Transcript of
Elme Communities
Q4 2023 Earnings Call
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Participants

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Presentation

Operator
Good day and welcome to the Elme Communities Fourth Quarter [2024] [sic - 2023] Earnings Conference Call. As a reminder, today's call is being recorded.

At this time, I would like to turn the call over to Amy Hopkins, Vice President, Investor Relations. Amy, please go ahead.

Amy Hopkins - Vice President, Investor Relations
Good morning and thank you for joining our fourth quarter earnings call. Today's event is being webcast with a slide presentation that is available on the Investors section of our website and will also be available on our webcast replay.

Before we begin our prepared remarks, I would like to remind everyone that this conference call contains forward-looking statements that 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 was distributed yesterday and can be found on the Investors page of our website. Presenting on the call today will be Paul McDermott, our CEO; Tiffany Butcher, our COO; and Steve Freishtat, our CFO.

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

Paul McDermott - CEO, Elme Communities

Thanks, Amy and thank you for joining us today to discuss our fourth quarter 2023 results and outlook for 2024. I'll start by covering apartment fundamentals in each of our markets. Tiffany will cover our operating trends and growth initiatives, and Steve will discuss our 2024 financial outlook.

The Washington Metro, which drives over 80% of our multifamily NOI, is positioned well with healthy demand trends and an outlook for rent growth that is above the US average for a second year in a row. Furthermore, employment trends remain positive with a favorable 2024 job growth outlook of 1.3%.

Northern Virginia, which comprises over 80% of our Washington Metro footprint, continues to be the largest driver of job growth for the Washington Metro region, and if the job growth outlet were to shift, the presence of the federal government and federal government contractors should provide continued stability and employment.

In terms of the supply picture, we have no exposure to capital south or northeast DC, which are the highest supplied submarkets in the district, and only two of our Washington Metro submarkets are projected to see increasing net inventory growth rates this year.

Furthermore, our rent levels do not compete directly with new supply as the rent differential is $640 or 30% below recent deliveries. Overall, our Washington Metro portfolio is in a favorable and defensive position at this stage in the year, and we expect it to be our primary NOI growth driver this year.

Turning to Atlanta, the long-term outlook for population growth, household formation and job growth are strong and we remain optimistic about the longer-term value creation potential of our Atlanta portfolio. Employment is projected to grow by 1.2% during 2024, in line with the US average, and the sectors that are driving job growth in Atlanta are strong generators of demand for mid-market apartment homes in our submarkets.

Suburban employment growth is being powered by strong performance in the education and health, leisure and hospitality and finance industries, which together employ more than a third of our Atlanta residents. These sectors have registered annual growth rates in the range of 5% to 7% over the past year. While employment trends remain favorable, our Atlanta submarkets continue to experience pricing pressure due to both the normalization and rent growth, following exceptional post-pandemic growth and the impact of elevated deliveries.

While only two of our Atlanta submarkets or about a third of our Atlanta homes are experiencing supply that is elevated above the US average, we are experiencing a more widespread impact of new supply throughout the region relative to the Washington Metro, where the impacts of supply are more contained within each submarket. We do not anticipate supply elevating materially above the current levels in any of our Atlanta submarkets. However, we do expect the impact of new supply on our Atlanta portfolio to be felt throughout the year.

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Moving on to resident credit, wage growth relative to total rent growth across the Washington Metro and Atlanta Metro areas continues to trend positively and our residents' financial status remains solid. The average rent to income ratio for new leases signed in the fourth quarter was 24%, representing a slight improvement compared to the 2023 average. This reaffirms that our rental rates remain affordable for our new residents.

And with that, I'll turn it over to Tiffany to discuss our operating trends and growth initiatives.

Tiffany Butcher - COO, Elme Communities
Thanks, Paul. Starting with lease rate growth, we're seeing favorable and positive trends in our same-store portfolio. During the fourth quarter, we generated effective blended lease rate growth of 2.5% for our same-store portfolio comprised of renewal lease rate growth of 6.2% and average new lease rate decline of 2.4%.

Average resident retention was 65% due to a combination of our focus on maximizing rent growth by prioritizing renewals and the impact of our community teams who work very hard to create a great living experience for our residents.

Another contributing factor is that our communities attract a higher composition of families and a more mature renter demographic, which supports strong renewal rate growth and longer average tenure in our communities.

Looking at our year-to-date trends for our 2024 same-store portfolio, which now includes all of our Atlanta communities except Druid Hills, blended lease rate growth has averaged over 2.5% on an effective basis, up from 1.8% in the fourth quarter. The increase is driven by higher new lease rate growth and consistently strong renewal rate growth. For March and April renewals, we're sending out renewals at an average rate above 6%.

Moving on to occupancy, we maintained average same-store occupancy of 95.5% during the fourth quarter, representing strong growth of 50 basis points compared to the prior year. While we experienced occupancy pressure in our Atlanta portfolio, demand trends in our Washington Metro portfolio supported our ability to maintain a stable same-store occupancy trend over the course of the year.

On a year-to-date basis, occupancy for our 2024 same-store pool has trended down slightly due to the impact of temporary occupancy decline in our Atlanta portfolio, driven by the timing of evictions and the impact of new supply.

Occupancy for our Washington Metro area communities has largely held steady on a year-to-date basis. As we move toward the spring leasing season, we anticipate continued strength in the Washington Metro market, allowing us to maintain occupancy within our targeted range.

Turning to renovations, we completed over 300 full renovations and 77 partial renovations in 2023 at a total cost of $5 million, achieving an average renovation ROI of approximately 15%. In 2024, we expect to complete over 400 full renovations at an average cost of $16,000 per unit and over 100 partial renovations at an average cost of $5,000 per unit.

We believe that the renovations we are targeting this year will help us continue to attract high credit quality renters and will generate attractive returns as we are focusing 2024 renovations on submarkets where our renovated homes offer the best value proposition compared to nearby alternatives.

Further, our renovation program is highly flexible since we execute renovations when units turn and we see the potential for outsized rent growth, which allows us to easily adjust the pace of renovations based on market demand for renovated units. Looking forward, we have an identified renovation pipeline of over 3,000 units, which represents more than enough runway to deliver renovation-led value creation for the foreseeable future.

Moving on to our operational initiatives, previously, we said that we plan to deliver $4.25 million to $4.75 million of additional FFO growth between 2023 and 2025, from operational initiatives made possible by internalizing property level management.

We're pleased to report that we captured 20% of that upside in 2023, which is in line with our expectations. The key drivers were new fee income initiatives, staffing efficiencies, our portfolio-wide investment in smart home technology and cash management optimization.

Looking forward, we expect to capture the remaining FFO upside split evenly across 2024 and 2025, with additional opportunity beyond that based on future staffing efficiencies related to leasing and maintenance.

Furthermore, we plan to roll out managed WiFi across our portfolio, starting with seven communities in 2024, which should generate additional upside beyond the $4.25 million to $4.75 million FFO target. Looking forward, we're excited about the initiatives that we're implementing and the upside that is yet to come as we drive increased profitability from our portfolio.

And with that, I'll turn it over to Steve to cover our results, 2024 outlook and balance sheet.

Steve Freishtat - CFO, Elme Communities

Thanks, Tiffany. We delivered a solid fourth quarter performance, closing out a year of exceptional growth that included 8.3% same-store multifamily NOI growth and 10.2% core FFO per share growth.

As Tiffany discussed, we are seeing stable fundamental trends in our Washington Metro portfolio and we believe that we have the potential to outperform in our markets based on operational initiatives that are already underway. Our core business continues to perform well, our balance sheet is in great shape and we are laying the groundwork for NOI outperformance in the years to come.

Now, I'd like to address our guidance assumptions. We expect same-store multifamily NOI growth to range from 0.25% to 2% in 2024, driven primarily by rent growth in our Washington Metro portfolio and improving bad debt trends in our Atlanta portfolio in the second half of the year, partially offset by an 8% increase in non-controllable expenses.

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The non-controllable expense increase is being driven by two of our Atlanta communities that are on a three-year tax assessment cycle. We expect the impact of the timing of those assessments to drive an outsized increase in real estate taxes this year. Excluding those two communities, the expected increase in total non-controllable expenses will be closer to 5%.

NOI for Watergate 600, which is currently 88% occupied, is expected to range from $12 million to $13 million. This represents a year-over-year decline of 6% at the midpoint due to an anticipated mid-single digit decline in occupancy over the course of the year. Interest expense is expected to range from $37.25 million to $38.25 million for the year, primarily driven by higher total debt balance following our acquisition of Druid Hills and a higher swapped interest rate on our term loan.

Our core FFO guidance range of $0.90 to $0.96 per fully diluted share reflects a year-over-year decline of 4% at the midpoint, coming off a year of over 10% growth in 2023. As I previously mentioned, after a year of exceptional performance, growth from our portfolio in 2024, which has been gradually easing, is being mostly offset by higher interest rates.

The drivers of our 2024 core FFO per share at the midpoint includes a $0.05 incremental contribution from our non-same-store multifamily portfolio and $0.02 of growth from our same-store multifamily portfolio, offset by an $0.08 impact from higher interest expense, a $0.01 decline related to Watergate 600, a $0.01 decline from higher property management fees as our portfolio grew in 2023 and a $0.01 decline from non-recurring other income received in 2023.

Turning to our balance sheet, annualized adjusted net debt to EBITDA was 5.5 times at year end, in line with our targeted range and our liquidity position remains strong with approximately $550 million or 80% of the total capacity available on our line of credit at year end. With no secured debt and no debt maturities until 2025, with options to extend our 2025 term loan maturity another two years, our balance sheet remains in very good shape.

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

Paul McDermott - CEO, Elme Communities

Thanks, Steve. To wrap it up, our Washington Metro footprint and midmarket focus is well positioned given the stable demand trends we are experiencing and our mid-market focus which offers limited direct competition with new supply. While growth is moderated compared to 2023, operational progress is gaining momentum and we are capitalizing on the opportunity to focus on driving value creation within our portfolio.

While macro uncertainty continues, we believe that the capital markets environment will improve over the course of 2024 and real estate transaction volumes will increase in the second half of the year. With improved clarity on real estate valuations, our current valuation should represent a compelling buyer opportunity as we establish a track record of strong NOI performance over time.

And now, operator, I'd like to open it up for questions.

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Operator
Thank you. At this time, we will be conducting our question-and-answer session. Our first question is coming from Anthony Paolone with JP Morgan. Your line is live.

Q: Thanks and good morning. I guess, my first question is, I wonder if you could dive into the '24 same-store pool a bit and give us a sense as to how bad debts look in, say, the Atlanta portfolio versus the DC portfolio and where you think they go over the course of the year? Because it just seems like that occupancy slippage in Atlanta was pretty notable through the fourth quarter. And so just wondering how much that is bad debt? What needs to happen to get that back on track? And just any greater color there would be helpful.

Steve Freishtat - CFO, Elme Communities
Hey Tony, it's Steve, and maybe I'll start and give just a little bit more detail on revenue and expenses, and then I'll throw it over to Tiffany to go into bad debt more.

But just looking at our NOI and breaking that down by revenue and expenses, we're looking at revenue for the year as far as a growth percentage in the low 3s. And that's driven by a few things, but primarily by rental revenue, where we're seeing that drive our growth for the year. Almost 90% of that growth is coming from rental revenue.

And then smaller items in addition to that are filling out the rest of the bucket, including bad debt, where, as you talked about, we're expecting a year-over-year increase there. We're also expecting an increase in fee and ancillary income, and that's going to be partially offset by concessions, where we're seeing increased concessions here in '24 versus last year.

On the expense side, we see our expense percentage growth in the upper 6's. And I'll walk through, because there's a few things driving that here. The first is on the controllable side, where we see controllables going up about 5% for the year.

And that's being pushed higher by revenue enhancing operational initiatives that we're rolling out this year, including managed WiFi, renters insurance and centralized technology, where we're reflecting an increase in expenses related to that. And they're being offset elsewhere in the income statement by things like the fee income and the ancillary income that I spoke about earlier.

But the big driver – probably the biggest driver for the growth in our expenses is on the non-controllable side. The biggest one, of course, is taxes, which we talked about in the prepared remarks that we've got two assets on a three-year cycle that came up this year and are being impacted by the fact that we acquired those within the last couple of years.

In addition to that, we've got insurance, which that's a challenging market right now. We've got a pretty healthy double-digit increase in insurance as well. So that's really driving the non-controllables.

And when you look at everything I talked about on the insurance side, if you just – the operational initiatives and the two Georgia communities with their taxes, which are unusual for us this year,

expense growth would be about 250 basis points lower than that upper 6's I was referring to. As far as going into a bad debt, Tiffany, if you want to go into that a little bit further.

Tiffany Butcher - COO, Elme Communities
Sure, absolutely. As Steve was saying, we expect 20 to 40 basis points of same-store revenue growth to come from improvement in bad debt in 2024 compared to 2023. As we think about the projected improvement, it's important to note that bad debt in 2023 was impacted by some transitional friction during the transition from third-party to in-house management, and that's obviously now behind us.

Bad debt was also elevated in the back half of 2023 due to the end of rental assistance programs in most of our Atlanta counties, which happened in the late summer and early fall, which led to higher delinquencies starting in August, which is anticipated to improve in 2024, as these post-rental assistance delinquencies work their way through the eviction process.

We've also made a number of procedural improvements to our collections process, including changing our policy on partial payments, which increases bad debt in the short-term, but positively impacts bad debt long-term as it speeds up the eviction process for delinquent tenants, allowing us to backfill the units with credit quality tenants more quickly. We've also tightened our credit standards and improved our screening and income verification processes, which will improve our credit performance over the longer-term.

Q: Okay. I guess I'm just trying to understand like – the occupancy move down and just seems like the impact from supply in Atlanta is pretty notable. And so what is the concessionary environment? What all are you doing to offset that? And so should we think about this year-end occupancy there as being a trough and just are you able to move that back up?

Tiffany Butcher - COO, Elme Communities
Sure. Let me handle those two questions, both on occupancy and in concessions. First, the occupancy declines that we experienced in Atlanta in the back half of 2023 were driven, as you noted, by two key factors, the timing of evictions following the end of rental assistance and the impacts of new supply.

With respect to the impact of evictions on occupancy, most of the Atlanta jurisdictions either closed or ran out of emergency rental assistance funds in the late summer and early fall, as I said earlier, which did start impacting delinquencies in August, which has impacted the timing, because evictions are just – which impacts occupancy because the timing of when evictions happen is just not entirely predictable.

So that does create some near term drag on occupancy, while those units are turned and then released. But as I mentioned earlier, we have elected to implement an end to partial payments, which does speed up that eviction process significantly. Again, that impacts occupancy in the near term, but it'll have that positive long-term benefit that I was talking about.

The second driver is obviously new supply, and the story there varies by submarket. 33% of our Atlanta communities have already seen the peak in supply and about 70% will see supply peak in

mid-2024. So we anticipate that supply related pressures on occupancy will improve as we move throughout the year.

While our guidance assumes that portfolio level occupancy remains relatively flat on a year-over-year basis, we do expect to see occupancy in the Atlanta market improve throughout the year as these eviction related vacancies moderate and we optimize revenue by adjusting pricing and concessions to meet market demand and drive occupancy.

Specifically, on your question about concessions, I would say, it does vary as we look across our markets. So the Washington market, because of the stability of demand there, has remained less concessionary with concessions being used on a much more targeted basis. In Atlanta, the market has been more concessionary over the back half of '23 and thus far year-to-date in 2024. But concessions have been very helpful in driving occupancy to our targeted range.

For the portfolio overall on a year-to-date basis, we're giving concessions on approximately 50% of new leases, and the average level of concessions when you look across all of our new leases is about a week and a half.

As we think about 2024, we expect Washington to continue to remain less concessionary and we expect concessions to remain in Atlanta throughout the year. In total, we're expecting about 30% of new leases to receive concessions in 2024, and the average concession level though will drop to approximately half a week if you look across all new leasing.

Q: Okay. And then just last one here. If I just step back and start to think the next – think about the next couple of years, you've got some debt maturing at lower rates and it sounds like occupancy at Watergate slipping a bit here. Do you think you have enough arrows in a quiver, so to speak, to drive growth and offset that? Do we think of '24 as being trough-ish earnings? Or any thoughts there.

Steve Freishtat - CFO, Elme Communities

Yeah. So I mean, Tony, as far as maturities go, we've got our term loan maturing in January 2025, but we've got two extension options on that, so can push that out to one year extension options, so we can push that out to '27.

We have a balance on our revolver. We're keeping an eye on the debt markets. Pricing has been a bit challenged as the tenure has bounced around, but we see an opportunity where pricing does become attractive to term out debt, we would certainly could look to take advantage of that.

As far as growth, I'll let Paul talk about Watergate in a minute. But we certainly – in addition to Watergate, we have other assets that we could recycle out of in the DC area that maybe are higher CapEx lower growth and take those proceeds and further diversify the portfolio into new markets.

Right now, obviously our stock price and the cost of capital, it's tough to make new deals to pencil out. But we're focused on operating the business and lowering our implied cap rate with our operational upside, with our renovation pipeline, smart home tech and managed WiFi.

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So we're looking at growing the NOI through all of our initiatives and earning a lower implied cap rate. And when things do make sense, and we do see opportunities make sense with our cost of capital, we'll certainly look to take advantage.

Paul McDermott - CEO, Elme Communities
Yeah, Tony, it's Paul. We're assuming that about 60% of our 2024 expirations vacate, and that translates to just over 4.5% this year. And that's – roughly that's almost 14,000 square feet. We're taking 60% of that. We still feel good about the traffic that we've been seeing at the Watergate, and we're gradually seeing some more people migrate into the district to buy office assets.

I would say right now that's something that we're keeping our eye on interest rates and as lenders gradually come back into the market, we don't really see that the market is offering a tremendous amount of liquidity this year in office product, but we feel good about our opportunities post-2024 to monetize that asset and recycle it.

Q: Okay. Thanks for the time.

Operator
Thank you. Our next question is coming from Jamie Feldman with Wells Fargo. Your line is live.

Q: Thanks for taking the question. Can you talk more about your outlook for new and renewal rate growth in the two different markets?

Tiffany Butcher - COO, Elme Communities
Absolutely, Jamie. The Washington Metro market is showing stable trends and healthy demand, and it's going to be our primary growth driver for the year. Given the trends that we're seeing today, healthy and stable demand, strong renewals combined with favorable market rent growth outlook, we expect our Washington Metro portfolio to perform very well this year and to support our growth for the portfolio overall.

Now, Atlanta is going to be our more challenged market as new supply and evictions are having a temporary impact on performance, as I mentioned earlier, and we don't expect to see a significant change in that on the first half of the year.

However, the second half of the year could look a little better as supply will peak in approximately 70% of our Atlanta submarkets. As I mentioned, by mid-year and as the year progresses, jurisdictions will work through the eviction backlogs and we've implemented initiatives that we expect to improve our credit performance. So as a result, we would expect more favorable tailwinds over time related to that improvement. But the timing is still uncertain and we're not relying on that tailwind to meet our guidance this year.

Specifically, though, talking about the difference in blended lease rate growth across those two different markets. For the portfolio as a whole, we anticipate effective blended lease rates averaging between 1% to 2%. For the DC market, we're expecting that to obviously be higher with effective blends averaging in the 2.5% to 3.5% range. And for Atlanta, we expect effective blends to average in the negative low-to-mid single-digits through 2024.

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Q: And then to be more granular I mean, how does that – how does new versus renewal compare in the markets? I know you said 6% as for March and April. How does that – maybe if you can answer the 6%, what is that in DC versus Atlanta? And then what are your expectations for the year on new versus renewal in each of the markets on a percentage basis?

Tiffany Butcher - COO, Elme Communities
Yeah, we are sending out renewals above 6% and there's really not a major difference at this point in March and April between Atlanta and the DC market. Obviously there was some negotiation off of those renewal rates, generally 50 bps to 100 bps. So that's in general, where we are seeing renewals shape up right now.

But if you look across the year, we're expecting our renewal growth rate to be in the low-to-mid single-digit and we're expecting a low single-digit decline in new lease spreads across the year, which is what gets you to that 1% to 2% blended effective average.

Q: Okay, so it sounds like you guys don't want to give exact numbers, which is fine. And then I guess bigger picture, Atlanta seems like you're having some issues on the real estate taxes. Clearly market conditions are a little weaker than DC, which has held up very nicely this cycle.

I mean, I know we probably ask you this every quarter, but any thoughts on additional markets, even in the Sunbelt where and – seems like there's a lot of capital looking in Atlanta. Just what are your latest thoughts on why you wouldn't go to other markets or even double down in DC, which has been very stable?

Paul McDermott - CEO, Elme Communities
Let's talk about just what it takes for us to go to another market first. And Grant, maybe you can just go through our criteria and then, Jamie, I can come back and follow-up with that.

Grant Montgomery - Vice President, Research, Elme Communities
So, Jamie, any market that we go to really will have what we would think of as a core set of commonalities that we've talked with extensively before, skilled labor development and migration, diverse economy, innovative industries, strong productivity for middle-income residents, which is, I think is really key, that it's targeted towards our target renter as well as demand for affordable mid-market housing.

So I think whatever market we go into, those will be the type of commonalities you'll see that attracted us to those markets in the first place. With that I'll turn it back over to Paul.

Paul McDermott - CEO, Elme Communities
Yeah, Jamie. I think the first thing I'd say is, we'd like to see some more transaction volume as we talk about migrating to other markets. We really haven't seen a lot of movement from the fourth quarter.

And just even talking about the fourth quarter, I mean, about 25% to 30% of the deals that we looked at were pulled from the market and did not clear. And 2023, we definitely, volumes, just

talking to the top three brokerages, I think all of them volumes were down year-over-year over 60%.

It's fascinating just in terms of the competing thoughts right now, if you go back a couple of cycles, especially during an election year, a lot of the transactions are done in the first half of the year, because of the election in November, people want to have their product clear the market prior to that. But this year, an election year, we're seeing a lot of brokers advise their clients to wait for interest rate declines so that they will have more participation from the lending community and stronger metrics for the equity players.

I think as we're looking around right now and what we're seeing out there in terms of cap rates, core to core plus deals we're seeing in that 4.75% to 5.25% range and value add is in the upper 5s to low 6s. And it's really all about the pricing of risk from folks' standpoint.

But for us, looking at the criteria that Grant gave, I mean I could see us moving into like a DFW corridor and some other markets that not only allow us to create value and scale, but really allow us to maintain our balance sheet strength, while providing geographic diversification.

We've talked about the Carolinas, we have not specifically talked about the Florida markets, but I think right now there are markets that offer that. But as Steve alluded to earlier, we need to see some material changes in the capital markets for us to move forward and execute.

Q: That's really helpful. Thank you for that. And then just one last quick one. Where do you think you could issue debt today? Just as you're thinking about those returns, and we're trying to think about your cost of capital and even paying down the line – using the line less, given the rate on that. Just how do you think about your different options for raising debt?

Steve Freishtat - CFO, Elme Communities
Yeah, Jamie, this is Steve. And when the ten-year was below 4, debt prices were certainly coming in line with where it became very interesting to try to do something. I think they popped up about 50 basis points, so it's making that tougher right now.

I'd say for debt with that increase, it's probably a little bit north of where our line is right now. From a perspective over our line, we've got an amount on our revolver that, like I said before, we'll look to term in out when it makes sense.

But being that we think that the Fed is likely done with increases and hopefully cuts are coming to us in the back half of the year. As I talked about before, with really no debt maturities coming up and plenty of availability over the line, we're comfortable keeping it there for the time being, but we'll stay – continue to monitor the debt markets and certainly look to act when we think it makes most sense.

Q: Okay, do you guys have an interest rate forecast in your guidance?

Steve Freishtat - CFO, Elme Communities
Yeah, as far as we're assuming three cuts in the back half of the year.

Q: Okay. All right, thank you.

Operator

Thank you. Our next question is coming from John Pawlowski with Green Street. Your line is live.

Q: Thanks for the time. Paul, just giving your comments on the transaction market, I'm just curious, what do you think most reasonable assumption is for acquisition and disposition volume for Elme this year?

Paul McDermott - CEO, Elme Communities

We don't have any acquisitions or dispositions in our guidance this year, John. I mean we are patiently looking at the market. I think if we try to use last year as a leading indicator, about 80% of the sellers were institutional that were really funding other parts of their business.

And in the buyers – buyer market, about 80% also were private equity buyers. We're seeing more people come to the table. I mean, we were talking to a broker last week, just had a deal in one of the Texas markets that I mentioned, and they had 40 tours in two weeks.

So I think there is genuine interest in the space. There's a lot of capital of the $250 billion to $300 billion on the sidelines, I think at least $100 million of that is institutional – $100 billion is institutional capital waiting to come into the multifamily space. As Steve said earlier, on the sales side, if something doesn't fit strategically or it has outsized CapEx versus relative to other growth opportunities that we're evaluating, we'll certainly consider it.

But right now, since we've taken over operations and in some of those assets less than a year, I still think we have some upside through our operational enhancements that we've alluded to. So we won't be putting product out there this year.

I would say just an observation, that we would have is right now, talking to brokers, there's a scarcity premium that sellers are seeing. We're definitely seeing bid-ask compress since we talked at NAREIT in November. And I think really both sides are just waiting for the ten year to stabilize so that you can move forward with some certainty of execution.

Q: Okay, great, thanks. Second question is more of a broader Atlanta market question about what's going on with fraud and eviction, skips and evicts rather. And so and I know you can control what's coming in the front door of your communities. But in my mind, there's a decent chance that this is just a rolling this year across the market in the next few years.

So, Tiffany or Grant, have you done any work in terms of how inflated just occupied households are in Atlanta right now? Is there – how do you guys wrap your arms around the risk of a multi-year bleed and market level occupancy or rents, as these issues just take a lot longer to cure than just your individual properties?

Grant Montgomery - Vice President, Research, Elme Communities

I can start and then I'll turn it over to Tiffany. I think at a high level, I would go back to the demand that we are seeing coming in the front door, which I think is an indicator of the depths of the market. And we are seeing a steady level of rent to incomes for our new residents coming in.

So this is not to say that there isn't an issue in the market, but I think at the price points that we're currently leasing our apartments, there is depths at those price points with commensurate incomes to support a nice solid rent to income ratio that we're comfortable with from a risk profile standpoint. And, Tiffany, I don't know if you have anything to add to that.

Tiffany Butcher - COO, Elme Communities
No, I mean, I think we talked earlier about the bad debt and all of the initiatives that we're putting in place, including we've tightened our income standards, we have put in place new credit screening policies and procedures. So not only are we tightening our standards on the front end, but then we are also obviously working through the eviction process on the back end.

So I think from a single property perspective, Grant gave you the market from a single property perspective through the course of 2024, we're going to work through this as we obviously address those who are currently delinquent. And I think the impacts of what we have put in place will help ensure that all new residents coming in the door are able to meet our credit standards and will be high credit quality paying residents for the foreseeable future.

Q: Okay. One last modeling housekeeping item, if I may. Tiffany, can you just give us some context of what drove the 2% sequential decline in revenue in the DC, Maryland bucket in your same-store?

Tiffany Butcher - COO, Elme Communities
Sure. So I can talk just more broadly, and then obviously we can also turn it over to Grant to talk about some of the market. But I would say from the DC and Maryland, it is indeed just same trends that we have seen with new lease rates and concessions in a very targeted fashion, impacting just with some near term supply in certain specific submarkets.

So unlike Atlanta, where I think some of the supply is much more widespread, here in the DC market, it is much more targeted and it does impact. Grant, do you want to talk maybe a little bit about when some of the different supplies hit in the DC and Maryland market and then I can speak a little more specifically about how that's impacted our communities.

Grant Montgomery - Vice President, Research, Elme Communities
Sure. So, in Washington DC, we had a year-end about 40% of our units were in submarkets where we were already past peak, and we're going to get to about 70% that are past peak by mid-year in 2024. And as Tiffany said, I think in an earlier answer, we were roughly around 30% or so in Atlanta that were past that peak by year-end. And similarly, will be 70% of our units will be past that peak by midyear.

And I think contextually, it is important to see that across our entire portfolio, our net inventory growth across our portfolio was about 2.5% in 2024 on average versus 2.3% in 2023. So really steady. And to put that in context, the Sunbelt as a whole, in the markets that we're looking at, that

increase is going to be almost 5% in 2024. So I think contextualizing it is important. And then that's obviously being strengthened by our Washington, DC exposure, which is a much more subdued level of supply coming to market this year.

Q: Great. Thank you for the time.

Operator

Thank you. Our next question is coming from Michael Lewis with Truist Securities. Your line is live.

Q: Great, thank you. Did you provide new lease spreads so far for January and February, and especially maybe in Atlanta, if you have that granularity?

Tiffany Butcher - COO, Elme Communities

So what we have provided, and as I mentioned earlier, our effective blended spreads are in the 2.5% to 3.5% range for the DC Metro area and an effective blended in Atlanta is negative-to-low mid-single-digits. And that's a projection or anticipation for 2024 as a whole.

But if you want to dive into just new lease rate growth specifically, I would say, year-to-date, we've seen a slight improvement in new lease rate growth across both of our markets, both DC and in Atlanta. But we don't really expect to see a consistent month-to-month improvement for the Atlanta portfolio until probably sometime in the second half of the year.

As I mentioned earlier, our Washington Metro portfolio is performing very well, showing the stability that we'd expect to see in our core market over the longer-term. We would expect Washington Metro new lease rates to see consistent month-over-month improvement heading into the spring leasing season, moderating later in the year.

For Atlanta, we are seeing more of an impact from both new supply and the timing of evictions as I mentioned earlier, as jurisdictions work through eviction backlog, so the impact of backfilling eviction related vacancy has created more near term impacts on rates and occupancies and we expect this to continue through the first half of the year with slight improvement in the second half as we move past peak supply. I think as I mentioned earlier, the bright spot is that, both our DC and our Atlanta portfolios continue to benefit from very high retention and very strong renewal rates in our communities.

Q: Okay, thanks. And then just one more for me, bigger picture. You talked about markets and the acquisitions in Atlanta performance there. My question is about your ability to scale, right. I think there could be maybe the Atlanta performance is an example of this, right. I think the company could probably benefit from scaling and diversifying.

My question is really like how you do it, right? You have a balance on the line. You've led your comments where the equity price isn't where you think it should be. Watergate is not going to be a good cost of capital whenever that comes. How do you think about that, right? Do you agree in the opportunity in scaling and diversifying? And then the real crux of the question is, you need

some help from the capital markets, I understand that, but what's the plan? How are you able to do it?

Steve Freishtat - CFO, Elme Communities
Yeah, Michael, I'll start with that. And I mentioned it before, right. That the first part is, we do have assets in our current portfolio that could allow us to diversify. So we could recycle out of those into other markets, which would certainly be beneficial to further diversify.

But we've got a lot of levers embedded in our portfolio right now. We talk about the $4.25 million to $4.75 million of operational upside that we're executing on and already accomplished 20% in '23 and looking to do another 40% or so here in '24. We're rolling out our phase two of our smart home technology, which we think will provide a lot of upside there as well.

We've got our renovation pipeline of 3,300 units, in 2023 that we got mid-teens returns that we're looking at being able to continue to do that here in '24. And then we – Tiffany talked about in the scripted remarks, the managed WiFi, that we're starting to roll out in 2024.

So we think that there's a lot of embedded growth in the portfolio that will allow us to earn an implied cap rate that we think is more appropriate of what we think we should be valued at. And we're making sure that we're going to be ready to scale when the opportunity comes. And we'll continue to look for opportunities that will work with our cost of capital and do so when we can create shareholder value.

Q: Great. Thank you.

Operator
Thank you. As we have no further questions online, I would like to turn the call over to management for any closing remarks.

Paul McDermott - CEO, Elme Communities
Thank you. Again. I'd like to thank everyone for your time and interest today, and we look forward to speaking with many of you over the next few weeks. Thank you.

Operator
Thank you. This concludes today's conference and you may disconnect your lines at this time. We thank you for your participation.