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## ***Transcript of Washington REIT First Quarter 2020 Earnings Conference Call April 23, 2020***

### **Participants**

Paul McDermott - Chairman, President & Chief Executive Officer  
Stephen Riffie - Executive Vice President & Chief Financial Officer  
Grant Montgomery, Vice President, Research  
Amy Hopkins - Vice President, Investor Relations

### **Analysts**

Bill Crow – Raymond James  
Joab Dempsey – Stifel  
Blaine Heck – Wells Fargo  
Michael Lewis – SunTrust  
Christopher Lucas - Capital One Securities

### **Presentation**

#### **Operator**

Welcome to the Washington Real Estate Investment Trust First Quarter Earnings Conference Call. As a reminder, today's call is being recorded. Before turning over 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 of 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, including those related to the effects of the ongoing COVID-19 pandemic, that 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 Riffe, Executive Vice President and Chief Financial Officer; Taryn Fielder, Senior Vice President and General Counsel; Drew Hammond, Vice President, Chief Accounting Officer and Treasurer; and Grant Montgomery, Vice President and Head of Research.

**Paul McDermott – President & Chief Executive Officer**

Thank you Amy and good morning, everyone. Thanks for joining us on our first quarter earnings call. The past few months have certainly been eventful and while we posted excellent first quarter results, clearly everyone's focus today – including ours – is on the COVID-19 pandemic. Before discussing our near and longer-term outlook and the operational and financial impacts that we are experiencing, I would first like to discuss our priorities as we manage through this unfortunate and unprecedented situation.

As a company, WashREIT has always prioritized – and we remain committed to – the safety of our residents, tenants, employees and each of their families. We continue to closely monitor recommendations from healthcare authorities and orders from our local governments as we are following their requirements and being proactive— even when we have not had government direction to do so.

In the early days of this global crisis, we created a task force to evaluate developments and deliver recommendations designed to ensure the security of our workforce, our tenants and our residents. As a result, we acted in advance of jurisdictional orders to move our business to remote-work capabilities.

Beyond safety, we are focused on business continuity. Four years ago we embarked on a plan to develop the tools and resources to allow us to perform nearly all of our corporate functions from remote locations. Our critical assessment, critique and enhancement of those capabilities has positioned us well for continuing to perform during these challenging times. We are very confident in the company's ability to maintain this productivity.

I am extremely proud of how the WashREIT team has reacted to these circumstances. Everyone has shown incredible commitment and dedication— especially our essential property staff, whose extraordinary efforts at our properties have shone during this outbreak.

We started to see the first signs of the impact of the virus on our tenants' ability to pay rent about three weeks ago and we are still in the midst of assessing the full economic effect that this crisis may have. Therefore, while we will share what we have observed thus far and how we plan to continue to monitor and operate as this situation further unfolds, we are obviously not in a position to predict the ongoing magnitude or protracted impact of this global pandemic. However, what we do know— and what we plan to focus the majority of this call discussing— is what we are doing operationally to support and protect our stakeholders as we manage through this and how the Company is well positioned to come out on the other side of this.

These events absolutely confirm the importance of de-risking, and we believe that the actions we took in the last five years to mitigate risk have been critical. We sold 75% of our retail NOI last year— including our riskiest retail assets—and allocated that capital to grow our multifamily business. Additionally, we entered the current year with

plenty of liquidity, and as of today have no major capital requirements for the balance of the year, and access to additional liquidity if needed. Following the sale of John Marshall II for \$57 million on April 21, which was a critical execution as we continue to de-risk our portfolio, we have further improved our liquidity position.

As a landlord, we are focused on supporting residents and tenants during these difficult times.

For our multifamily residents, thus far we have aligned our policies to the recommendations from the National Multifamily Housing Council and conforming our processes to the requirements of all applicable jurisdictions. We are temporarily freezing rent increases on lease renewals, waiving late fees, halting evictions and offering a payment plan to residents who have been adversely financially impacted by COVID-19.

In the commercial sector, comprised primarily of office tenants, we are similarly conforming our policies and processes as necessary to meet jurisdictional requirements. Anticipating that April would be a challenging month for some of our commercial tenants, we quickly appointed a second task force to evaluate and address the needs of these tenants. The task force – with the support of our IT team – developed a proprietary application system to solicit information from these tenants to evaluate their situations on a case-by-case basis. We will be working through these applications and credit evaluations through the end of the month and, if appropriate, agree on terms. For those tenants who demonstrate true financial hardship from the crisis, we are evaluating their credit, their participation in government backstop programs and appropriately working together to create the best long-term outcomes for those tenants and our shareholders.

We are also assessing federal stimulus programs, including the CARES Act, as well as regional resources, and we are monitoring the relief that they are able to provide for our tenants and our residents, as well as our own business. We have appointed a third task force dedicated to understanding the myriad programs available and we are also sharing resources to help tenants access the information about these programs. We believe that many of our tenants are pursuing near-term assistance through national and regional resources designed to support businesses during this pandemic.

To date, WashREIT has not received any federal aid, as clarifying details on many of the CARES Act provisions and Federal Reserve stimulus packages are still being worked out. Therefore, we believe that it's too early in the process to determine whether or not the company will directly benefit from any of the federal programs. We are also evaluating regional resources to determine whether those may offer some interim relief.

Now, I'd like to put into perspective how we are positioned heading into this period of economic uncertainty. We reported very good first quarter results even though the shutdown occurred in March and we entered the second quarter with good occupancy and a well-positioned balance sheet.

Although the crisis began to impact our tenants and residents toward the end of March, we quickly instituted operational expense saving initiatives that reduced costs significantly, and our first quarter results were in-line with our expectations prior to the COVID-19 outbreak. These expense saving initiatives have carried over into the second quarter.

While in the near term, these economic conditions have slowed growth, we believe our path to growth is still there. While we are suspending our full-scale renovation programs until we can resume achieving rent increase premiums, the renovation pipeline is still in place to provide up to five years of future growth.

In office, it was crucial that we executed so much leasing in 2019, and while in some cases our 2020 lease commencements are likely to be delayed, they will ultimately provide growth once in place. Although physical tours have stopped for now, we continue to progress leases and have signed new leases in April. Our tenant improvement build outs for near term lease commencements are expected to continue uninterrupted. In some cases, the tenant improvements are controlled by the tenants and a subset of those projects are not moving quite as fast, however, we are seeing project completions. For example, we have a tenant at Silverline Center who recently completed their project work and will be ready to move in once governmental restrictions are lifted. In the meantime, our buildings are functioning with alternating skeleton crews and we are realizing savings on operating and utility costs.

We delivered Phase I of the Trove in the first quarter and while breakeven occupancy will likely be pushed to the end of 2020, it should provide another layer of growth as it continues to lease up and then stabilize going forward. The supply chain for Phase II has been minimally impacted and we are moving its expected delivery to early in the fourth quarter of this year. Given the uncertainty in the current environment, we do not plan to break ground on the Riverside development project in 2020.

We believe that the strength of our residential assets will be further confirmed as we have invested in strong submarkets with solid long-term economic drivers. Our capital allocation has always been research-based and our affordability gap investment strategy led us to allocate capital into submarkets with wider-than-average gaps between Class A and Class B rents with the opportunity to create value through the execution of renovation programs. These submarkets provide a cushion during periods of flat rents or even modest rent declines. Within the Washington region, Class A units are priced at a 23% premium to Class B units. However, Class A effective market rents in WashREIT's submarkets are priced at a higher premium of up to 30%, providing flexibility to continue renovations in select projects as part of our wider capital allocation program. The decision to continue with our renovation program will be determined on a property-by-property basis with particular attention paid to localized demand, in-place property performance and occupancy metrics. With rent gaps of \$400 or more between Class A and Class B units, at a \$250 discount to A product, Class B remains a good value proposition in a market with insufficient affordable housing for mid-market renters.

In addition to our position of strength heading into this crisis and embedded path to growth that will be realized as conditions improve, our focus on the DC Metro region is a positive one in times like these. A recent YARDI analysis ranked the top 50 US Metros in terms of industries that are expected to see the most job losses and ranked Washington, DC as the least exposed due to our diversified economy, driven in large part by the federal government. The Washington, DC region has experienced less volatility and a faster recovery than peer markets during recent downturns as a result of counter-cyclical demand drivers which remain the dominant tenant bases of today, including government, defense and intelligence agencies and contractors, effectively countering losses from other sectors.

As part of a review of the coronavirus' impact on our performance, we analyzed the employer industry composition of the residents of our multifamily portfolio based on available data, and the results support the view that our DC Metro focus is a relative strength. In terms of pandemic-induced economic contraction on a national scale, leisure and hospitality, retail and personal, maintenance and in-home services have been the most directly impacted thus far, according to George Mason University, with a near total shutdown of these industries by mid-March. In terms of regional job losses, we have seen that retail sales and hospitality and leisure have been most impacted by mandated business closures and reduced demand. These sectors represent approximately 19% of the region's workers and 8% of the region's Gross Regional Product. Residents in our multifamily portfolio have a lower exposure to these industries than the Washington region overall, with less than 13% employed in these industries. Approximately 6% of our Class A residents are employed in these directly impacted industries and nearly 13% of our Class B residents.

Likewise, our multifamily resident employer industry concentration shows less exposure to industries that have been impacted the most by immediate job losses. Approximately 61% of our employed residents work in the professional and business services, government, education and finance industries.

With data from one monthly payment cycle since the coronavirus began impacting employment and incomes, for which approximately \$600,000 was not collected in rent, some industries have outperformed in share of residents with non-payment, while others have underperformed. For example, professional and business services, while comprising 24% of our employed renter base, only accounts for 14% of our residents with late payments. Likewise, government, in which 17% of our employed residents work, comprises just 9% of our residents with late payments. Given the immediate and dramatic pull-back in leisure and hospitality, we have seen that despite comprising just 7% of our renters, residents working in this industry comprise nearly 16% of our late payment residents. We will continue to monitor the patterns closely and are addressing resident's ability to pay through our deferred rental payment program, which I will discuss in further detail later in this call.

We also analyzed the industry composition for our office tenants in order to monitor the more at-risk segments of the portfolio. We evaluated our office portfolio and our findings indicate that the professional and information services, healthcare, finance and insurance, legal services and public administration sectors comprise approximately 75% of our total office base rent, the portfolio consists largely of strong credit tenants and, based on what we are currently seeing, the segment should prove to be relatively stable from a payment standpoint. Our COVID-19 monitoring focus will be most heavily concentrated on tenants in retail trade, accommodations and food services and non-profit organizations, which represent less than 20% of office base rent. While 91% of our office tenants paid rent in April, we plan to continue to monitor tenants for ongoing rent payments as we evaluate rent deferral requests and missed rent payments and we will adjust our watchlist categories appropriately as the situation continues to evolve.

While it's clear that every industry and Metro area will be impacted by the decline in economic activity, like everyone else, it is difficult to predict the impact on our residents and tenants and would not be prudent to do so, but we are confident in the resiliency of our assets and the strategies that we are implementing to shape the best long-term outcomes for our tenants, residents and shareholders.

And with that, I would like to turn the call over to Steve to cover our liquidity position, our first quarter financial performance and to further discuss how we are addressing and assessing the impact of COVID-19.

**Steve Riffie – Senior Vice President & Chief Financial Officer**

Thank you Paul, and good morning everyone.

We entered 2020 with a strong balance sheet which has proven to be even more important than usual. As of March 31, 2020, our net debt to EBITDA ratio was 6.0x, at the lower end of our targeted range, and we have no secured debt following the payoff of our final mortgage in January. In early April, we prepaid in full, without penalty, our \$250 million 4.95% bonds that were scheduled to mature in October 2020. As of today, we have approximately \$370 million of available liquidity consisting of the remaining capacity under the Company's \$700 million revolving credit facility and cash on hand. Moreover, we are engaged with members of our bank group to add even further liquidity through an additional term loan of up to \$150 million that will have a term of one year with extension rights for a second year. We have received commitments from the administrative agent for \$50 million and the other banks are targeting to commit later this week. Assuming the term loan of \$150 million, our liquidity is expected to increase to approximately \$520 million with no significant capital commitments for the balance of the year and only \$150 million of debt maturing in 2021. Further, as I will detail, we are reducing our capital expenditure plans as well. We currently expect to remain well within our bank and bond covenants and to have access to the remaining line of credit if needed.

Based on our current projections, we have reduced 2020 assumed capital expenditures for the balance of the year by approximately \$40 million. Included in this amount is almost \$30 million of lower assumed capital expenditures and \$11 million less in development spending as we no longer expect to break ground on the Riverside development this year. Our capital expenditure reductions include non-essential building improvements, tenant improvements and leasing costs for speculative leasing, as well as lower multifamily renovation CapEx.

Our future multifamily renovation pipeline remains intact, although, as Paul said, we are suspending the program until after the market disruption subsides. We plan to allocate the renovation capital at a later date when unit turnover accelerates, and we can resume achieving rent increase premiums.

While we have strong liquidity and no major capital requirements, we will continue to proactively assess all forms of additional liquidity available. We have a completely unencumbered balance sheet with no secured debt and the ability to access the Agency debt market using a portion of our unencumbered multifamily portfolio. Based on our exploration, this market is open to us at attractive rates if needed, although we do not project needing additional capital at this time.

We do not expect delays for the remaining construction of Phase I of Trove or current build outs for office leases that are expected to commence later this year. As we navigate through the second half of the year, we will continue to explore opportunities to further reduce non-essential CapEx spending and opportunities to further bolster our liquidity, especially if the economic disruption lingers further. Looking forward, we feel confident in our ability to execute on our short-term goals of providing payment flexibility to residents and tenants in need while retaining the operational flexibility necessary to execute on our long-term goals.

As Paul mentioned, we had a strong first quarter and I will discuss those results before addressing the impact that we are beginning to experience and assess related to COVID-19.

For the first quarter we reported Core FFO of \$0.37 per diluted share, in line with our expectations. On a year-over-year basis, Core FFO per share declined by \$0.07 as expected due to our 2019 commercial asset sales, partially offset by our multifamily acquisitions of the Assembly portfolio and Cascade, which were all part of our capital allocation de-risking execution.

Overall same-store NOI declined 1.6% year-over-year on a GAAP basis and 1.1% on a cash basis due to a same store office NOI decline of 6.6% on a GAAP basis and 6.1% on a cash basis, as well as an increase in bad debt at our retail properties. The same-store office NOI decline was driven by a couple of known move-outs and lower CAM reimbursements due to timing differences compared to the prior year.

Our multifamily same-store NOI increased by a strong 6.8% year-over-year, above our expectations driven by stronger-than-expected rental rate growth, lower repairs and maintenance expenses and lower real estate taxes. The Company achieved 2.3% of blended year-over-year lease rate growth comprised of 4.8% of renewal rate growth partially offset by 0.9% of new lease rate declines for the quarter. New lease rates grew 1.5% in March and our same-store multifamily portfolio is currently over 95% occupied and leased.

Same-store NOI decreased at our residual retail centers, which we report as 'Other', by 4.5% on a GAAP basis and 3.2% on a cash basis driven primarily by higher write-offs for bad debt which included amounts due from tenants impacted by COVID-19 deemed not likely collectible and lower recoveries compared to the prior year period. Excluding those impacts, Other NOI would have increased 1.3% year-over-year on a GAAP basis and 2.8% on a cash basis. The combined write-off impact of COVID-19 was approximately \$78,000 and the cash impact was approximately \$16,000.

Turning to leasing activity for the quarter, we signed approximately 46,000 SF of new office leases and 43,000 SF of office renewals in the first quarter.

We achieved solid rental rate increases of 8.8% on a GAAP basis and 5.2% on a cash basis for new leases and 6.7% on a GAAP basis and 0.7% on a cash basis for renewals, driven by solid rent increases spread across Class A and Class B office assets, both in the District and Northern Virginia.

We signed approximately 15,000 SF of new retail leases and 19,000 SF of retail renewals in the first quarter and generated rental rate increases of 18.7% on a GAAP basis and 8.2% on a cash basis for new leases and a 9.3% on a GAAP basis increase and a 1.5% cash basis decline for renewals.

While rents were substantially paid for in March before government regulations were imposed and social distancing efforts were implemented, we began to experience lower tenant use of their space when nonessential businesses were ordered to shut down in March. At that time, we began operational cost saving initiatives which reduced operating costs in March by approximately \$450,000, including a 40% reduction in utility consumption at our commercial properties, and lower tenant event and amenity expenses, as well as other expense reductions. We also began to experience lower parking fee income during March.

With that, I'd like to transition to how we are addressing and evaluating the impact of social distancing caused by the COVID-19 global pandemic.

Obviously, these are unprecedented times and while we began to experience operational and some financial impacts in March, the first significant impact for us began in April. We are only three weeks into the month, do not yet have the financial results for April, and have substantially collected rents due through April. Furthermore, it is nearly impossible to predict the ultimate degree of impact or longevity of the economic and pandemic disruptions, and given the uncertainty, and limited credit loss experience to date, it would not be prudent to provide further financial guidance. For these reasons, it is difficult to forecast—with a reasonable degree of accuracy—the impact of COVID-19 on our near-term financial performance. However, we recognize the importance of communicating with shareholders and providing transparency—especially in situations like we are in now— so I will do my best to explain where we stand today, what we are experiencing, how we are managing it and how we plan to assess those impacts going forward.

First in our residential properties, 95% of our residents paid their April rent including almost 97% of our same store residents. That tracks well relative to national averages reported at 89% per the National Multifamily Housing Council. We also entered April at a stable occupancy level above 95%. As Paul said, we are not increasing rents on renewals for the second quarter which is expected to lower our NOI growth as we normally would be achieving significant rental increases during this strong second quarter leasing season, especially since we had such strong lease rate growth in March. As a result, we expect a marked increase in renewal retention. This higher renewal retention will help maintain occupancy and preserve our seasonal rent roll during these uncertain times. Until market rents, occupancies and retention stabilizes, we are suspending our value-add renovation programs. We will be closely monitoring each program and will be prepared to allocate capital to our residential value-add program when turnover resumes, renewals begin to decline and we have a higher degree of confidence that the marketplace will provide adequate returns. We believe we are preserving opportunities for future growth in multiple ways. First, for our same store apartments, the flexibility offered to our communities will help drive higher resident retention and will not negatively impact seasonal portfolio expiration management strategies, thereby, preserving our ability to achieve strong recovery growth. For non-same store properties, we see an opportunity to, potentially, cut in half the typical two to three-year transition to correct the lease expiration schedule inherited at acquisition. Additionally, while we are unable to predict when the economy will resume, we believe that operating expense saving initiatives will substantially offset the reduction to multifamily rental income due to lower new and renewal lease rate growth in 2020. That said, we would expect fee income to decrease.

We are committed to supporting our residents and are providing flexible payment options to defer a portion of rent over the next several months for those who have been financially impacted. Due to the slowdown in new leasing activity, our property managers have the capacity to execute our deferred payment options effectively, which requires evaluating enrollment requests monthly on an individual basis, while forming relationships and working closely with residents. Our overarching goal is to help residents who are experiencing temporary financial hardship to remain in their homes, which we believe to be the best long-term outcome for both our residents and our shareholders.

Clearly, forecasting bad debt is challenging at this time, however, we are using many tools, including monitoring what industries our residents work in and the likelihood that they could be impacted, using data from the history of past economic downturns and closely monitoring our collection efforts and tenant responses. We have been closely monitoring credit card payments as a percentage of rent and have not experienced an increase. Our



leasing and management teams have been in communication with residents who have not paid April rent to make sure that they are aware of the deferred payment option. Some residents have indicated that they plan to pay April rent with no further deferral, and we will continue to track this.

Uncollected rent for the month of April is approximately \$600,000. It may not represent what we experience in May or beyond, but we do expect to work out payment plans with many tenants to collect deferred rents over the next few months. We will continue to monitor this impact.

In terms of leasing activity, as we manage slower leasing volume, our focus has shifted to maximizing resident retention and addressing their emerging needs. While guided tours for prospective residents have stopped due to stay-in-place regulations from governments, we are utilizing our virtual touring capabilities to provide virtual tours and online leasing. Applications normally would be about 1% or 1.5% of our unit count each week, so far in April we are running at about 60 basis points of units and entirely through virtual leasing tours, which are available at all of our apartments. Although traffic is down, those electing to tour virtually are motivated, doubling our typical closing rate. While we reasonably expect retention to increase, there will probably be negative impacts on occupancy tied to the decrease in traffic. We expect occupancy to remain at 95% through April and likely dip to between 94% and 94.5% by August.

Overall, while we had previously expected significant multifamily growth in 2020, and that growth is clearly going to be lower, we have a five-year pipeline of strong value-add renovations once conditions improve and it is appropriate to resume such growth. We also still expect future NOI growth from the Trove, which I will cover next. As Paul mentioned, we still believe the Trove will deliver Phase II of the project this year, although completion is now expected to occur in the fourth quarter instead of the third quarter. Our lease-up had just begun when social distancing measures ground physical touring to a halt, however, we have been successfully converting virtual tours into signed leases. While virtual touring is having success, we expect lease-up to take longer and are likely to incur a loss of between \$600,000 to \$700,000 in 2020 with growth expected in 2021 assuming we reach breakeven occupancy near year-end, which we believe to be a reasonable expectation based on where we stand today.

Now moving onto commercial. All our office assets are located in the District and Northern Virginia, where non-essential businesses have been shut down. We collected 91% of office rents for April thus far, and of the remaining outstanding rents, we expect that approximately \$300,000 is related to tenants who are capable of paying but are perhaps trying to be opportunistic and from whom we expect to collect this rent, while we plan to evaluate the remaining outstanding amount for potential deferral. As Paul explained, we are accepting applications from tenants requesting rent deferral who have been financially impacted and are evaluating their financials and access to stimulus relief, among other factors. We do not plan to defer rent for those capable of paying and who are simply being opportunistic. It is very difficult for us to project bad debt with so little data thus far and not knowing the future extent or duration of disruption. However, our assessment as of this early stage of processing of the tenants who have requested rent deferral or have not paid April rent, will be that they are likely to meet their future rent obligations. For the remainder, we have reserved most of their balances through normal accounting practices. We will continue to evaluate this as we gain more information.

We also know that parking revenue is down as people are not driving to their offices. Our current projection is that parking revenue will decline by \$2 million but that estimate could change if the shutdown is more protracted than

we have assumed. Once the economy returns, we could experience an increase in parking income from higher utilization as tenant transportation preferences shift away from public transportation.

Also, while fortunately much more leasing was done in 2019, 2020 was expected to be the year of lease commencements, which is expected to build into 2021 and had included some additional leasing that had been progressing nicely. We don't know the duration or continued severity of this disruption and while some deals are still being executed, tour volume has slowed. While most build outs controlled by us are progressing, we now believe lease commencements will be pushed out further in many cases. Our previous 2020 guidance included approximately 1.3% of revenue from speculative lease commencements. That leasing was projected for some of our most high-quality space and because of that, we believe that leasing is a matter of "when" not "if" it will commence. While we cannot presently estimate the overall impact of lease commencements or payment delays only 20 days into experiencing an impact on collections from this disruption, we will continue to monitor both closely. As we experienced in March, we expect to continue to find cost savings to partially offset the lower income and likely bad debt from lower collections through initiatives to save on utilities, cleaning and other operating expenses.

Finally, for our retail assets, which represent less than 7% of our total NOI, we are evaluating approximately \$500,000 of April rent payments not received for potential rent deferral.

As we have said, these are very early days in an unprecedented global pandemic and economic crisis, and we cannot yet provide 2020 guidance as predictions for when the spread of the virus will peak, how long social distancing measures will remain intact and what the ultimate toll on the economy will be continue to vary. Therefore, we have withdrawn our previous guidance and currently are not planning to update it. With that said, we have shed light on what we could experience based on where we stand today and the actions that we are taking to create the best long-term outcomes for our stakeholders.

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

**Paul McDermott – President & Chief Executive Officer**

Thanks Steve. In conclusion, while we are operating in an environment that continues to rapidly change, we are confident in our ability to effectively manage through this period of uncertainty. Our 2019 strategic capital allocation and strong liquidity position will help us to stay positioned for long term growth as we navigate through this economic shutdown. Although we, like everyone, will need to absorb the near-term impact, we still have well-located residential units in the path of growth when the economy resumes, and a 3,000 unit 5-year renovation pipeline that will provide growth. Although the lease-up of the Trove will now be more protracted, the Trove still provides substantial growth once it begins to stabilize with much of the investment already made. Furthermore, we have office leases to provide year-over-year growth in 2021 and beyond once those leases commence. All in all, we remain confident in our ability to manage through this while remaining in a position to expand and grow our business post-COVID-19.

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. If you would like to ask a question, please press star one on your telephone key pad. A confirmation tone will indicate your line is in the question queue.

You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes the line of Blaine Heck with Wells Fargo. Please go ahead with your question.

**Q:** Hi, thanks, good morning guys. So Paul, when you consider the disruption that we're seeing on the investment sales side of the market, how are you thinking about your overall plan of shifting from office and retail into multifamily. Do you have any sense of the price dislocation that maybe you're expecting to see in each one of those sectors and ultimately, how does all of this affect the timing of that shift towards multifamily?

**Paul McDermott – Chairman and CEO:**

Just looking back on the last 30 to 45 days, obviously the whole world has changed and the transaction market has virtually stopped.

I was reading yesterday that the failure rate in transactions in March alone was six times the normal average and every multifamily deal that we were looking at in the first quarter that probably had bids due in March or early April got pulled.

Outside of JMII, I also haven't seen a lot of office transactions get executed; it's tough without a fact pattern to really talk about movement and cap rates and what the inventories are going to look like.

I think a lot of people at least a lot of the owners and operators that we've talked to – are waiting and have pulled back assets that were going to come to the market, they're taking a harder look at the recent refinance market; which has also obviously been highly impacted and I think the lenders are becoming much more selective.

But the refi deals that don't get refi-ed are the ones that are going to be on sale and those are obviously ones that we're going to take a look at. In terms of going – I don't see wide cap rate swings in the multifamily space and I probably say that – we're not it, but I'd say that probably the industrial space also.

People are definitely going to be looking at certainty of cash flow and duration, that's going to be much more important. And in terms of retail, I think that's just going to be a bit more protracted and I don't anticipate that we're going to see a lot of retail trades coming up in 2020.

**Q:** Got it, thanks, that's helpful commentary. Steve, last quarter you guys had said you expected to be in the high 80's on your payout ratio during 2020. I know you guys aren't giving guidance but can you give us any sort of update of expectations on that metric and whether any of the impact of the coronavirus can have any implications as far as the dividend is concerned?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

So we really have given a lot of our guidance but we couldn't sum it up for three parts of it. Maybe at the end of answering this I'll recap that because we threw a lot at people.

We haven't given a full FFO guidance, so by implication we haven't given FAD guidance. There's multiple aspects to that but maybe I should just reiterate and summarize the broader view on our guidance and the lack of it, and what we have commented on, and then I'll try to get back to just that if that's OK because we really did throw a lot of people today -- it's a little unusual call.

So we've actually not suffered -- what I would say is material impact to date, through April. And actually, not that I think this is likely -- if things were to resume right now, we would not.

We've also given a lot of visibility -- shared many parts of the potential impact. What we think is not prudent to do, is to project the duration of the impact of this global pandemic shutdown, in our view no one really knows and we've done a lot of research -- how long and how impactful it will be.

But maybe if I recap a few things that we have brought clarity to it might help as you model since we haven't answered the full question, we've been transparent about a lot of things and realistic about things that we're modeling but we're not ready to project.

I think I misspoke in my prepared remarks we've actually collected 95% of our multifamily rents overall for the month of April, and 97% of the same-store multifamily through April. And for context that's within 1% of last April and 1% of March, so we really haven't had much disruption there.

I also understand, just a little while ago I was told -- we expect to collect another 2% of our office rents for April today, so I could update that our expectation is that we'll be at 93% of our office rents.

I think we've shared relative impact of multifamily that we're suspending rent increases, but we are operating expense savings we net-net think those will generally offset each other but that clearly cuts in to the growth there in that aspect of it.

So really what's been most difficult, I think we've given many of the parts that we would have given before, but what's most difficult to quantify and although we're certainly modifying and modeling many scenarios ourselves is who will not pay that's actually paid so far and how long will it take before people resume touring and are ready to commence leases in the commercial space?

And when we think about that there's another aspect and that is, we're evaluating some of the commercial, it's only \$700,000 so far in the office portfolio, \$500,000 in the residual portfolio for GAAP income referrals and we right now believe a lot of that will qualify, and that probably won't affect our numbers that much if they do.

But other impacts that we haven't been able to quantify as well is where timing really matters as much as anything. For example, and maybe this will help, it's probably a little bit more quantification than I gave in the prepared remarks, but we signed leases that have not commenced as of now that represent another approximately 3% percent of occupancy.

So we don't know when people can go back to their offices and we can get those resumed, so that we are able to feel confident we could have an opinion on that. So further we've signed LOIs for commercial leasing representing another approximately 3% percent of occupancy. That's all good and we were feeling great about it until we were disrupted.

We also said we had previously expected to have revenue from speculative leasing representing about 1.3% of what was in our previous revenue guidance. So that represents about \$4 million. We're not sure how much of that will be impacted because touring has basically stopped. Around 70% of that was in our very best assets like Watergate 600, Arlington Tower, Silverline, and our Space+.

The Space+ leasing has so far been able to move and commence with minimal downtime, we just don't know when that resumes, so we've been transparent about that. And so -- but not for those things, I think we've given a lot of -- I think the other thing affecting the dividend question, to get back to your specific question is -- ability to pay, we have a lot of liquidity.

We think we'll have our commitments tomorrow, but we have to see on the rest of the liquidity and close fairly soon, so that would be \$520 million. I can't give you the FAD number because I haven't given you the total number, but we're not worried about our dividend, we're not thinking about our dividend right now.

And we certainly have the ability to pay it, we think most of that liquidity is going to be intact even at the end of the year with only \$150 million there. And quite frankly we're poised and ready to go to the capital markets and term out debt at a time of our choosing, we don't have to because we have liquidity.

We'd love to term out debt and that'll just increase our liquidity further because we had paid down our line and next year's maturities if we do that. So ability to pay is fine, we don't know what the near-term earnings are. I think dividend decisions are a long-term capital allocation decision and we still believe that many of our growth drivers are intact and have been kept intact, and we've always felt good about the growth that we've got coming. So we think right now the dividend's just not in question for our company.

**Q:** Great, appreciate the additional detail there. Can you just talk about the drivers of the operating expense savings you guys are seeing and expecting to continue to see on the multifamily side and maybe quantify the amount of savings we should expect to see?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

We haven't quantified them on a run-rate basis. I would say that we experienced maybe three weeks of reduced utilization of our commercial space that started to drop off fast in March. In that month, we saved \$450,000. Our operating team has obviously been in action longer than that.

In our own models, we have substantial savings. But to tell you how much, that would really depend on how long we think the thing is protracted to go. So we haven't quantified that but it's -- I would say, we think that we've found additional opportunities beyond what we experienced in March. I think that's as far as we can go right now.

**Operator:**

Our next question comes from the line of Michael Lewis with SunTrust Robinson Humphrey. Please, go ahead with your question.

**Q:** Did you guys share concessions that you're offering on new leasing? I know you said the volume is down, but the success rate is up. Is there anything you're doing to entice those people that are looking for a new apartment?

**Paul McDermott – Chairman and CEO:**

For the units that we are doing, we're offering a month free, the ones that are just coming online right now. The Trove, we're offering a month free per year of term.

**Q:** On the development lease that would probably be pretty typical, but even on the existing operating portfolio a month free?

**Paul McDermott – Chairman and CEO:**

No, we haven't given detail on, that's going to vary asset by asset and submarket by submarket.

**Q:** On the office portfolio, how do you think about -- obviously there's been -- we know all about the heavy new supply in Class As and the rent spread there. Given what's going on now, do you think the positioning of Class B buildings is still relatively better than the As? Or do you think that the tenants in the Bs maybe are a little bit more at risk when you think about credit losses and rent deferral and that sort of thing?

**Paul McDermott – Chairman and CEO:**

People that are in the B space are there because they're economically conscious. I look at our B space downtown right now and I haven't seen any tremendous differentiation between the amount of tenants that pay rent in the B versus the A.

Right now, there is a price point sensitivity, more people think our average rate in our B space is \$51.50 a foot. I think a lot more people want to pay \$51.50 than want to pay \$71.50 a foot.

So the credit profile is a good one and that's a good question. But again, I think that varies from tenant to tenant. We have some very high profile credit tenants that are in the B space. And again, I think that people are going to be more sensitive to price at a time like this than before we came into this pandemic.

**Q:** Not to kind of belabor the guidance point, I think Steve gave a good answer, but the decision to withdraw the guidance, it's certainly understandable. But I think if anybody was going to keep the guidance, I thought you guys were very data-driven, research-driven. You're obviously -- been thoughtful about this. You've got plans. You were able to detail a lot of the underlying items. Is the biggest unknown here credit losses? I know you mentioned some of the LOIs and whether those will convert and that sort of thing. And then, I guess the real question for me is what do you need to see to re-establish the guidance?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

I think we really laid out a bit and I think we've followed up our reputation of being transparent. But why did we pull it? I do think it's the three things that I said. I think number one is credit loss, so I'll get specifically to your point there.

And then, number two is timing really matters on lease commencements because this year was about lease commencement for us. We've got 3% of leases that we had an original schedule that would commence that were already signed and 3% of LOIs that we had built into our expectations before.

And we had another 4 million of spec leasing in some really good assets in Space+ that we were getting tremendous traction with in many cases. And all of a sudden, nobody's physically out there anymore and it's really hard for us this year to project when that happens.

Credit loss is a really tough thing to forecast when you don't have any. We've statistically not really experienced material credit loss. And we do have tremendous resources, we're running models and data about who might default. But now, we're guessing who might not be able to pay their rent that's actually paying their rent so far. And we're going to monitor it closely.

We actually came into preparing for this call hoping that we'd have some conviction to go ahead and update guidance. But quite frankly, our view is, if we guide it needs to be based on facts and data and not just an opinion. We have no actual material credit loss data to project that with and I think we're trying to be responsible when we take that approach.

If you stop this today, we don't look bad. We haven't had a material impact. It's just, we're supposed to guess something that's unprecedented -- how far it'll go on.

Now, if we start to experience that and our data is there then we're going to be more confident about projecting our losses. If we can get a better sense of when people resume and what re-entry looks like, I think we'll get a better sense for that.

Something tells us that it's going to take a little while to know how fast people are going to be comfortable re-entering society and logistically resuming office space for us to get more confident about what dates and times to assume those leases will actually commence. But I think that's a lot of it right there. I hope that helps. And if we get it, I think we want to put it out there.

I'll just say one other thing about credit loss and accounting. You not only have to guess who's not going to pay you that's been paying you, but then you got to go look at, it really matters who that is, because they could have straight line balances that are multiple times the amount of rent they're not paying you.

I'd like to know who has room and a guidance range to guess and potentially take a hit for that and be able to guide to it. We're being thoughtful about that and trying to be -- not mislead our investors by thinking that we know something that we have no facts on.

**Operator:**

Our next question comes from the line of Bill Crow with Raymond James. Please go ahead with your question.

**Q:** Paul, I guess two questions. Number one, what are you hearing about the potential impact to new supply, both multifamily and office, in your market given this current environment?

And number two would be, a lot of the discussions on your office portfolio has been the success of locations near mass transit and I'm just wondering how you're thinking about that going forward. I think in the prepared remarks, you talked about -- that there's an opportunity to potentially capture more parking revenue if people choose not to use mass transit, et cetera. I guess those were the two questions.

**Paul McDermott – Chairman and CEO:**

Let's take them one at a time. In terms of new supply, a lot of the chum was already in the water on office in D.C. already. And so, buildings that are in motion -- and again, supply chain disruption aside -- I think those are going to continue to deliver. And that will be what we all deal with in terms of new absorption and the same with multifamily.

Take us, for example. We are finishing out the Trove expediently. We've got minimal supply disruption and we'll be delivering the balance of it at the backend of this year.

In terms of new development and new supply coming on after that, I'm already seeing LPs walking from commitments. And I'm even not, anecdotally, in the Washington, D.C. proper per se, I've also heard some developers, like, pay me my fees and I'm out. Because -- just kicking their leasing strategy out and taking them out of the promote.

I do think there's going to be disruption, obviously, in new supply. I don't think you'll see a lot of people announcing. Multifamily was clearly the hot ticket in Washington. I don't see a lot of new multifamily start being announced for the balance of this year.

In terms of mass transit, I think it's a good observation but I would probably bifurcate that to urban versus suburban. When you're in dense locations like Downtown Washington, people are really trying to use the public transportation. Our Metro system is a good one on a relative basis with other gateway city markets. People are going to gradually ease their way back in.

The bigger question, recognizing that our world is changed, is how people are going to use office and what is the one fundamental shift that's taken place. I told you in my remarks we put together a re-entry task force.

I would break it out into two views. One is your commitment, obviously, to base building and the modifications that need to take place there and then the tenant space once you get into that space itself.

On our base buildings, we are really focusing on the access points, receptions, elevators, parking, looking at a lot of touchless technology. The HVAC systems, obviously, we're looking over them, but looking at overall building wellness.

Not just transportation to the building but getting into the building, it's going to take time to get into buildings. There will be queues for elevators. Think cleaning, the way we look at cleaning, all the touch-points, a lot of that's going to change.

And then progress that to getting into the tenant space itself. You and I go to work every day and it's where we live professionally. I think you're going to have a lot of people evaluating who comes to the office and prioritization, who's essential and who can work from home. Do you have red teams, blue teams?

Our tenants, we're already having dialogues with our tenants and they are being pretty thoughtful putting forward their own social distancing programs inside their space, which involves less density, variable traffic patterns. So one silver lining coming out of this is we're definitely seeing a lot of increased communication between the tenant and the landlord.



Look at the last 30 days with your team, you've probably talked to more people virtually than you might see on a daily basis. But I think transportation and building operations, some of it may be doing the same things differently and a lot of it may be doing different things, which is still evolving.

I look at the Cushmans, JLL, CBREs of the world. They're publishing thoughts -- thoughtful re-entry publications real-time. It'll be some type of combination of all the above. But I don't think public transportation is going away and, if anything, I think it'll probably get some much-needed monetary infusions to make it a more accommodable ride for our tenants, their residents, and their employees.

**Q:** That's helpful. So if you had to throw a guess out there, three to five years from now, do you think we'd have more square footage per employee, or less, or it stays neutral because some are working at home and others are more spread out? Do you have a thought on where we'd go?

**Paul McDermott – Chairman and CEO:**

I think that it comes down to there is no one-size-fits-all, I think people are going to take social distancing very seriously -- part of the experience of working in the office, number one, you want to be comfortable coming in, but number two is the social interaction and the comradery.

I'm not trying to be Pollyanna, but having been locked up in a house for six weeks -- I like my colleagues, I'm just tired of seeing them on a screen.

I do think people are going to be very sensitive to their space and I don't think that right now people are going to talk about dramatically increasing their footprint. They're probably going to talk about how do you use your existing footprint more efficiently and better.

The tenants that we've talked to over the last three to four weeks have all talked about no one's called us and said, hey, we really want to expand. But they spent a tremendous amount of time asking about thoughtful reconfiguration. So I don't have an opinion of whether it's going to be more or less. I think it really depends where we are economically right now.

**Operator:**

Our next question comes from the line of Joel Dempsey with Stifel. Please begin with your question.

**Q:** I just wanted to start off with a modeling question. Interest expense came in at about \$10.8 million this quarter. I know you pre-paid the \$250 million note and have increased the line which, looking at the supplement, has a lower cost of debt. Is it safe to assume that the interest expense will trend down for the rest of the year?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

Yes, I think we've given you enough disclosure without us giving you a specific guidance point there, if you work off of what we told you, one, we prepaid the debt so that was 4.95% bonds that are no longer there as of April 2.

Two, we've got amounts on the line. Three, I think we've said that we expect another term loan, that we've disclosed the terms of that are LIBOR plus 1.5 with a LIBOR floor of 50 basis points. So, we haven't told you

what we're going to do, but if you wanted to model it, it would be safe to assume we'd draw that and pay down our line, and just increase our liquidity on our line.

And then the thing that we can't tell you, because we don't know yet, is that we are ready any day that it makes sense and is good for our shareholders to go term out in debt. We're poised to go.

We don't have to go at a time that would be a disadvantage to our shareholders, but if we do, we would -- we would take advantage of that, whether it's the bond market or other things that we keep exploring every day, and then when we do that we'll be paying down line debt, and probably some of next year's \$150 million that would mature.

**Q:** Just a follow-up on Blaine's earlier question, I know you mentioned the office sales market kind of coming to a halt. Looking forward though, with the sale of John Marshall and the Trove stabilizing, when this is all over, hopefully sooner rather than later, could this be an opportunity for Washington REIT to become a net acquirer and possibly take advantage of market disruption that you're seeing in the market?

**Paul McDermott – Chairman and CEO:**

Absolutely. Our original guidance for this year was really, as you know, We had only one transaction opportunity highlight and that was the sale of JMII. We will always be opportunistic like we've tried to do over the last several years.

I do think that there are going to be opportunities, that there are refi-ed deals where there may be an elevated equity requirement that won't pencil out and there is going to be a short fall on proceeds.

Those are precisely the assets that may turn back to the market, and yes, first and foremost in a time like this, and I've had my Chief Financial Officer beat it into me, protect the balance sheet, and that's first and foremost and be able to cover our ratios and maintain our liquidity.

We will try to be as opportunistic as we possibly can. We know our margin -- we know the sub-markets that we want to be in, and if we see some type of distressed activity, I can assure we'll be taking a look at it.

**Q:** Thank you for providing the multifamily and office collections numbers. I know those are top of mind for a lot of people. And I know it's early, but sort of generally speaking, what are some high-level thoughts you have around May collections and what those might look like, just given that the pandemic really started in earnest in late March, do you think May may be more effective from a collections standpoint than April was?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

I may actually kick it over to Grant, our Head of Research, just to tell you, since we've been collecting all along, what our advanced research is telling us about the profile of the people in our portfolio, which I think is more indicative of what we've experienced, because keep in mind, we are within 1% of what we experienced a year ago. We're within 1% of what we experienced in March, when no one was acting like there was a disruption.

One of the things we monitor is, what percentage of people pay by their credit card and that hasn't gone up, which is all a good sign. When you're basically at normal and people have been locked in their homes for what would then be six to eight weeks, you have to assume it's going to get worse.

We do a lot of research, there are a lot of different things out there about V-shaped and U-shaped recoveries. We have research perspective on all -- in terms of how either of those could affect us, but we think we're OK either way.

We now are going to have to project using analysis, and Grant can talk about that and maybe the composition of our portfolio, because they've paid us so far. Grant, maybe you could add a little color to that.

**Grant Montgomery, Vice President, Research:**

As Steve alluded to, we've been really looking and digging into the share of industries that our residents work in and those that we have overexposure or underexposure.

First off I would just say that -- to point out to listeners that in the same way that Washington is different than the country, when we've dug into our data, our properties are different than even Washington for example.

The more immediately exposed industries of leisure and hospitality and retail, those comprise nationally about 21% of all jobs. In the Washington region, that's around 19%.

And digging into our Class B portfolio, we just have 13% exposure to those immediate industries. Doesn't mean that other industries won't be more widely impacted, but those sort of the first ones that we watched.

And in terms of the data that has come in thus for late payment in April, there have been a group of industries that have outperformed and those that underperformed, and we pointed those out to some extent in the call.

One that really shows up well and gets talked a lot about is Washington's exposure to government employment, and we have an outsized share of that in our portfolio and those residents are paying. For example, there's 17% of our household that are employed, but there are only 9% of our uncollected share.

So, that's an example, as well as professional business services, like 24% of our employed residents and it's only about 14% of the uncollected share. So, we've had some stronger sectors like that, and we have outsized exposure to those, which we think going forward we'll continue to track. But they seem to be holding up early.

And then we have less exposure to some of the ones that have been more immediately impacted, but that's the framework that we're really looking at and will continue to monitor as we gather more data, like we've been saying, we really only have one data set, but as we move forward we'll be obtaining that as we move forward.

**Operator:**

Our next question comes from the line of Chris Lucas with Capital One Securities. Please do ask your question.

**Chris Lucas:**

I wanted a bigger picture question, just as it relates to sort of rent accommodations, when you're thinking about that rent deferral approach, is it strictly going to be a payback over a period of time or are you looking at lease extension as a possible accommodation as well? When you're dealing with rent accommodations, are you looking primarily at a payback over a period of time, 12, 18 months whatever, or are you looking also at potentially doing leased extensions as a sort of trade-off for that deferral?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

We really have three approaches. We built a proprietary system of application and review and we're engaged -- I'm talking about commercial tenants right here, and so we're engaged in that process with the ones representing the numbers that we talked about on the call.

We look at it this way, first of all, they've got to be capable of paying and have done the things that make us feel like it's worth working with it from a financial standpoint. The majority of people are going to get a deferment and we're going to look at their ability to pay, in terms of how long we're willing to go.

Many are going to fall into the bucket within the first 12 months. If it's appropriate, some could be longer than that, but they're likely going to help pay an interest cost or something if they go beyond that.

If it makes sense and it's a tenant where we really wanted an extension and they're really strong, but they'd like to trade off a little rent relief now, in those scenarios we would look a blend and extend, where there could be some abatement. That's not going to be a huge majority of what we've seen so far.

In all three cases, you have to look at collectability, that governs everything and that's where it comes back to it's more than just the rent, if they've got straight line rent balances and I don't know if people accommodate that when you expect to see something in guidance, but it's required, under GAAP.

It's really the ability to pay, and then if there's something in it that they can pay and we want them to stay longer and everyone's agreeable, then we'd look at extensions.

**Q:** Paul, just kind of going back to Bill's question about sort of the future of sort uses of office and how it will be thought about, how are you guys thinking about Space+?

**Paul McDermott – Chairman and CEO:**

In terms of Space+ itself, it's going to be getting us a little bit of a shot in the arm here, Chris. We've already experienced that. We've got folks that are trying to go out of open plan benching co-working spaces into Space+, because Space+, as you know, has it's own suite.

Space+ just in terms of the math really only takes up approximately over 8% of our commercial portfolio. As I think we've said in the past, we don't want to build a cottage industry inside our commercial portfolio, but I do think, we're going to see more of a need for Space+ as people continue.

We just found a tenant at 2000 M that left WeWork for that exact reason, they don't want to be in a big open plan and benching, they want their own privacy. And that was the genesis of Space+, was really people graduating out of that, 10 to 12 people wanting their own designed suite.

In terms of the credit profile, only 1% of our uncollected rent in April was Space+. In that particular deferral, we'll approach in the same way, same protocols that Steve just answered on.

**Q:** As it relates to the apartment portfolio, 97% on the same store portfolio implies about 91% on the recently acquired or non-same store portfolio. Is there any characteristics that you can point out that sort of implies or

gives us a sense as to why there's that gap, is it geographic, is it rent controlled, just to make-up of the tenant fees?

**Steve Riffie – Executive Vice President and Chief Financial Officer:**

I'll start it, but I'm going to throw this to Grant pretty fast.

Yes, that would tell you that a disproportionate amount of what hasn't been collected is slightly airing in that favor, for the most part, it is because they have a higher exposure to the industries that have been a little bit more impacted. We're still very pleased with what we've collected and we're in discussions with tenants. And they're working with us.

What's hard is how much harder will it be for them, some people that might be disrupted probably don't even have all their federal resources in hand yet, such as their federal stimulus check. The bonus -- they may not even be fully in the unemployment program and there's extra bonus money coming out of the government programs for them in that regard.

Those are the kinds of things that if you are disrupted, they probably factor into guessing what May will be like. The main thing is there's a little bit of difference in terms of degree of exposure to impacted industries. And Grant can give you color on that.

**Grant Montgomery, Vice President of Research:**

The composition is slightly different, as you would expect, between Class A and Class B. So, just in terms of the two immediately impacted industries, which we really called out of retail, trade and leisure and hospitality, overall for our portfolio as I think we said in the prepared remarks, it's about 12.3% of our employee renter base. But there is a dichotomy between A and B, that's about 13% exposure in Class B and about 6% exposure in Class A.

So, there is a slight difference there. On the plus side though for Class B, you actually have slightly more exposure to government in Class B than we do in Class A, and that's one of the more solid industries thus far, in terms of payment history.

**Operator:**

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

**Paul McDermott – Chairman and CEO:**

Thank you, Operator. I would like to thank everyone for your time today. We appreciate your continued support during these challenging times and we hope that you all stay safe and healthy. Thank you and have a good day.

**Operator:**

This concludes today's teleconference, you may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.