, that's not the best use of our capital. We are in a real estate development game. And that's where the company is going to stay and continue to grow. The -- in terms of the asset sales, I want to make sure we were clear, as Mike and I both tried to point it out, we are quite positive, even at the low level that we have our NOI. I think charge coverage is over 2.5. And even with the dividends, we're well over 1.5. So the $200 million that Mike referenced, that's on our balance sheet. That's primarily definitely going to take care of our needs for the foreseeable future. What we're talking about is further out, is going ahead with sale of some non-core assets. You mentioned student housing. We don't consider our student housing facilities to be core. And as you know, those are very low cap rate assets. But obviously, once the

pandemic is over and we can restabilize, it's going to be a better time to look at whether or not we want to sell those.

Rob Stevenson

Okay. And then last 1 for me. Mike, did you say that the $1.1 million of termination fees are just for the 2 Bed Bath & Beyonds? Or does that include Bi-Lo or anything with Regal as well?

Mike O'Hara

Yes. There are no termination fees with Regal since we terminated those leases. The Bed Bath & Beyond were $1.1 million. But from a GAAP perspective, because they're going to be in the building until January 31, it's straight lines until January 31 we picked up. There's 1-month in that termination fees in the third quarter numbers.

Operator

And our next question is from Bill Crow with Raymond James.

Bill Crow

A couple of questions from me. The watchlist, besides the tenancy you've identified that are moving out, what's that look like?

Lou Haddad

As you might expect, we have an active watchlist that is predominantly the restaurants and personal services people. They're still under some restriction. It's done -- they've done exceedingly well. We lost a couple of restaurants here at Town Center actually prepandemic, and we already are in negotiations and have -- I mean may even have letters of intent signed as replacements for those tenants. The list is shrunk considerably. Once the Regals went away, there's 2 Bed Baths thickening and the WeWork has taken a lot off the table. We don't see anybody really material at this point. Like I said, we have a lot of small mom-and-pops that are still struggling. We're trying to help them build. Everybody's working through. Everybody's honoring the preferred rent agreements. And obviously, I mean, we're very optimistic at the same time. You know that there's a lot of pain out there. We've worked with tenants for 40 years. We're going to continue working with them here. But we really don't see -- knock on wood we really don't see any big bumps in the road that are out there.

Bill Crow

All right. And maybe for Mike, if you went back prepandemic and looked at where your share price was and your balance sheet and everything else and fast forward to today with the preferreds, with the stock price and facing handful of refinancings, and I assume will bring some higher interest rates, and maybe I'm wrong there. But what do

you think is happening to your cost of capital? And I guess, maybe to Lou. How does that impact your decision-making and external growth initiatives?

Mike O'Hara

That's a good question, Bill. First, on the interest rates. What we're seeing with the long-term fixed rate loans, interest rates are lower. We signed 8-day at 2.74%, and most of what we're seeing in the long term, we're in that 3%. I think on construction loans, certainly rates have gone up. I don't know about on stabilized assets. One of the reasons that we did the preferred raise back in August, if you take a look at the cost of capital on the common, depending how you probably look at, say, on an earnings standpoint, basically, we're getting up there pretty high. But if you take the preferred at 7% less and then mixing with that 2% interest, you're at a 5% cost of capital. We had a lot of effective asset sales and to what extent does that affect your NAV and all excepting to get to the cost of capital. So that's why we are looking at, especially with the preferred raise, where the common where it is so that we can work on these development deals and have to be accretive.

Operator

And our next question is from Dave Rodgers with Baird.

Dave Rodgers

Yes, Mike, maybe just a cleanup question on the write-offs and the abatements. It looked like you collected about 20% of the prior deferrals, wrote-off or abated, another 40% or so. How much of that's related to the tenants you've already talked about versus tenants maybe that are just still in the wind? I guess I'm trying to gage how much of that is still kind of at risk when we think about what could be written off or what may be abated here in the near term?

Mike O'Hara

Yes. Certainly, in the write-offs, you've got the deferred rents like the Regals and et cetera that were part of that. And there's certainly a lot going on between where we were at the end of the second quarter and where we are today to work through everything with the tenants. I think where we are today at $2.5 million due, we feel pretty comfortable with collecting this $2.5 million on where we are with these tenants now. As I said, if we go back into lockdowns and all, we don't have another bill with PPP money to help these people out. That could change. But from what we're seeing today, we feel good about the $2.5 million.

Lou Haddad

I think, David, I think it's important -- and in fact we keep seeing headlines with people wanting to paint everything with the same brush. I tried to highlight in our locations there still is obviously a lot of pain. But you'd be amazed with the amount of activity that we have around these vacancies. People know that at some point this pandemic will

be over. People know that in these markets people continue to move in and invest. So we're really anticipating a very quick turnaround in terms of getting that space back up and running.

Dave Rodgers

Okay. And then Delray, you said that there's a signed letter of intent. You're not acquiring that, are you?

Lou Haddad

We are going to acquire that.

Dave Rodgers

That view -- okay, I wasn't clear. So yes, thank you.

Lou Haddad

Yes. Yes. We're able to acquire it at a significant discount to prepandemic value. We may well -- once the pandemic is over, you may see us put that right back out on the block, but we're happy to take it in the midst of this. One of the things we said is we ain't paying anything dot awful. But at the same time, it has created some opportunities. And it's a very small consolation, but there are some.

Operator

And we have reached the end of the question-and-answer session. And I'll now hand the call back over to Lou Haddad for any closing remarks.

Lou Haddad

Thanks, everybody. We really appreciate your attention this morning. We're excited to talk. We can't wait for our next earnings call, where we can talk about guidance and hopefully talk about the end of pandemic and what it means for our company moving forward. We're excited about our position. We're excited about what lies forward. And we look forward to performing much as you've seen us do over the last 7 years. Thanks very much and have a great day. Bye-bye.

Operator

You may have reached the end of the conference call. Thank you for dial-in. You may now disconnect your lines. Thank you and have a good day.