

***Transcript of
WashREIT
Fourth Quarter 2021 Earnings Conference Call
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Participants

Paul McDermott - Chairman, President & Chief Executive Officer
Stephen Riffie - Executive Vice President & Chief Financial Officer
Amy Hopkins – Vice President, Investor Relations
Drew Hammond – Vice President, Chief Accounting Officer and Treasurer
Grant Montgomery - Vice President, Head of Research

Analysts

Anthony Paolone – JP Morgan
John Pawlowski – Green Street
Christopher Lucas – Capital Once Securities

Presentation

Operator

Welcome to the Washington Real Estate Investment Trust Fourth Quarter Earnings Conference Call. As a reminder, today's call is being recorded. Before turning the call to the company's President and Chief Executive Officer, Paul McDermott, Amy Hopkins, Vice President of Investor Relations will provide some introductory information. Amy, please go ahead.

Amy Hopkins – Vice President, Investor Relations

Thank you and good morning everyone. Before we begin, please note that forward-looking statements may be made during this discussion. Such statements involve known and unknown risks and uncertainties, which may cause actual results to differ materially, and we undertake no duty to update them as actual events unfold. We refer to certain of these risks in our SEC filings.

Reconciliations of the GAAP and non-GAAP financial measures discussed on this call are available in our most recent earnings press release and financial supplement, which were distributed yesterday and can be found on the Investor Relations page of our website.

Participating in today's call with me will be Paul McDermott, President and Chief Executive Officer, Steve Riffie, Executive Vice President and Chief Financial Officer, Drew Hammond, Vice President, Chief Accounting Officer and Treasurer, and Grant Montgomery, Vice President and Head of Research. Now I'd like to turn the call over to Paul.

Paul McDermott – President & Chief Executive Officer

Thank you, Amy. Good morning, everyone, and thanks for joining us today. Last evening, we released our fourth quarter and full year 2021 earnings results, which were in line with our guidance. Our full year results reflect our

transformation into multifamily, which is the asset class we identified as having the best long term growth prospects in our region. We also expanded outside the Washington Metro region for the first time in the history of our company, and we continue to make solid progress on growing our portfolio in Atlanta and evaluating opportunities in our other target markets. 2021 was an eventful year for WashREIT, and as a result, our long-term growth prospects are much stronger going forward.

Today, I plan to provide an update on our Transformation progress, including our recent acquisitions and our plans for internalizing property-level residential operations. I will also provide an update on the operating environment in the Washington Metro and Atlanta, where we are actively growing our footprint. Steve will provide an update on our performance and trends and will discuss our fourth quarter and full year results and outlook.

Starting with an update on capital deployment. Since our last update, we acquired 880 homes in Atlanta for a total of \$212 million. Our latest acquisitions plus the one completed during the third quarter amount to \$260 million of our \$450 million acquisition target. We expect to deploy the remainder of the net sale proceeds from our commercial portfolio sales by the end of the first quarter or early in the second quarter.

Our pipeline is very active, having fully ramped up after the natural new origination market year-end taper. The transaction market remains competitive, but pricing has remained relatively stable since our last update. We are currently evaluating multiple opportunities that fit our portfolio strategies in Atlanta as well as in our other target markets of Charlotte and Raleigh-Durham. We've got some good prospects and are in process on several opportunities and look forward to updating you with more details upon closing acquisitions.

The acquisitions that we have completed thus far are performing very well and are generating strong revenue growth that will translate to even stronger NOI growth as we continue to expand our portfolio into new markets. While it's still in the early days, our Atlanta portfolio is outperforming our initial underwriting assumptions and we remain confident that our research has led us to invest in areas that are poised for strong, sustained growth.

As a case in point, Rivian, the electronic carmaker, recently announced that they are building an assembly plant just minutes away from The Oxford, which is set to bring 7,500 jobs and ties directly to our strategy of selecting areas with industries of the future to drive demand. Furthermore, the jobs that Rivian will bring are expected to pay salaries which align with our targeted income range.

The Oxford has performed very well in the first 6 months that we've operated it and has generated new lease rate growth of over 20% and blended lease rate growth of 16% year-to-date. Occupancy is above 95% and retention has been strong at over 63% on a year-to-date basis with even better performance to come as the submarket continues to rapidly grow and add middle-income workers.

Assembly Eagles Landing, which was acquired in November 2021, is a garden-style community with 490 homes located in Henry County, in the southern suburbs of Atlanta. We acquired Assembly Eagles Landing for \$106 million, which equates to an initial cap rate of over 4%. The community is comprised of two properties that are located immediately adjacent to each other. Historically, each asset had been operated and managed independently, however, our opportunity includes creating significant economies of scale by operating them as one community.

As a 1990s vintage community with a price point that represents 85% of the market median rent, and the opportunity to drive NOI growth through operational efficiencies, Assembly Eagles Landing fits squarely into our Class B strategy, which targets vintages from the 1980's to the 2000's and price points that range from 80% to 95% of the market median in high growth submarkets. Assembly Eagles Landing does not compete with new supply in Henry County, as new deliveries have an average monthly rent that is nearly \$375 per month above what we are currently offering.

The Property has performed very well during the first 3 months we've operated it with very strong new lease rate growth of 23% and blended lease rate growth of 18% on a year-to-date basis. Furthermore, we are already beginning to realize operating efficiencies, as to date, our daily pricing models are achieving higher rents than we originally underwrote. We expect Assembly Eagles Landing to generate low double-digit NOI growth over the next few years with strong long-term growth prospects thereafter.

Our investment strategy targets strategic locations proximate to growing job markets. As I mentioned earlier, Assembly Eagles Landing is located in Henry County, which is approximately 20 miles southeast of Atlanta's downtown business core via Interstate 75. The area is comprised of family households who are attracted to the value proposition afforded by the high quality, yet more affordable units in a low-density neighborhood, with highly-rated schools, while also providing nearby interstate accessibility and connectivity north to the urban core and south to employment and retail offerings in McDonough, GA. Henry County's strategic location, with immediate access to Hartsfield Airport and within a 2-day drive of 80% of the US population, makes it one of the key supply chain management and premier e-commerce locations in the Southeastern United States.

Over the past five years, same-store rent annual growth for the submarket's 1990's product has averaged 8.6%, outperforming the 4.9% average annual rent growth for all 1990's vintage apartments in the Atlanta market, and also outperforming the overall Atlanta growth rate for all product of 5.1%, according to RealPage.

Carlyle of Sandy Springs, which we acquired on February 1st for \$106 million at an initial cap rate of approximately 4%, is a garden-style community with approximately 390 homes located in the desirable Sandy Springs submarket of Atlanta, Georgia. As a 1970s vintage community with a price point that represents approximately 90% of the market median rent and the opportunity to drive NOI growth through value-add renovations, it fits squarely into our Class B value-add strategy. Our opportunity includes the implementation of a value-add renovation program for approximately 270 of the homes, set to begin in year two of our ownership. We are positioned to generate strong returns on these renovations as Carlyle does not compete with new supply in the Sandy Springs submarket— new deliveries have an average monthly price point that is over \$350 above the monthly rents that we are currently offering.

Located north of downtown Atlanta, Sandy Springs attracts families and professionals seeking an amenity-rich suburban micro location providing proximity to entertainment and jobs. Fulton County is the most economically active in the state of Georgia, including the 3rd largest concentration of Fortune 500 companies in the United States, and one of the Southeast's largest Technology Capitals. The area is known for its pro-business environment and superior quality of life, making it a sought-after location by businesses and residents alike. Additionally, excellent connectivity via Georgia 400 and I-285 provide quick and easy access to the other major employment nodes throughout the Atlanta metro as well.

Built in 1972 and spanning approximately 30 acres, Carlyle of Sandy Springs features apartments and is primarily comprised of townhomes. Over the past five years, same-store rent annual growth for the submarket's 1970s product has averaged 6.4%, which significantly outperformed the overall Atlanta growth rate for all product of 4.5%. We expect Carlyle to generate high single-digit to low double-digit NOI growth over the next few years with above-market growth driven by value-add renovations thereafter.

Our initial acquisitions fit squarely into the portfolio strategies that we laid out on our transformation rollout webinar last June 15th. Our strategies are tailored to each market and submarket by vintage and price point and are designed to target mid-market renters, which represent the deepest sections of the demand curve in each market without competing with new supply. We are thoughtfully approaching each opportunity and passing on opportunities that do not fit our strategies or would not provide upside to NOI growth that will lead to long-term shareholder value creation as we scale our platform.

While we believe diversifying and expanding our footprint makes sense, growing and scaling our portfolio is also a top priority, and will allow us to be in a position to deliver greater value for our shareholders. The investment strategies we used over the past few years to grow our portfolio in Northern Virginia have been very successful, and we will continue to explore acquisition opportunities in Northern Virginia should they create greater value. That said, at this time, we are seeing very good growth and geographic diversification prospects in the pipelines we are evaluating in our new target markets.

Now I would like to take a few minutes to update you on the operating environment in the Washington Metro and our expansion markets. While the Washington Metro apartment market is on the rise and is exhibiting some of the same positive trends that we are seeing in our Southeastern target markets, the Washington Metro rebound has been less pronounced than it has been in other major metropolitan areas that were hit harder by the pandemic. We believe that the Washington Metro market offers tailwinds that will carry over into 2023, which Steve will discuss in more detail later on during this call. Furthermore, we are outperforming our region, and we attribute it to our affordability-based investment strategy, which led us to target the largest, underserved renter cohorts in strong submarkets.

Year-over-year effective market rents in the Washington Metro climbed 430 basis points from third quarter to fourth quarter 2021. Suburban Virginia continues to deliver stronger growth, with year-over-year effective rent growth accelerating to 9.5% in December. Overall Washington Metro effective blended lease trade outs increased 6.8% during the fourth quarter compared to the prior year period, while our same-store blended lease rates grew 8.4% on an effective basis. Absorption hit an all-time high at nearly 27,000 units during 2021, and the Washington Metro had the fifth highest absorption by unit count in the US, according to RealPage data.

Year-over-year effective market rents for Atlanta, Raleigh-Durham and Charlotte grew by 20.9%, 21.6% and 19.3%, respectively, in December as reported by RealPage.

Annual demand also surged across these markets in 2021 as in-migration and household formation drove record-setting absorption. Charlotte posted fourth quarter annual demand that was 56% above its 5-year average, while Atlanta and Raleigh-Durham's fourth quarter annual demand topped 135% and 131% of their 5-year averages, respectively.

Moving on, I'd like to provide an update on the efforts that are underway to transform our infrastructure as we scale our portfolio and prepare to internalize property-level residential operations. We're working on several major initiatives that will have a significant impact on our ability to drive better performance when implemented, from defining our go-forward technology strategy and implementing a scalable Core Technology Platform to reshaping our Human Resource program ahead of internalizing property-level residential operations later this year. Since our last update, we finalized our technology design and selected our core technology platform, evaluated our operating model cost structure to determine the optimal staffing model for each phase of our growth, and we wrapped up the background research phase of our branding initiative which we plan to rollout over the summer.

We are now moving into Phase 2 of our project, which includes implementing our core technology platform, building our operating model, and launching a brand that supports our transformation and resident-focused strategy and designing and launching our new website. Phase 3, which starts in late 2022 with expected completion in mid-2023, incorporates the onboarding of our property-level operations to our internal systems. We expect the vast majority of the work that needs to be done to prepare for the onboarding process to be completed by year-end.

Following the complete internalization of property-level operations and enhancements to our operational platform, which includes leveraging a centralized model for certain support functions, we expect to realize significant benefits as we scale the business and optimize our expense base.

The future operational and financial benefits from these efforts will increase our ability to compete in the marketplace and will create long-term value for our shareholders. While transforming our operating platform will impact near-term expenses, it will generate more operating leverage over the longer-term as we continue to grow and scale the business. Steve will provide more details about the impact of these efforts later on this call.

Before I turn the call over to Steve, I'm pleased to share that we have been recognized by BREEAM for achieving the first-ever BREEAM Certification for the multifamily industry in the United States. The successful certification of eight of our multifamily assets, which was completed in alignment with our Green Bond allocation requirements, marks a milestone for WashREIT and BREEAM, as we work together to create more opportunities for sustainability and efficiency advancement in the Class B multifamily space. As we continue our portfolio transformation, we remain committed to bringing all of our properties, including new acquisitions and developments, up to WashREIT's standard for delivering superior efficiency and sustainability performance for our residents.

Now I'd like to turn the call over to Steve to discuss our operating performance, our fourth quarter and full year results, and our outlook and 2022 guidance.

Steve Riffie – Executive Vice President & Chief Financial Officer

Thank you, Paul, and good morning everyone.

A lot has changed since this time last year, when we were at our pandemic lows from November to February and were preparing to roll out the Transformation, while also facing headwinds. Our portfolio is performing historically well and certainly outperforming our normal seasonal patterns. Effective rents are boosted by occupancy that is historically strong as we head into the spring and summer leasing seasons, a very limited amount of new concessions being issued, and the strongest lease rate growth tailwinds that we have seen in 20 years. Our

effective rental growth is being achieved as the leases that were signed during the pandemic lows, roll off, and are replaced by market rate leases. We expect growth in average effective monthly rent to accelerate as activity increases into the spring. This positive momentum keeps us confident that we will have strong NOI growth throughout 2022 into 2023.

As Paul highlighted earlier, we are also outperforming our region, with no signs that our lease rate momentum is moderating. Effective new lease rate growth was 10.7% for leases signed year-to-date for our same-store portfolio and 22.4% for our Atlanta portfolio.

While new lease rate growth has trended positively on a quarter-to-date basis, which, as I noted earlier, is not a pattern that we are used to seeing during the winter months, the more significant trend that has surpassed our expectations is how strong our renewal rates have been without significant impacts to retention.

Effective renewal rate growth was 9.7% for leases signed year-to-date for our same-store portfolio and 13.7% for our Atlanta portfolio. Market rents grew quickly through the fall, and while we achieved very strong renewal rates, the late season timing of the urban recovery created a tailwind that will continue to provide strength into 2023.

Furthermore, a small portion of our portfolio is still operating under renewal rate restrictions, which creates the opportunity to bring those leases up to market rates as the restrictions are lifted. 80% of our Washington Metro-based NOI comes from northern Virginia, which is producing stronger growth, however, 13% of our NOI comes from DC, where the restrictions were just recently lifted for March renewals. The remainder of our same-store NOI comes from Maryland, where we are still capped on renewals through September 1st. Therefore, the removal of the renewal rate cap should provide some additional growth later this year and carry into 2023.

As I said, occupancy remains strong and we are seeing very strong retention, which will allow us to continue to grow rents. We are essentially in a low-to-no concession environment, and with occupancy running above our targeted level, we see greater opportunities for rent growth ahead as we approach the spring months.

Portions of our portfolio are still in pandemic recovery mode, and while new lease rents for our suburban portfolio are now 15% above the pre-pandemic level and growing, our urban portfolio is still catching up to the market. We believe this creates additional growth opportunities and, we expect urban lease rate growth to be very strong over the balance of the year with revenue strength carrying over into 2023. We expect to achieve this by not only capturing where effective market rents are today, but also with additional market rent growth expected throughout the year, particularly in Northern Virginia, where most of our portfolio is located.

As you may recall, we had fully invested in the Trove as 2021 began but unfortunately delivered it into the teeth of the Pandemic. We steadily leased it up throughout 2021 and it stabilized near year-end. Its year-over-year growth represents true growth without any additional capital requirement to attain it. In addition to our strong same-store trends, we expect Trove to be a key growth driver over the next few years, adding approximately \$7 million of NOI in 2022 and \$8 million of NOI in 2023, which reflects a very strong NOI growth rate of 14% for 2023 on top of much greater growth in 2022. Trove has fully leased up and stabilized with occupancy at 95% heading into the strong spring and summer months.

During 2021 we completed full renovations on over 180 units across 10 properties and achieved a 14% average cash-on-cash return based on rent increases that are above what we would have achieved otherwise. After

putting our programs on hold during the pandemic, 2021 represented a year of gradual ramp up and we expect to spend approximately \$8 million this year on renovations which represents a significant increase from the \$3 million spent on renovations in 2021.

In our current portfolio, we have a pipeline of approximately 2,900 units where the rent gap between those properties and the Class A product offers room to renovate and capture an ROI that is within our targeted range. We are capturing very strong lease rate growth on our renovated units and believe we will continue to add to our renovation pipeline as we expand into the Southeast, extending our growth timeline further into the years ahead. That said we are more than doubling our renovation investment from the prior year to create additional growth thereafter.

Now turning to our financial performance. Net income for 2021 was \$16.4 million, or \$0.19 per diluted share, compared to a net loss of \$15.7 million, or \$0.20 per diluted share the prior year. The increase is partially due to the net gains on asset sales that were executed during 2021.

Core FFO for the full year 2021 was \$1.06 per share which was in line with our guidance range but just slightly below the midpoint due to a tax expense recorded in G&A in the fourth quarter.

Multifamily same-store NOI increased 4.2% during the fourth quarter and 8.0% on a cash basis compared to the prior year period. Looking forward, we expect same-store cash NOI to continue to be higher than our same-store NOI until mid-way through 2022 when the amortized concessions granted during the pandemic fully burn off.

Same-store revenue grew 4% during the fourth quarter, on a cash basis, driven by strong lease rate growth. Same-store expenses declined by 3.6% due to lower taxes and lower turnover expenses.

Same-store effective lease rates increased 8.4% on a blended basis for move-ins that took place during the fourth quarter comprised of new lease rate growth of 8.7% and renewal lease rate growth of 8.2%.

Retention was very strong during the quarter at 72%, higher than expected, and a significant increase compared to 51% in the year ago period. This has allowed us to retain high occupancy during the winter months and to begin to capture stronger renewal rates, which as I outlined earlier, have exceeded expectations so far this year. The higher renewal rates have allowed us to grow rents even more so since year-end and we expect this trend to continue into spring when demand should be even greater.

We continue to benefit from owning and operating Watergate 600 and have grown occupancy steadily over the course of the past year to 91.3% as of December 31st, which represents a 220 basis point year-over-year increase. The percentage leased now stands at 92.4%. With an iconic status, a high-quality institutional tenant base, and a weighted average lease term of 8 years, we continue to see opportunity to create value by owning and leasing Watergate 600.

On the financing side, we issued \$68.2 million through our ATM program since our last call at an average price of \$25.79 per share which positions us to further strengthen our capital allocation as we grow our multifamily portfolio. We remain confident that we will be able to execute further on value-creation opportunities.

Now turning to our outlook for the balance of the year. We are guiding to a full year core FFO per share range of \$0.87 to \$0.93 per share.

We expect same-store multifamily NOI growth of between 7.75% and 9.75%. NOI growth for same store and Trove combined is expected to be between 11.5% and 13.5%. As I mentioned earlier, Trove was fully invested in both years and represents true year-over-year growth on the same capital investment.

Non same-store multifamily NOI, which consists of Trove, The Oxford, Assembly Eagles Landing and Carlyle of Sandy Springs, is expected to range between \$17.75 and \$18.5 million, of which Trove represents approximately \$7 million. Same-store Other NOI, which consists of Watergate 600, is now expected to contribute between \$13 million and \$13.75 million of NOI.

Our acquisition of Carlyle of Sandy Springs closed on February 1st for \$106 million at a cap rate of approximately 4% and our FFO guidance range incorporates approximately \$270 to \$290 million of additional acquisitions. When fully invested, we expect our leverage to be in the mid-5x range on an annualized basis.

G&A is expected to range between \$25.5 and \$26.5 million, excluding the impact of transformation investments for our future platform and our full integration. Interest expense is expected to range between \$24.75 and \$25.75 million.

We expect our Core AFFO payout ratio for the year to be in the mid-70s, and as we continue to invest in multifamily assets, which are less capital intensive than the commercial assets we sold, we are establishing an AFFO growth profile that should allow us to grow the dividend.

And finally, we expect Transformation costs to range from \$11.0 to \$13.0 million. These costs are related to our strategic transformation including core system implementation, branding and human capital initiatives, operating platform design and retention and termination benefits. By the end of 2022, we will have built out the internal infrastructure needed to internally manage property-level operations of all of our communities and will begin to onboard communities onto the new platform in late 2022. At that point, we expect to have the G&A expense base, which will not be substantially different from the level that it's at today, to support a doubling of our unit count. While we are not yet giving guidance for future years, we expect we will incur only minimal transformation costs in 2023 as we complete onboarding the remaining communities to our systems and platform.

Following the internalization of property-level residential operations and the rollout of our streamlined operating model, we will be positioned to achieve expense efficiencies and to deliver operating leverage as we scale our business.

And with that, I will now turn the call back to Paul.

Paul McDermott – President & Chief Executive Officer

Thank you, Steve.

To summarize, we are entering 2022 as a significantly different company in a much stronger and more opportunistic operating environment, and we are focused on growing in the Southeast markets, capturing our loss to lease, executing renovations, standing up our new operating model, integrating our core technology platform,

and preparing to internalize property-level residential operations. We have an active pipeline of opportunities that align with our strategies, and we remain confident that we can allocate this capital appropriately over the next several months. We are excited for the year ahead and the growth that is to come and we look forward to keeping you updated on our progress.

Now we would like to open the call to answer your questions.

Operator: At this time, we will be conducting a question-and-answer session. [Operator instructions].

Operator

Your first question is coming from Anthony Paolone. Please announce your affiliation, then pose your question.

Q: Great, thank you. JP Morgan. My first question is, as you look out at the \$270 million to \$290 million of incremental deals. Can you talk about where you're seeing cap rates? Also, as you underwrite the growth in these new markets, where do you think those yields trend in years you know two, three, four, five?

Paul McDermott – President & Chief Executive Officer

Sure, Tony it's Paul. In terms of the \$270 million to \$290 million, we have you know stated the markets we're going after Atlanta, Charlotte and Raleigh-Durham. I would say that that just because of the virtual scales of the individual markets, we're definitely seeing more deals in Atlanta that really fit within the three strategies, the Class A minus, B Hold and the B Value-Add.

The cap rates that we've achieved have been just above a 4% cap thus far. And – but I would also say that you know we have seen a couple deals with a very compelling growth story that have been executed in the high 3s. And we're – you know when I say that, probably above 3.25% – 3.75% cap rate. And we would probably look at those, again, if the growth story was compelling. I think in terms of the yield that we're seeing in years two and three, I would say you know kind of low double-digits moderating into the single-digits and then –

Stephen Riffie - Executive Vice President & Chief Financial Officer

In terms of NOI growth.

Paul McDermott – President & Chief Executive Officer

In terms of NOI growth. Thank you, Steve. And – and then returning to more normalized levels after that, Tony.

Q: Okay, got it. Thank you. And then back in your core DC Metro region. What do you happen with rent growth? Like do you think there is a forthcoming pop there? Or do you think it's just going to continue to grow more steadily?

Stephen Riffie - Executive Vice President & Chief Financial Officer

Well, Tony we – you know we certainly – we look at our opportunities in terms of when our own rents expire and all that. If we just use RealPage data, they're implying just for the year something like a 5.7% rent growth on top of pre-market growth for the current year. We think about our opportunity, we really solved the post-pandemic rate inflection for new leases in July of 2021. And obviously, there was a lag for renewals so they came later.

And so what was happening right up to the first half of the year, the real pandemic lows were like November of 2020 to January of 2021 and concessions were high that we had to give at that time. So, we were basically in a concessionary environment and pandemic low rates and then we had our inflection.

Now I will say, our suburban portfolio was already stronger, probably started to inflect in May of last year, but on average for our portfolio we saw it in July. So that for us you know we had a pretty good loss to lease, but we look at our ability to capture rents in the trade outs going forward. We see pretty good trade outs ahead of us all the way through until we reach those anniversary dates you know at the inflection a year ago.

And you know, there is that market rent growth on top that I think is going to happen over the course of the year. There's the loss to lease capture. But there's also from an effective rent trade outs standpoint, we've got amortization you know of concessions that burn off about midyear. So, I think we will have a very strong new and renewal effective trade outs right up to the anniversary dates. And we're hoping that we'll still have enjoy some market rent growth on top of that.

Q: Okay, thanks. And then, sounds like a like a new brand forthcoming, should we expect a new name?

Paul McDermott – President & Chief Executive Officer

Tony, we're evaluating that. Right now, we're in the middle of kind of reviewing our branding, kind of soup to nuts. And so, I think we'll have something to talk about probably mid-summer. And rebranding involves potentially a new name. So, we look forward to rolling that out midsummer, Tony.

Q: Okay, great. Thank you.

Operator

Your next question for today is coming from John Palowski. Please announce your affiliation, then pose your question.

Q: It's John with Green Street. Thank you very much for the time. Steve, could you give us a sense for what percentage of units were still capped on rental increases until I guess, March? And then what percent of units are capped until September? In the same-store Portfolio.

Stephen Riffie - Executive Vice President & Chief Financial Officer

Yeah, if you look at our same-store portfolio, it is basically the DC region. And 80% of the portfolio in Northern Virginia hasn't been capped, we've gotten great growth, 13% is in DC and that's what's unlocking here starting in March. And that leaves about 7%, which was in Maryland, and Maryland was something like 1.4% and then they lowered it down to 0.4% until about September. So that's kind of the pattern for how much will get unlocked.

Q: Okay. So all 7% of those units are currently capped and their uncapped comes in September?

Stephen Riffie - Executive Vice President & Chief Financial Officer

On renewals.

Q: Yeah on renewals. Okay. And then I appreciate the color on the transformation costs. Is there an additional tranche of costs that are being capitalized this year above the \$12 million that was detailed in guidance?

Stephen Riffie - Executive Vice President & Chief Financial Officer

Yes, about \$4 million is capitalizable as we're putting in some of the technology.

Q: Okay. Last question for me. You mentioned you don't expect at this time G&A to be meaningfully different than it is today. Just curious, your definition of meaningful. Are we talking plus or minus 5% or plus or minus 25%?

Stephen Riffie - Executive Vice President & Chief Financial Officer

I think it'll be very similar. I would expect to be able to give a very similar range for G&A guidance after we get this done to what it is today.

Q: Okay, thank you.

Operator

Your next question is coming from Christopher Lucas. Please announce your affiliation, then pose your question.

Q: Capital One Securities. Good morning, everybody. Just a couple of questions for me just sticking with the G&A topic, Steve. Should we expect sort of a step down in costs as we go from the beginning of the year to the end of the year? Or is it going to be fairly ratable throughout the year given your guidance?

Stephen Riffie - Executive Vice President & Chief Financial Officer

I don't think you should see a lot of fluctuation. I mean, there's going to be some changing out during the course of the year. But I think there's so much emphasis being put into the transformation costs and investment that when we get that all invested I think then there'll be like just a new steady G&A. And it'll be at about similar levels.

So, I would expect that to settle out towards the end of the year. We were a little bit higher than our own guidance on G&A because we had a one-time tax thing that yet is not recurring in the fourth quarter, Chris. But otherwise, I think we would have been on top of numbers that I saw people quoting in their notes.

Q: Okay. And then just can you remind us sort of what the renovation economics have been for the portfolio that you've executed on? And then when you talk about the stuff that you're looking at doing and then – and with the new assets sort of what's the per key investment? What sort of revenue return are you looking at?

Paul McDermott – President & Chief Executive Officer

I'd say, Chris up here in DC in our same-store portfolio, the renovations have probably averaged about \$13,000 to \$15,000 a door. And we've achieved mid-teens return on costs in some cases close to 20%. I'd say it's – it's less in Atlanta, closer to probably let's say, \$10,000 a door or under.

You know, we're still evaluating the one project that we just took down on February 1st, Carlyle, at Sandy Springs, which will have 266 units to renovate. But you know we have a nice, robust program, 2,900 doors to renovate over the next five years. And I think the economics should continue to mirror what we've been experiencing, Chris.

Q: Thanks, Paul. And then let me stick with you just on Watergate 600, showing some you know decent improvement in NOI year-over-year. How should we be thinking about the – you know sort of the hold period for that asset given sort of the last remaining non-core as for non-apartment assets in the portfolio?

Paul McDermott – President & Chief Executive Officer

Sure, Chris. Well first off, I mean, I commend our team, they've done a great job managing and leasing that asset. We still think that there's value in there and we have a long-dated WALT on that cash flow. Our lens into Watergate, more importantly into the market conditions, we want to see the market conditions improve. We're going to constantly evaluate that asset.

But we're not really making a decision at this time. By the end of the year, it's going to be less than 10% of our NOI. And I think holistically we should look at the whole portfolio. And so not just Watergate, but we're looking at some other apartments to potentially monetize. And then we would do that, that would be really reallocating that capital to higher growth markets in the Southeast while also diversifying our risk.

Q: Perfect, you actually answered my follow-up questions. So appreciate that. That's all I had this morning.

Operator

There are no further questions in queue. I would like to turn the floor back over to Paul for any closing comments.

Paul McDermott – President & Chief Executive Officer

I'd like to thank everyone again for your time today. And we'll look forward to seeing many of you at the upcoming conferences over the next several weeks. Thank you.

Operator

Thank you, ladies and gentlemen. This does conclude today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation