Transcript of WashREIT
Second Quarter 2021 Earnings Conference Call
July 30, 2021

Participants

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

Analysts

Tony Paolone – JP Morgan

Presentation

Operator
Welcome to the Washington Real Estate Investment Trust Second 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, 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 Riffee, 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, and it is good to have you back following your maternity leave. Good morning everyone, and thanks for joining us today. Last evening, we released our second quarter earnings results. Core FFO was at the top end of our guidance range and above consensus expectations. We will of course discuss those results, but we know our transformation that we announced on June 15 is top of mind for investors and the key focus of this management team.

Today I will update you on the progress of our strategic commercial portfolio sales and our research-led Southeastern markets expansion. I will also address the strengthening Washington Metro multifamily market as well as Southeastern markets, and the status of our value creation opportunities. Steve will discuss recent multifamily performance and trends, our views on strategic differentiators that we believe will continue to help us succeed, our second quarter results, and our strengthened balance sheet as we execute our transformation. Then, I will wrap up by recapping our priorities for the balance of 2021 as we complete our transformation and move forward as a multifamily REIT.

Let me start with our progress on our strategic transformation. Since our mid-June announcement of the transformation, we have completed the sale of our office portfolio, excluding our best office asset, Watergate 600, for which we believe we can derive even greater value, for $766 million. We have also given notice that we are redeeming the $300 million 2022 notes and expect to complete that redemption in late August. We also are now under a binding agreement to sell our remaining retail assets to a single buyer for $168.3 million and expect that transaction to close in the third quarter. Following the retail closing, we expect to pay down our term loan by $150 million as we messaged on our webcast.

I'd like to turn now to our progress on multifamily capital deployment. As you know, we are in the final stages of a strategic transformation that has taken place over several years. We went from four asset classes to one and we are moving forward as a multifamily REIT with proven research-driven strategies, a solid pipeline of investment opportunities and a good economic backdrop. Following these transactions, not only will we have recycled over $5 billion of assets to improve our portfolio, but we also decreased leverage, increased liquidity, and lengthened our debt ladder. These actions increased our financial flexibility and unencumbered the right side of our balance sheet to position us for growth.

As we covered in our transformation webcast, in multifamily, we are experiencing positive drivers to fuel our growth from this time of post-pandemic inflection onward. In office, we were facing challenging and increasing headwinds, including increasing capital requirements, and we expect those headwinds to continue. This contrast in growth prospects boosts our confidence that we will create more value for our investors going forward through our portfolio recalibration.

We understand that these transactions are dilutive to earnings and FFO, yet we believe they are initially NAV neutral and offer a far greater opportunity to increase NAV, not only in the near term, but over the long term as well. As we discussed during our June 15 webcast, this transformation is a reset, and as such, our Board reset our dividend and we continue to prioritize the strength of our balance sheet and access to capital for the long-term. Because of this, we have enough capital to execute these transformative steps and have access to capital beyond that. Additionally, we have a roadmap to continue to grow and create value for our shareholders. We are focusing on middle income renters which is a strong, underserved and growing cohort in the Southeastern markets that we are targeting, as well as here in DC, where we have successfully been executing our affordability-based investment and operational strategies.

Over the past several months we have been actively underwriting deals in the Southeastern markets where we believe our strategies can successfully achieve long-term rent growth outperformance. These markets include Atlanta, Raleigh/Durham and Charlotte. We are positioning ourselves to acquire assets that have the targeted renter cohorts and growth opportunities by vintage to allow us to execute our Class A-, Class B value-add, and Class B portfolio strategies. We are targeting submarkets with attributes that we believe are most likely to drive rent growth and tailoring our specific investment strategy to best create value, just as we've done in the Washington Metro region. The pipeline has been active and while we have passed on some deals that do not fit our strategies, we see opportunities ahead that make us confident we can allocate this capital appropriately over the balance of this year. At this point, we have an initial asset under contract in suburban Atlanta and are in the process of acquiring additional assets that fit our strategies and are in submarkets where we expect to be able to grow rents. We will provide more color through ongoing updates as we close on asset acquisitions.

The markets that we are targeting are projected to be among the best in the nation in population growth and net migration over the next decade, and the already strong rent growth that we've been tracking accelerated further throughout the second quarter. Year-over-year effective rents for Atlanta, Raleigh/Durham and Charlotte grew by 14.3%, 10.3% and 10.6%, respectively, in June as reported by RealPage. New lease tradeouts were even stronger, averaging 17.9% across the three markets, and a 670 basis point inflection between April and June.

Average concessions remained in the low single digits in each market, averaging just 5.5% inching up slightly over the quarter from 5.1% in the first quarter. However, the breadth of the market offering concessions retreated markedly, with just 15% of units across the three markets offering concessions in the second quarter, down 630 basis points over the quarter.

Annual demand also surged across these markets as in-migration and household formation drove record-setting absorption. Reported first quarter annual demand had already exceeded the five-year average in each target market, yet it jumped nearly 30% higher in the second quarter. Raleigh/Durham and Charlotte posted second quarter annual demand at 156% and 151% of their five-year averages, respectively, while Atlanta's second quarter annual demand topped 186% of its five-year demand trend.

These market data points further illustrate the rationale behind our expansion into these markets, where we believe strong demand and rent growth outperformance will continue to power our expanding portfolio over the near and long-term.

Here, in our home-base markets, we also have great optimism for growth ahead.

The Washington apartment market also experienced a performance inflection during the second quarter, with significant improvement from April through June, as reported by RealPage. Year-over-year effective rents turned positive in June for the first time since April 2020, with particular improvement in June, as effective rents climbed 214 basis points higher than the second quarter average. Suburban Virginia's performance followed a similar pattern, but with even stronger growth, with year-over-year effective rent growth accelerating to 5.9% in June, 245 basis points better than second quarter average.

Average concessions in the Washington market declined 200 basis points in the second quarter, to 9.1%. The breadth of the market offering concessions also declined, with 19.7% of units in the Washington market offering concessions in the second quarter, down 250 basis points versus the first quarter.

Our current same-store multifamily portfolio has approximately 6,700 units and is 96% occupied. Our average monthly rent is just under $1,700 per door.

Our suburban Virginia apartments have performed well during the pandemic and continue to do well, much like the Sunbelt markets we have researched and analyzed the last several years. We are slightly above 96% occupied in suburban multifamily assets, and 95.8% overall, and effective rents continue to be strengthening. Furthermore, two-thirds of our current 2,800 unit renovation pipeline is in our suburban assets and we have activated the renovation programs and are targeting low-double-digit ROIs, at a minimum. Urban effective rents have grown stronger every month since the December bottom and urban blended lease rates have turned positive on an effective basis. Meanwhile, suburban lease rate growth has been exceptionally strong, reaching over 5% on an effective basis for July move-ins.

We have now fully delivered and invested in Trove which delivered only $200 thousand of NOI in the first quarter and approximately $425 thousand in the second quarter but most importantly, its lease up now has tremendous momentum. Since April 1, we have signed 160 leases, or slightly over 40 leases per month, well above the regional average of 13 leases per month. This increased demand allowed us to further push market rents by over 8% while also reducing concessions. We now expect Trove to stabilize near year-end as opposed to our prior expectation of May of 2022.

Our multifamily rent collections have remained strong at 99% throughout the pandemic as our research has led us to focus on renters with solid credit in areas that offer a higher relative exposure to the strongest employment sectors. The combination of the strong spring and summer leasing seasons and the vaccination-led end of pandemic restrictions leads us to believe that further strengthening from here is underway.

Over the long-term, our research-forward approach has positioned us with a multifamily portfolio in submarkets with strong supply and demand fundamentals. From a demand perspective, the Washington Metro region has a significant housing shortage and an affordability crisis that is only getting worse as the cost of homeownership continues to rise. From a supply perspective, our region has been underproducing housing product at the price point that would address the growing demand, and therefore, most renters remain underserved by new supply. Our ability to successfully position ourselves to benefit from a large and growing target renter market and limited competitive supply over the long-term in our Washington Metro markets sets us up well to expand the key elements of our strategy into the targeted Southeastern markets. We intend to utilize the learnings from the Washington Metro market and further adapt to continue our growth as we geographically diversify.

We are extremely grateful to all the WashREIT team members who have diligently reshaped this company over the past several years and while we will miss those moving on to further their commercial portfolio careers, we are also excited by the team in place to continue to build our multifamily future. We are augmenting our multifamily operational leadership and team for the new markets, and we are following the roadmap that we have created over the last year, to build-out our infrastructure for the future. We believe we will create efficiencies as well as further enable our ability to scale up very effectively.

And with that, I will turn it over to Steve.

Steve Riffee – Executive Vice President & Chief Financial Officer
Thank you Paul, and good morning everyone.

I will first cover our multifamily trends and results as well as our overall reported results for the quarter. I will also address our views on strategic differentiators that we believe will continue to help us succeed, recap our balance sheet focus to allow us to continue to be strong even after our initial deployment of this transformation capital and finally, I will discuss our outlook.

We ended the second quarter on a positive note and we are starting to experience the significant inflection that we had anticipated. All signs point to increased demand momentum, and we are seeing pricing power return.

Concessions are pulling back dramatically, effective lease rates have turned positive, and available rents indicate further improvement throughout the summer months. Rate growth on new lease executions has improved over 10% over the last seven weeks on a gross basis. The average concession per unit for move-ins scheduled for July and August is 70% lower than the second quarter average, representing a $630 decline in concessions per unit.

Blended lease rate growth improved 460 basis points from the first quarter to the second quarter on an effective basis, yet the most significant growth occurred during the last two weeks of June. The acceleration has continued into July and blended effective lease rates have already improved by another 240 basis points thus far in July on an effective basis. New lease rates have shown the most significant improvement, with average new lease rate growth improving by over 600 basis points from June to July on an effective basis.

Our suburban properties continue to outperform our urban properties and average new lease rate growth increased to 5% thus far in July on a year-over-year basis. And urban new lease rates have reached their inflection and turned positive on a blended basis for the first time on leases executed in late July. Both urban and suburban lease executions with August and September move-in dates indicate further improvement. Looking at our rents on our available homes, this upward trend is continuing into the third quarter.

Applications and move-in activity remain strong as net applications increased 35% during the second quarter compared to the prior year. Same store occupancy grew 60 basis points post quarter-end to 95.8%, allowing us to continue to push rents. And on the renewal side, there has been very good demand, and renewal lease rate growth is currently tracking above 3%, on average, with suburban renewal lease rate growth tracking above 5% on average.

Trove is now fully invested and should begin to grow its NOI contribution significantly. Leasing momentum continues to grow with Trove now over 76% occupied and 81% leased. We expect Trove to be a key growth driver in 2022 and 2023.

As Paul said two-thirds of our 2,800-unit renovation pipeline is in our suburban communities, where occupancy and effective lease rates are the strongest. When the pandemic hit, we temporarily paused our renovation programs but have since activated these programs at properties that have appropriate affordability gaps and new and renewal lease rate growth. We began by rolling out market test renovations, lining up the materials and contracts, and executing the renovations at certain assets on turns. Year-to-date, we have fully renovated over 90 units and invested capital in upgrading 80 additional units. We are securing rent increases on renovated and improved units that meet or exceed our targeted ROIs and we are picking up the pace of renovations through the summer months while unit turnover is seasonally high. Just this month, we completed 30 renovations and we are optimistic this momentum will further increase this summer.

Now turning to our financial performance. Net loss for the second quarter of 2021 was approximately $7.0 million or $.08 per diluted share compared to a net loss of $5.4 million or $0.07 per diluted share in the prior year.

Core FFO of $0.35 per diluted share was at the top end of our guidance range driven by stronger than expected results from both our multifamily and office portfolios.

On a year-over-year basis, Core FFO per share declined by $0.04 due primarily to the impact of the pandemic on rental and other income on a comparative period basis, and higher interest and G&A expenses.

Multifamily same-store NOI declined 2% on a GAAP and cash basis for the second quarter compared to the prior year driven primarily by the combination of lease rate declines and higher concessions on leases signed during the pandemic. While revenue comparisons for the quarter are still negative relative to the prior year, we have seen multifamily lease rates increase significantly and sequentially since their December lows. Following the significant inflection in lease rate growth which started in the second half of June and into July, we expect improving multifamily same store results during the second half of the year. Other same-store NOI declined 4.6% on a GAAP basis and 1.7% on a cash basis in the second quarter compared to the prior year period primarily due to lower cost recoveries and higher utilities expenses.

To briefly summarize commercial leasing activity, we signed approximately 24,000 SF of new office leases and approximately 88,000 SF of renewal office leases in the second quarter. Office rental rates were flat on a GAAP basis and declined 4% on a cash basis for new office leases and increased 37% on a GAAP basis and 5% on a cash basis for office renewals, this renewal improvement was primarily related to the Sunrise lease at Silverline Center.

Our multifamily collections continue to be excellent, tracking well above national averages. We collected over 99% of cash and contractual rents during the first quarter and our rent collections through July are in line with our quarterly trend.

Year-to-date, residents have received over $1.0 million of local government rent assistance, and we expect that number to grow as local governments continue to work through the backlog of claims and the pace of distributions ramps up throughout the second half of the year. That said, our resident credit has been excellent and this helps on the margin.

As we covered during our transformation webcast, we have clear differentiated strategies and a track record of executing them. We have provided case studies to demonstrate how we used research to lead and executed the very same strategies successfully to date, including investing in our suburban apartments ahead of the pandemic, as over 70% of household formation is expected to take place in those markets over the next several years. Our affordability and growing mid-market renter cohort demand has been studied not only in our current market but also in these other markets for years and we have confirmed that the same dynamics of housing needs for these renters exists as adjusted on a scale for income levels in those markets. We have proven the importance of staying disciplined to not only compete at price levels with new supply that is beyond control and understand the importance of leading indicators for rental growth beyond broad market statistics. Our tools include our predictive analytics capabilities using Radiant, a proprietary model developed with us by a research firm that analyzes employment and demographic data that we correlated with real estate data. We analyze many factors to find the highest r-squared correlation predicting rent growth, which leads us to target vintages and submarkets with increasing mid-market jobs by analyzing job creation expectancies for cohorts we target. Our analysis considers predictive job creation by submarket, the multiplier benefits of additional higher profile jobs, the patterns of in-migration as well as housing affordability and other factors to differentiate how we invest. Often the submarkets that attract the newest Class A developments and high Class A acquisitions are far more competitive and have lower projected rent growth.

Another point investors acknowledged in our numerous post-transformation meetings, is that we are differentiating ourselves by maintaining lower leverage and a stronger unencumbered balance sheet than many small multifamily REITs. While we have the capital to reinvest from our transformative sales, as well as having additional value in Watergate 600 to harvest, we maintained our balance sheet strength to allow access to financing to grow and simplified our business model making it more straight forward to attract investors who were previously concerned by our office exposure. We expect to execute our strategy, create additional value and win the support of investors for further growth going forward.

Now turning to our outlook for the balance of the year, updating our June 15 webcast, we estimate that our same store multifamily portfolio should contribute between $85.5 and $86.5 million of NOI for the year. This represents approximately 2% to 4% same store multifamily growth for the second half of 2021. Trove is expected to contribute between $3 and $3.5 million of 2021 NOI and occupancy is now expected to stabilize near year end. Once concessions burn off that are incurred pre-stabilization, we expect Trove to contribute $7 to $7.5 million of NOI annually and then grow from there. We have now fully invested in Trove so all future lease-up increases profitability. Finally, as we have discussed, at least for the balance of this year, we expect to retain Watergate 600, the best office asset that we had owned, and estimate it will contribute between $12 and $12.5 million of NOI in 2021.

As we have also previously disclosed, we closed on the office sales on July 26 for gross proceeds of $766 million. We have given notice to redeem the $300 million of 2022 bonds and expect that redemption to occur on or about August 26. We also are now under definitive agreement to sell our remaining retail assets for $168.3 million and expect that transaction to close in the third quarter. We plan to pay down $150 million of term loans on or about the timing of closing the retail sales. Over the balance of the year, we expect to acquire $450 million of multifamily assets in the Southeastern markets we are targeting. Our expectation is we will average initial first year cap rates in the low to mid-fours and we hope to exceed that in some submarkets. We have estimated total transaction costs for the transformation to be approximately $56 million, inclusive of debt breakage costs as we also plan to pay down debt with sales proceeds. We are not providing guidance on interest expense as the timing is not completely finalized although we have provided detailed guidance on debt repayments and its timing. We also are not providing guidance on G&A for the year as we are executing many moving parts over the next two quarters. We expect to establish full year guidance for 2022 on our year-end earnings call.

Finally, we reset our dividend to levels we expect to cover in 2022 at a 75% FAD payout ratio or better. We believe our strategic executions will enable stronger FAD growth going forward as we allocate capital out of office assets that have protracted down time and a recurring CapEx to NOI burden of 20%, into multifamily assets for which we have maintained high occupancy, excellent collections and historically required recurring CapEx to NOI of only 6%.

Our leverage will be very low as we execute the sale transactions, and when fully re-invested, we believe we will be able to sustain operating at even lower leverage levels than our prior governors. While we may be in the mid to high five-time's net debt to adjusted EBITDA range in the first year after executing these transactions, as we progress to second and third years of multifamily NOI growth, we would aspire to operate in the lower half of the five to six-times range. Assuming we de-lever as planned, we will have very little debt maturing in the near term, none earlier than 2023, and our equity versus debt ratio is expected to get close to 80% to 20%, which would be very strong. We have no secured debt in our capital structure which provides us with flexibility to take on some agency debt or other secured debt as we acquire apartments. Moreover, we believe we will continue to have most of our line available, so strong liquidity will be maintained. Prior to redeeming the bonds and completing the sale of retail assets, we currently have approximately $1.35 billion of liquidity including the full availability of our $700 million line of credit.

As we said when we announced the transformation last month, these transactions will help us achieve the following: One, accelerate our transformation into a multifamily-focused REIT, which is the strongest asset class we have operated in and further de-risks our portfolio. Two, provide us with capital to prudently invest in high-growth Southeastern markets. Three, reset earnings growth and geographically diversify utilizing our research from the last several years. Four, streamline and simplify our business model to promote sustainable growth and investor returns. Five, improve our cash flow characteristics providing lower volatility, lower Capex, and greater growth going forward. And finally, de-lever to a target mid to high five-times net debt to adjusted EBITDA range, assuming the repayment of debt and the redeployment of cash into future multifamily investments.

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

Paul McDermott – President & Chief Executive Officer
Thank you, Steve.

We have operated both multifamily and commercial assets and we know from experience that multifamily is the asset class that provides the most attractive long-term growth profile, delivers stronger and steadier cash flows, has lower capital requirements, and generates more consistent returns. Concentrating in multifamily strengthens our growth prospects and simplifies our story for investors, making access to capital even stronger, which further improves our business and credit profiles.

Our research-led multifamily investment strategy has led us to invest in value-oriented multifamily assets that offer favorable long-term supply and demand fundamentals and expanding into selected Southeastern markets is a natural extension of the value creation strategies that we have proven in our local markets. Our multifamily strategies are differentiated, and our execution track record convinces us that this is the best path forward for our shareholders, despite absorbing initial FFO dilution. For the balance of 2021 we are focused on allocating capital to our targeted southeastern markets and taking steps to acquire additional talent and expand our presence in these markets, maintaining our leasing momentum at Watergate 600, scaling our renovation program, and sharpening our pencil as we evaluate our shovel-ready development opportunity at Riverside, as well as others in our portfolio, as the market improves. We are excited about delivering value to our shareholders in this next important phase of WashREIT. We look forward to talking to many of you about our transformation over the coming weeks and months and we plan to provide updates as we move forward.

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
Our first question is from Tony Paolone with JP Morgan.

Q: Thanks. Hi, everybody. My first question is on the deal pipeline. As you're sticking with the $450 million to get done over the balance of this year, is it all in your new markets or are you also seeing things in the DC Metro that might help with building that out?

Paul McDermott – President & Chief Executive Officer

I would say our target is to place all of it in the new markets. We have seen a couple opportunities here that have kept us interested. Our big goal is trying to geographically diversify. As I said in my remarks, we have a deal tied up that we hope to close in August. We'll be able to give more color on that. Our pipeline, probably similar to other folks, and I believe we addressed this in our June 15th webinar, we're seeing both one-off transactions, as we said we had heard more portfolios would be coming to the market. We are evaluating some portfolio opportunities. I think our bigger issue is to try to maintain disciplined underwriting but also scale this opportunity appropriately and continue with our diversification objectives.

Q: To the extent portfolios come available, are you willing to expand the target markets into other southeast cities if there's more attached to a portfolio? Are you being pretty strict around the three areas that you're all in?

Paul McDermott – President & Chief Executive Officer

Our ideal situation would be in the three target markets. I've been doing this a while and have never seen the perfect portfolio that fits perfectly into the box. If we had to take on a one-off in another market, one or two assets to make sure we accomplish the bigger objectives, we'd probably be open to that. I would also say that given the appetite, they're probably structural opportunities for presales, etcetera, that could help us maintain our focus. But sure, we're trying to be open to really provide the best execution for our shareholders.

Steve Riffee – Executive Vice President & Chief Financial Officer
I'll just add. As we said in our webcast and I think in some of the questions that we've been asked over the past, we've researched a lot of other markets. And just as much as we have these three, we wanted to be able to concentrate our expansion. But there are other markets that we do like if we got into that situation.

Q: As this transformation unfolds, when do you think you can start to put some brackets around thinking about building out property management platform and just internalizing the operations of multifamily for you all?

Steve Riffee – Executive Vice President & Chief Financial Officer

We're clearly in a transition here. We're moving fast, but we are sunsetting part of our business, and we are building out our infrastructure for the future, and we're geographically expanding. We talked about this in the webcast and we've been on the road up until the quiet period. We probably would have been able to execute our transformation a year earlier if it had not been for the pandemic. But we didn't sit on our hands and we worked with consultants and we've been building out our roadmap and our plans for the future and our infrastructure for geographic expansion. It's a project that's underway. It's phased. Realistically, we'll start seeing some of the benefits 15 to 18 months into the project.

And what does that look like? Well, obviously, we're going to have the ability to geographically expand where we have some third party helping us in property management in transition. But we see a lot of efficiencies coming as we implement this plan and then we see margin improvement, even in operations, as we are able to build it out the way that we're planning. And most importantly, we see scalability which provides additional efficiencies of margin. And so, we have to go through a transition, but we have set up our capital structure, it's not a one shot deal. It's not getting out the first $450. We've tried to clear the deck through our execution, support and actually grow this company and this platform and achieve that scalability as we deliver all of that.

Paul McDermott – President & Chief Executive Officer
The last thing I'll add it's been an emotional week here saying goodbye to colleagues that we've had the privilege to work with as we work up to this transformation. But what that has left us with is an outstanding multifamily team to build a platform off of. Let's not forget all the heavy lifting that this multifamily team has done
to get us here and grow our NOI to over 50%. We have a good foundation to build off of, but Steve is exactly right, we've got some wood to chop in front of us, but I think we're confident we can execute.

Q: Last one, real quick for me on Watergate 600, remind us what should we watch as the sort of gating factor and ultimately letting that go too?

Paul McDermott – President & Chief Executive Officer
If you look back at Watergate 600, we bought that at a nice basis. We went through a very successful renovation program, as reentry has taken place, as the Kennedy Center has reopened. We've got over eight years of WALT on that property. There's some nice leasing. You've been in the property so, you know some of the panoramic views we have down there. We have some space that we can backfill. And then when we feel it's the appropriate time, we would look to monetize that asset.

Operator: And if there are no further questions, I'd like to turn the floor back over to management for any closing comments.

Paul: Thank you. Again, I would like to thank everyone for your time and interest today. We will continue to update you as we progress our multifamily transformation and we look forward to speaking with many of you over the next several months.