

PSBQ121
John Petersen
PS Business Park Incorporated
04/28/21
1:00 pm ET

Operator: Good afternoon and welcome to the PS Business Parks first quarter 2021 earnings results conference call and webcast. At this time, all participants have been placed in a listen-only mode and the floor will be opened for your questions following the presentation. If you would like to ask a question at that time, please press star (*) one (1) on your touchtone phone. If at any point, your question has been answered, you may remove yourself from the queue by pressing the pound (#) key. If you should require operator assistance, please press star (*) zero (0). It is now my pleasure to turn the floor over to Jeff Hedges, PSB's Chief Financial Officer. Sir, you may begin.

Jeff Hedges: Thank you. Good morning, everyone, and thank you for joining us for the first quarter 2021 PS Business Parks' investor conference call. This is Jeff Hedges, Chief Financial Officer. With me today is our President and Chief Executive Officer, Mac Chandler; our Chief Operating Officer, John Petersen; and our Chief Accounting Officer, Trenton Groves.

Before we begin, let me remind everyone that all statements, other than statements of historical fact included in this conference call are forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond PS Business Parks' control, which could cause actual results to differ materially from those set forth in or implied by such forward-looking statements.

All forward-looking statements speak only as of the date of this conference call. PS Business Parks undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For additional information about risks and uncertainties that could adversely affect PS Business Parks' forward-looking statements, please refer to the reports filed by the company with the Securities and Exchange Commission, including our annual report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K. We will also provide certain non-GAAP financial measures. Reconciliation of these non-GAAP financial measures to GAAP is included in our press release and earnings supplement, which can be found on our website at psbusinessparks.com. I will now turn the call over to Mac.

Mac Chandler:

Thank you, Jeff. Good morning and welcome to our Q1 call. I am pleased to be hosting my first earnings call alongside the PSB team. Before turning to our prepared remarks, I'd like to take a moment to thank the PS Business Parks team for my warm welcome over these past three-and-a-half weeks. From my first day, I could sense the special culture or shared values and a deep passion for supporting our customers and achieving results. As the weeks and months progress, I have plenty more listening and learning ahead of me, but I'm excited for the journey as we collectively build on the legacy of PSB and look ahead to an even stronger future. On today's call, I will highlight our first quarter results, JP will provide a rundown on our markets as well as an update on our developments, and Jeff will provide commentary on our financial results, rent collection, and balance sheet.

Our first quarter was strong in many fronts and this positive momentum positions us well for 2021. The quarter was highlighted by robust lease production. We executed 569 leases for nearly 2 million square feet, our best first quarter production since 2015.

Our infill properties with our short lease duration are positioned well to capture the demand from a broad-based economic recovery. This is seen in our Q1 cash rent growth of 5.7% led by our industrial portfolio at 9.5%. Our customers truly appreciate our product and our proprietary hands-on approach to operations and leasing, and you can feel it in our 78% retention rate and the fact that 53 of our customers expanded within our portfolio this quarter, all of this leads to efficient transaction costs and cash flow. In the first quarter, deal specific transaction costs were an impressive \$2.59 per square foot.

It is widely known that the industrial acquisition landscape is competitive as most experienced inaugural buyers seek out the long-term growth that industrial provides, even more so in our supply constraint coastal markets. That said, PSB is uniquely positioned to acquire multi-tenant industrial parks, including portfolios, due to our industry leading operating platform, deep market knowledge, and the strength of our balance sheet. We are also taking a fresh look at our approach to external growth to assure that we are best positioned and properly focused to create long-term value while maintaining our disciplined approach to capital allocation as always. I will now turn the call over to JP.

John Petersen: Thanks, Mac. As all of you know, demand for industrial product is robust and, as Mac touched on, our Q1 results reflected overall strong fundamentals. First, let me walk you through our markets. Starting in

Seattle, the industrial sector remains hot and the overall market is 95% leased. Interest in our product is high with demand driven by logistics and fulfillment users. This activity came through in our Q1 industrial rent growth of 17.9% and retention of 92%. We have a 48,000 square foot vacancy at our 212 Business Park that has good activity and we expect to lease it this year.

In Northern California, the market, including our portfolio, gained steam throughout the quarter as the economy gradually opened up and companies had better visibility and more certainty about space needs. Increased demand was broad-based with logistics and construction-related industries driving activity. Industrial rent growth in Northern California was 15.5%, which includes a 90,000 square foot warehouse deal in Silicon Valley with rent growth of over 60%, which represents an all-time high warehouse rent for our portfolio.

Regarding our 140,000 square foot vacancy in Hayward, we remain patient to find the right credit user, have multiple interested parties, and expect to have that space leased in the next couple of quarters.

Our team in Southern California benefited from strong demand from logistics, smaller last mile companies, import/export firms, construction, and in general, the reopening of the Southern California economy. Occupancy was strong at 95.7%, retention was about 75%, and rent growth was 4.3%.

In Texas, industrial demand is healthy, especially in Austin. Occupancy in Austin was 95.1% and industrial rent growth in Q1 was 16.7%. Industrial activity in Austin was buoyed by medical and construction users, plus the

influx of tech and other businesses relocating to Austin in the last 12 to 18 months. In Q3 of this year, we will be getting back a 67,000 square foot flex building in Austin. The building is well located and our plan is to reposition and potentially subdivide the building as we have done many times before.

In Dallas, occupancy was 82.6% primarily due to the lower-than-average occupancy at our Royal Tech and Northway flex parks in Las Colinas. The rest of our portfolio in Dallas is seeing good activity as the local economy has benefited from the early reopening as evidenced by strong demand for our new Freeport development, which I will discuss momentarily. Our expectation is that occupancy in Dallas will lag other regions for the remainder of 2021, as we look to release our vacancies at Royal Tech and Northway.

In Washington Metro, our industrial portfolio continues to perform well with Q1 occupancy coming in at 92.2% and rent growth of 3.9%. Our office portfolio was 87.5%, well ahead of our office peer set, but still lagging on our industrial portfolio. The good news, however, is that we have seen recent increase in demand for our suburban office product and feel confident that we will be able to recapture occupancy as the reopening of the local economy continues.

In Florida, where the economy has been open longer than most, fundamentals are among the strongest of all of our markets. Occupancy was 95.5%, rent growth was 8.4%, and demand from both existing and new customers is at pre-pandemic levels. This demand is coming from business services, logistics, distribution, and e-commerce. Occupancy at over three million square foot MICC park was 95.4% with small industrial

users driving demand. We have only one vacancy larger than 15,000 square feet and only a few vacant units under 5,000 square feet, clearly highlighting the recovery of the small industrial tenants. Importantly, this heavy demand has allowed us to push rents to all-time highs at MICC.

Regarding our development projects, Freeport, our 83,000 square foot industrial development in Dallas, is on track to exceed our return expectation. The building is 28% leased with rents well above our pro forma underwriting. We have excellent interest in the rest of the building and are tracking to have it fully leased this year.

In Seattle, we still await final permits on our 80,000 square foot industrial development. While the permit delays are frustrating, we do expect to secure permits this quarter and deliver this project in the summer of 2022. Brentford, our 411-unit multi-family development in Tysons, Virginia, is planning to deliver the first units in mid-2022.

Finally, on the disposition front, we are marking for sale two business parks in Northern Virginia. The first, Monroe Business Center is a seven-building, 244,000 square foot office park located in Herndon. The second is Park East Corporate Center, a 198,000 square foot office-oriented flex park in Chantilly. Buyer demand is strong and pricing is poised to meet our expectations. That said, there is no pressure for us to transact. The sale of these two parks is consistent with our strategy to opportunistically divest of non-strategic assets. Now, I will turn the call over to Jeff.

Jeff Hedges:

Thank you, JP. I'll begin with an overview of our financial results for the quarter. Net income allocable to common shareholders for the three

months ended March 31st was \$27.9 million or \$1.01 per diluted common share, resulting in FFO of \$58.4 million or \$1.67 per share.

During the quarter, cash net operating income attributable to our Same Park portfolio was \$69.9 million, roughly flat from the prior year. Same Park cash revenue growth was 1.2%, which was partially muted by lower Same Park weighted average occupancy, which was 92.4% in Q1 2021 versus 92.8% in the prior year, and the impact of slightly above average free rent concessions from recent lease production. As we continue to push occupancy back to stabilized levels, our NOI stands to benefit given the healthy releasing spreads experienced in the past few quarters.

Funds available for distribution, or FAD, was \$50.3 million for the three months ended March 31st, representing a 2% increase from Q1 2020. FAD benefited from low recurring capital expenditures incurred during the quarter, which for our Same Park portfolio registered at 7.4% of NOI. This is in part a reflection of our team's continued efficient use of transaction capital associated with new and renewal lease production, but also partially attributable to timing of certain capital improvements. Our expectation is that recurring capital measured on a percentage of NOI basis will return to levels more consistent with our historic average in future quarters.

I'll now take a moment to provide some quick commentary on rent collections and rent [relief]. For the third consecutive quarter, rent collections were consistent with pre-pandemic levels. We have collected 98.8% of Q1 billed revenue, and similar to the prior quarter, we experienced minimal new rent deferral or abatement activity. Further, we have collected 99.1% of deferral repayments scheduled to be repaid

through March 31st with \$1.1 million left to be billed this year, but we still have a handful of customers continuing to face pandemic-related challenges. The vast majority of our customers have adapted to this environment and are well-positioned to benefit from economic momentum generated by the vaccine rollout, stimulus, and lifting of restrictions occurring in all of our regions.

Turning now to the balance sheet. We ended the quarter with \$69.5 million of unrestricted cash and our credit facility remains undrawn. We funded our development projects during the quarter with free cash flow, and we'll continue to rely on free cash flow and cash on hand to fund our developments, utilizing our balance sheet, including our credit facility, as appropriate as acquisition opportunities present themselves.

Lastly, I'll point out that we paid a dividend of \$1.05 per share to common shareholders in the first quarter, and our board recently declared a dividend of \$1.05 per share to be paid in the second quarter of 2021 on June 30th to shareholders of record on June 15th. With that, I'll turn the call back to Mac.

Mac Chandler:

Thanks, Jeff. Looking back, one of the most critical realizations I've had over the years has been learning that creating long-term value is not an easy recipe to master. It requires hard to find ingredients and the perfect balance of an innovative culture with entrepreneurial zeal, an engaged and proven leadership team, a portfolio of well-located assets in the most desirable markets, and an opportunistic balance sheet bolstered by free cash flow. Fortunately, PSB knows the recipe well and it has all the necessary ingredients to continue to create long-term value for its

customers, shareholders, and employees. With that, we're happy to open up the call for questions.

Operator: The floor is now open for questions. At this time, if you have a question or a comment, please press star (*) one (1) on your touchtone phone. If at any point your question has been answered, you may remove yourself from the cue by pressing the pound (#) key. We do ask that while you pose your question that you pick up your handset to provide optimal sound quality. Thank you, and our first question will come from Manny Korchman with Citi. Please, go ahead.

Manny Korchman: Hey, good morning/afternoon, guys. Mac, I know it's only been a few weeks on the job, but just as you sit back and you reflect on the topics you touched on on the call – PSB's long history, the balance sheet, all those things taken together, from the CEO seat, how do you sort of approach the future of this company? And maybe share some of those initial thoughts over the – being there for at least for three weeks and the longer time you thought about that.

Mac Chandler: Yes. Thanks, Manny. In these early days, it's only been day 24, I should mention. I'm really spending a lot of time getting to know our people, understanding our processes, how we make decisions around here, and getting to know our portfolio, and that's going to take some time, but really I'm encouraged by many things, by our operating ability, our platform is well-known and really second to none. Operating multi-tenant assets is a difficult business and we've really mastered that, and it's hard for others to do just that. I think we make it look easy, but it's not. Then, obviously, our balance sheet is very impressive and it has a lot of potential to really allow us to creatively find opportunities, internal growth and

external growth, could be through acquisitions, development, redevelopment; there's a lot of angles that we'll be discussing and really working through. So, I'm not ready to make any big pronouncements on strategy changes or anything like that, but I'll be digging into this further and making sure that we're positioned well to grow smartly and wisely and to take advantage of the – our competitive advantages that we have in the marketplace.

Manny Korchman: Thanks for that. Just, I guess, neither you nor Jeff came from internal to the company or the broader company and so just going back to the balance sheet for a second, do you think that investors should be looking at the opportunity to diversify the balance sheet, getting more, whether it be property level and corporate level debt, using the equity more? Do you think it's going to be more of the same that's sort of been the history of this company?

Mac Chandler: Well, I certainly think it's possible and, of course, we're going to look at all angles. We have a long history of issuing preferred stock and that's worked very well for us, but we recognize that we'd be ill advised just to sort of only have one card in the playbook. We're going to look at a lot of different things, and it has to do with the opportunities that come to us, and it has to do with pricing at the time. So, we'll look at everything. Funding growth through cash flow, obviously, is our first card, but it could be through disposition. It could be through equity. It could be through debt, whether that's preferred, secured, unsecured. There's no reason to sort of lay it out exactly today until we know what the opportunities are in our hand, but we're going to smartly take a step back and approach all that, and run the business for the long-term, and make investments that are

accretive that provide us cash flow; that's ultimately what we're looking for in every investment.

Manny Korchman: Thanks, and one for JP. JP, just turning back to Hayward for a second. You mentioned a lot of activity in the last call. You're talking about a lot of activity again. Is that the same activity and also have rents moved at all since the last time we spoke about trying to release that project?

John Petersen: To answer your first question, no, it's new activity, and the simple answer is it's new activity and different deal; and yes, rents have moved, not a lot, but they've moved up over the last three or four months, as the economy reopens there, there's less restrictions, et cetera. We're starting to see more activity, but we're – like I mentioned in my remarks, we're going to be pretty selective on credit. We're doing a little work in this space, so we want to secure the right deal for the long-term. So, we'll continue to be patient there, but I do like the level of activity that we're seeing.

Manny Korchman: Great. Thanks all.

John Petersen: Thanks, Manny.

Operator: We'll take our next question from Blaine Heck with Wells Fargo. Please, go ahead.

Blaine Heck: Great. Thanks. Good morning out there. Probably another one for JP, just wanted to talk a little bit about retention. As I'm looking out between now and the end of 2022, I think you have almost 40% of your leases expiring, and then by the end of 2023, it's almost 60%. So, I'm just trying to get a sense for as you stand right now, what do you think the retention

expectation is for those leases that expire? Then are there any large tenants or chunks of space that might be on the fence or known move-outs that we should be aware of?

John Petersen: Yes, Blaine. Now, I touched on a couple of the larger ones in my comments, the one in Austin, earlier, but the good news is we don't have any in the larger ones that we're not looking forward to, and I think we're starting to make some really good traction on the rest of our expiration, but we really like – and that's a fairly normal expiration schedule for us, as you well know. So, what we like is our ability to capture improving rents and improving markets over the next year or two, or even three, as we mark to market these expirations that you've talked about. So, we really like these expirations are hitting us over the next year or two, and looking forward to capturing rent growth as those deals come to us; and as you can tell from our retention stats, we're seeing pretty good interest in our existing customers that want to stay with us. As our business solidifies, they've made it through the pandemic, so – and with higher retention, as you know, comes lower transaction costs. So, we kind of like the way it's shaping out for us here in the next year or two.

Blaine Heck: Okay, great. That's helpful. Then you talked through some of the success that you guys are having with your development strategy recently. I guess just with demand for industrial product as robust as maybe it has ever been, are you more inclined to start additional spec industrial development, and can you give us any sense of how much capacity your current landholdings might afford you on that development side?

John Petersen: Well, let me touch that and then see if anybody else wants to jump in. We're evaluating, and have been evaluating for a while, where we can do

exactly that. What we've done in Freeport, what we've done in Seattle. Do we have other parks that we can redevelop or find some extra space, extra land in our parks? We're looking at that. We're not ready to talk about anything. We might have a few here or there, but in terms of our development success, I mean, we like what we've done there. There may be some, but it's not – we're not ready to talk specifically about it yet, and these things, Blaine, as you know, take quite a bit of time, even if it's already entitled for industrial, but we like that opportunity and we like the traction we're seeing in Dallas, and I expect Seattle will be the same, if not better. So, did that answer your question?

Blaine Heck: Yes, that's helpful. Maybe one last one, if I can fit one in. Jeff, you've got some preferreds that are callable in October. Sorry if I missed this, but can you just give us your updated thoughts on those and whether we should expect them to be redeemed later this year?

Jeff Hedges: Yes. Hi, Blaine, as we always do, when those become callable, when we get a little closer to that day, we'll take a close look at where rates are at that point. We'll also evaluate what our other capital needs are, given potential capital deployment opportunities that may be in front of us at that point in time. So certainly, I would say that is a possibility, but we're certainly not in position here today to give any type of guidance as to what we may do with those preferreds when they do become callable later this year, but as we've done in the past, expect us to take a close look at that and if there is an opportunity to opportunistically refinance, we will consider that very carefully.

Blaine Heck: Very helpful. Thanks, guys.

Operator: We'll take our next question from Craig Mailman with KeyBanc Capital Markets. Please, go ahead. Your line is open.

Craig Mailman: Hey, guys. Just want a little bit of clarity here on timing expectations for the two asset sales and some of the move-outs, and kind of the potential impact here as we think about '21 FFO.

Mac Chandler: Sure. Craig, this is Mac. Just, yes, I'll give a little more color, too, on those assets. We market these assets for sale and we've gotten really strong buyer demand for those and the pricing looks like it's going to meet our expectations, but if it doesn't, we're certainly under no pressure to sell those, and we won't. We won't transact, unless it meets our terms, but given that, to me – and I think a reasonable expectation would be second half of the year closing, and the reason we're selling these is we've been looking at these assets for a long time, and the pricing is such this is an opportunistic price and opportunistic timing. These are very good assets and presuming they do close, we wish the buyers well, and I think they'll do quite well with these assets. JP can touch upon some of the move-outs.

John Petersen: You mean the move-out mentioned in Texas? Craig, is that...?

Craig Mailman: In Austin, and then you said, we expect [occupancy in] Dallas to lag kind of just...

John Petersen: Yes.

Craig Mailman: I guess Austin specifically, and then some of the impacts on the others.

John Petersen: Yes, Austin – the Austin one, we’re bringing to attention, because it’s bigger space for us, but we – as I’ve mentioned, too, we have the opportunity to split that down into two or three different spaces. Once we get access to the building later in the year, we’ll do that, and that’ll take some time to release that. They’re bigger spaces and this would be the first time we get back to these spaces, because when we purchased this asset in Austin, the tenant was already in there. So, we’re looking forward to get back, get into that building and subdivide it down into more manageable chunks, which we’ll do, and then – help me out here, Craig. What was the other [location]?

Craig Mailman: Well, the question is, so once the 67,000 expire, what’s the impact to FFO? Because it sounds like it will be down for the rest of the year, right? So, when does it come out and what does that do to FFO?

Jeff Hedges: Hey, Craig. This is Jeff. It’s not certain at this point, but our expectation is the tenant will vacate in the third quarter of this year, and it’s about a little over 100,000 of NOI per month.

John Petersen: Then just to come back on Royal Tech, do you want me to talk about that, Craig?

Craig Mailman: Yes, just other – any other big ones that are going to have some decent impact on FFO and kind of timing and magnitude.

John Petersen: Yes, there’s no other big move-outs that we haven’t talked about that will have an FFO impact. The reason that the Royal Tech and Northway are going to take a little bit longer, they’re just bigger spaces and they’re bigger flex spaces and it just takes time to work through that, and as I’ve

mentioned, potentially do the work to subdivide those down into smaller chunks. So, it's just going to take a bit longer to get through that, but there's good activity in Dallas right now and we'll work our way through that throughout 2021, but that's the story with those two parks.

Craig Mailman: Okay, that's helpful. Then, Jeff, just on same-store, as we think about kind of deferred and debated rents, and you guys have kind of been excluding it, not normalizing it, is there going to be a point this year where there's going to be a big spike in any one quarter as, I think you said, a good chunk of the deferrals will come back in, but just from a timing perspective, are we going to get a spike in one quarter because of the kind of the comp, and then that added income?

Jeff Hedges: Yes. Thanks, Craig. As it relates to the repayments, well, first of all, let me just say in Q1, as we disclosed in the press release [and the queue], new deferral activity was very minimal, and our expectation is that new deferral activity will remain minimal through the remainder of this year, although, of course, that's subject to what happens broadly with the economy and the pandemic. That aside, from a repayment perspective, we have \$1.1 million left to be billed over the remainder of this calendar year, so from April 1st through December 31st, and that's pretty smooth throughout the year. It diminishes a little bit kind of on natural diminishing scale between now and the end of this year, but it won't be very lumpy in any particular quarter. So, I would expect that that \$1.1 million will pretty much be spread pro rata over the next three quarters. Beyond 2021, Craig, we have about \$800,000.00 of deferral repayment to be scheduled to be repaid in 2022 and beyond.

Craig Mailman: Okay, and then just lastly, you guys had a much bigger snow removal cost this first quarter, which made sense, given the weather. Did you guys get the recoveries this quarter or is that going to happen in subsequent quarters?

Jeff Hedges: Well, we build the recoveries on a – effectively a budget basis, so there was no true-up booked in Q1. That’ll kind of work itself out over the remainder of the year and, typically, our true-up calculation is performed at the end of the year. So, if by the end of the year, snow removal and all the other costs that our tenants are typically responsible for exceeds what has been built, then there’ll be a CAM true-up billing in the first quarter of next year. So, I think the point you’re making here is that there is a bit of a timing effect here where the operating expense was higher in Q1, but not necessarily a corresponding increase in expense reimbursement revenue in that quarter.

Craig Mailman: All right. Great. Thank you.

Operator: We’ll take our next question from Anthony Paolone with JPMorgan. Please, go ahead. Your line is open.

Anthony Paolone: Okay, thank you. First question is for JP. I'm just trying to tie together some of the comments around the move-outs, and also some of the leasing opportunities that you talked about. I think last quarter, you said maybe there's a chance that you get back to your 95% sweet spot of occupancy by the end of this year. Can you just maybe comment on whether the activity and set of circumstances like is such that you could still get there or is that further out?

John Petersen: Yes, Tony. Yes, I think we're on track to get there. We need to lease big space [Norco] which, as I already touched on, I think we will, and there's a space in Seattle, which I think we'll lease and that helps quite a bit getting that number. What we're seeing and what we've seen even the first four months of this year is really the momentum has built. January, if you're thinking back to January, COVID was a little crazier, it wasn't open. We're now starting to see various economies open, including California, and tour volume is up, really increasing week by week and so I do think that we have a really good chance to get there; and our customers, we're collecting all the rent, our customers are expanding; Mac touched on it. So, I think it's pretty broad-based. Yes, we've got a lot of wood to chop, but I think we have every ability to do that. Our space, I mentioned a couple of spaces we have to reposition, which we're doing, but yes, I like our chances to get there and I see the fundamentals in our markets support that, too. So, yes, I think we have a chance to get there this year, for sure.

Anthony Paolone: Okay, got it. Then for Mac, on the investment side, I think you said you're open to working at everything across the process and so forth, but, I mean, should we take that as contemplating other more or slightly different property types, geographies, like what does it really mean?

Mac Chandler: Well, I mean, I would say everything is on the table. Maybe that's a little broad-based, but I'll tell you this, we really enjoy the markets that we're in. We do well in those markets. We'd love to expand in those markets. Will we look at other new markets and venture into those? Yes, we will consider those selectively and prudently. Regarding other property types, I mean, our core business is really what we're all about, but if there are creative opportunities within our portfolio with appropriate risk adjusted returns, we'll consider those, too, as well. What's really unique is we have

so many properties that are so exceptionally well located, and the markets surrounding them have matured sometimes for decades now, and as that population growth has filled in, basically, supply has diminished and our properties continue to enjoy rent growth and high occupancy, but they also present new opportunities, too, as well, which we'll consider, and those are opportunities for density and redeveloping our assets, repurposing them. So, we're starting to work on a plan that will lay all that all out, but it will take many years to realize all that, but that's part of what our focus is going to be on.

Anthony Paolone: In perhaps maybe like over the balance of this year, is there much of a pipeline that you've kind of walked into here that could potentially offset the potential dispositions in the second half of the year or are you starting sort of the investment process from scratch?

Mac Chandler: Well, I wouldn't say from scratch. We have a talented team with years of experience here. We've got a lot of work on the properties that we own. But, is there an immediate asset that we have that we're about to close on that would replace the sale of those two assets that we mentioned, if those do in fact sell? There is nothing identified and ready to close on. That said, we are in the market constantly, and we've got great market knowledge and relationships, and we'll continue to pursue those, and we're looking at lots of properties on market and off market as well. We think we're really uniquely positioned to capture some of these opportunities. So, all of that will play itself out over time. As you know, as the market puts properties into market, that allows us to realize them and close them, and pursue them.

Anthony Paolone: Got it, and then this last one is for you and Jeff, I think. Do you have sort of the team in place you envision to do all this, or I think in the past there was some consideration of a CIO, what do you anticipate on that side, and then, I guess, for Jeff to think about G&A run rate over the balance of the year?

Mac Chandler: Sure. I can take that. We are definitely looking to bring in someone to our team, who's a senior executive, who can focus primarily on investments, and we'll continue to pursue that person and bring that person on-board. So, that's definitely – supports that initiative and supports that avenue of growth. No, not really announce anything. We don't have a candidate in the wings, and part of this is I want to take some time to really assess the need, the scope, the appropriate background and experience for that person before we hire that person. So, I'll be working closely with that and when we're ready to announce something, we'll be sure to share that.

Jeff Hedges: Yes, and then just the second part of your question, Tony, from a G&A perspective, it's given what Mac just laid out and the inherent uncertainty on the timing of when these potential – this individual or individuals may join our team, it's hard to give any real guidance as to what implications that's going to have on G&A going forward. I will point out though that we are going to have some increased stock-based compensation expense in the last three quarters and in Qs 2, 3, and 4 this year, primarily as a result of max onboarding, which occurred here in Q2. So, you should expect that, but otherwise, right now I think our Q1 is a fairly good reflection – Q1 G&A, that is a fairly good reflection of our run rate for the year, but as you know, G&A is always going to be lumpy with certain things and, of course, will be impacted by the onboarding of any potential team members that join us later this year.

Anthony Paolone: Okay, great. Thanks.

Operator: Once again, as a reminder, to ask a question today, that is star (*) then one (1) on your touchtone phone. We'll take our next question from Vince Tibone with Green Street. Please, go ahead. Your line is open.

Vince Tibone: Mac, congrats on the new role and move to the West Coast. First one for me, just, Mac, maybe how would you like to see the portfolio mix evolve over time in terms of industrial flex and office, and would you consider larger deals either on the acquisition or disposition side to explore any transition there?

Mac Chandler: Well, we're definitely going to dig in on that, and I'm starting to do that with the team. I mean, the mix is – the right mix is a portfolio that provides compounded growth over the long term and with limited capitals in the right markets that we think have the best chance of providing outsized growth. So, we're going to take a hard look at that. Certainly, you've seen a pattern where we've shifted the mix towards industrial as we've sold off some office; I don't expect that to change. That's where we're performing best and we'll lean into that; that makes all the sense in the world. But, in terms of a deeper refinement, I don't have anything yet to share but, in general, that's the direction we're leaning towards.

Vince Tibone: Makes sense. One more for me, switching gears, why growth in the flex portfolio lags out of the traditional industrial portfolio by a fair amount. Do you see that dynamic persisting over the near term and what needs to change, in your mind, to get flex fundamentals to fully recover?

John Petersen: Yes, sure. Let me take a stab at that. Flex is depending on where it is and I've told this to many of you over the years is the less office we have in our flex building or parks, the better it is, because it really is used for what it was designed for, which is a distribution assembly, lab, that kind of stuff. So, it just so happens a couple of the flex parks and the flex vacancy we have, especially in Dallas, is more heavily concentrated to office. So, we still like the location of these assets. We still like the assets, but as we get these spaces back, and I think I touched on it earlier, we're going to convert those to more typical flex build-out, which is less office and more warehouse in the back or distribution, more assembly, those kinds of things. So, we're going to migrate it back towards how it was originally designed, and that will help us attract a wider array of users. So, that's our plan. That's what we've done before is we've got these kinds of spaces back. So, we still like the flex demand in all of our markets. It's just repositioning some of these spaces, as I've mentioned earlier, to where how they were designed originally. Does that help?

Vince Tibone: Yes, that's very helpful. Thank you.

John Petersen: Sure.

Operator: There does appear to be no further questions at this time. I will turn the call back over to Mac Chandler for any closing remarks.

Mac Chandler: Thank you, everyone, for your time today. I look forward to seeing you soon, hopefully, in person or at least virtually, and please enjoy the rest of your day.

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