

***Transcript of
Washington REIT
Third Quarter 2019 Earnings Conference Call
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Participants

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

Analysts

John Guinee – Stifel
Brendan Finn - Wells Fargo
Daniel Ismail – Green Street Advisors
Christopher Lucas - Capital One Securities
Tony Paolone – JP Morgan

Presentation

Operator

Welcome to the Washington Real Estate Investment Trust third quarter 2019 Earnings Conference Call. As a reminder, today's call is being recorded. Before turning over the call to the company's President and Chief Executive Officer, Paul McDermott, Amy Hopkins, Vice President of Investor Relations will provide some introductory information. Amy, please go ahead.

Amy Hopkins – Vice President of Investor Relations:

Thank you and good morning everyone. Please note that our conference call today will contain non-GAAP financial measures. Please refer to our most recent financial supplement and to our earnings press release, both available on the Investor page of our website, and to our periodic reports furnished or filed with the SEC, for definitions and further information regarding the use of these non-GAAP financial measures and a reconciliation to our GAAP results.

Please also note that some statements during this call are forward-looking statements within the Private Securities Litigation Reform Act, which are made as of today, and we undertake no duty to update them as actual events unfold. Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially. We refer to certain of these risks in our SEC filings.

Participating in today's call with me will be Paul McDermott, President and Chief Executive Officer; Steve Riffée, Executive Vice President and Chief Financial Officer; Drew Hammond, Vice President, Chief Accounting Officer and Treasurer and Grant Montgomery, Director of Research.

Now I'd like to turn the call over to Paul.

Paul McDermott – President & Chief Executive Officer

Thank you Amy and good morning everyone. Thanks for joining us on our third quarter 2019 earnings conference call.

Today, I would like to discuss the strategic objectives that we have achieved this year and how those achievements shape the next phase of growth for WashREIT. I will also provide an update on our multifamily strategy and how our newly acquired assets are positioned for success, and I will discuss our commercial leasing momentum as we progress towards a return to office NOI growth in 2020.

Starting with our 2019 Strategic Capital Allocation Plan, over the past six months we have completed \$1.1 billion of transactions that recycled capital out of higher-risk retail assets and into value-add multifamily assets. We significantly strengthened and de-risked our portfolio while allocating more capital to assets with greater growth potential.

We expanded our ability to capitalize on the supply-demand imbalance for value-conscious renters in the DC area and improved our geographic mix by increasing our exposure to Northern Virginia, which is increasingly becoming the job engine for the region. Moreover, our asset sales reduced our 2020 lease expirations by over 40%, creating greater visibility on future NOI growth. As a final point, our execution was strong in all regards. The cap rate on the combined retail asset sales was 6.3%.

All in all, we are confident that this year's strategic capital recycling has improved our shareholder value proposition and ability to capitalize on regional demand drivers.

As we look ahead to the next phase of growth for WashREIT, we expect multifamily to soon become our largest asset class. Over the near and intermediate term, multifamily growth will be fueled by continued base rent growth that will be further enhanced by value-add unit renovations, and income from the Trove multifamily development, which will lease-up throughout 2020.

Going forward, we plan to continue to allocate more capital to multifamily relative to office, as we are long-term believers in the multifamily sector and we expect to outperform the broader market with our highly targeted strategy. As always, our capital allocation will be driven by detailed research and market knowledge. Our in-house research capabilities and local focus provide an advantageous view of the Washington market which enables us to unlock value.

Our research-based strategy led our acquisitions of the Assembly Portfolio and Cascade at Landmark, which fit squarely into our broader strategy of targeting mid-market renter households earning between \$50,000 to \$75,000 per year. This growing segment of the market comprises 25% of regional rental demand, yet less than 5% of new construction since 2013 has been built at rent levels they can afford.

At a 30% of income monthly outlay, these households can comfortably afford average monthly rents of \$1,250 to \$1,875, which encompasses the sweet spot of our portfolio while leaving plenty of room for rent growth. Both our urban and suburban Class B strategies provide compelling value propositions: with more high-quality living space

at significantly lower rents than nearby Class A properties in an urban setting, or with no down payment and lower monthly expenditure compared to single-family alternatives in the suburbs.

The average in-place rent for our newly acquired Assembly portfolio is over \$900 below the monthly cost to purchase a home in each of their respective suburban sub-markets and \$800 cheaper than the cost to rent in a typical Class A unit in the region. Within a more urban context, Cascade rents provide excellent value compared to nearby Class A alternatives – with an affordability gap in excess of \$300.

Our appropriately scoped renovation programs offer an improved living experience at price-points that are affordable and competitive. We acquired a 1,700-unit renovation pipeline, adding to our existing renovation pipeline of 1,600 units, bringing the total to over 3,300 units, which represents approximately half of our total multifamily portfolio.

Our renovation plans within each community are specifically designed based on the current finish level and the competitive position in each respective submarket. At the Assembly Portfolio, the renovation packages range in cost from \$10,000 to \$14,000, with anticipated rent premiums of \$85 to \$125 per month. For Cascade, the renovation package is approximately \$12,000 for an approximate rent increase of \$100. On average, the weighted average rent increase required to generate a cash on cash return in the low teens is approximately \$100 per unit, which is well below the weighted average affordability gap of \$800 per month. With a median rent to household income ratio of 26%, there is plenty of room for value creation and rent growth.

Additionally, macro demographic trends and demand-supply dynamics are in our favor. Employment and population growth in Northern Virginia, where over 80% of our 2019 multifamily acquisitions are located, supports our expectation for sustained income growth. Cascade and Assembly Alexandria are just a short drive from HQ2, offering access to the region's tech, defense and cyber security growth, which are all expected to continue to drive demand.

Even as demand grows, the supply of apartments with comparable Class B price-points remains constrained, as building to these moderate rent levels is economically challenging due to high land, labor and material costs.

As it relates to new Class A product, the development opportunities we have at the Wellington and Riverside apartment communities offer favorable economics due to the below-market cost of land at these hard-to-replicate sites. Our Wellington covered land play, the Trove, is physically delivering units this quarter and those units should begin leasing up in January. Additionally, we have the opportunity to add another 767 units at Riverside and we are likely to proceed with the first phase of that opportunity in 2020.

Turning to our same-store performance, growth trends remain strong, reflecting sustained demand for value-oriented multifamily product within the DC area. Year-to-date, we have grown average rent by 2.7%. New and renewal lease rate growth, or trade-out, was 3.6% on a blended year-to-date basis through the third quarter, with growth in both metrics at all of our same-store multifamily assets.

Same-store NOI is up 4.6% year-to-date and we have increased our guidance twice this year, illustrating the incremental strength that we are seeing. Furthermore, we still have renovation-led value creation opportunities embedded in approximately 40% of our same-store multifamily portfolio, or 1,600 units, and our renovation programs continue to generate mid-teen returns on cost, on average.

Turning to our commercial portfolio, we achieved strong rental rate increases on both a cash and GAAP basis during the quarter, illustrating continued demand for our Class B office assets. Our leasing volume was slightly below our expectations due to the impact of timing, as we signed approximately 260,000 SF of leases after quarter-end, including a renewal with the World Bank, which cut our 2020 lease expirations in half, which Steve will discuss in more detail later on this call. As expected, our new and renewal lease volume was higher in the first half of this year as we have made substantial leasing progress to date.

As we look to the overall office landscape in the District, we see two trends that we believe will benefit our DC assets in the CBD. First, we see a reinvigoration of the CBD as leasing momentum is migrating from the East End. Second, we see a growing trend of tech demand in the District itself. Tech users have been the District's second largest driver of occupancy gains since Q1 2018, according to CBRE data.

In Northern Virginia, where over half of our office portfolio is located, absorption rates are the highest they have been in eight years according to JLL. We believe the strongest submarkets follow the Silverline from Arlington near HQ2 through the RB corridor, Tysons and out to the Dulles Tech Corridor. These submarkets represented over half of Northern Virginia's leasing activity in the third quarter of 2019, according to JLL data. The outlook appears favorable as \$30 billion of cyber security contracts are expected to be awarded in the next 24 months, which should drive demand in these submarkets. In addition, defense spending has surged, increasing by 16% since fiscal 2017, and Northern Virginia continues to benefit the most from these federal outlays.

Tour activity at our Northern Virginia assets is nearly double the level it was at this time last year and Space+ , our flexible office program, is producing good results at higher rents, with less down time to lease commencement compared to traditional leases with an average term of three years. The success of this program has allowed us to address our tenants' growing demand for flexibility, speed to market and competitive amenities without using third-party co-working providers. We do not have any co-working providers as tenants in our portfolio.

Our Space+ program currently represents 5% of our total commercial portfolio and 6% of our office portfolio and that space was 80% leased at quarter-end. As the program matures, we are generating better returns on our invested capital and we continue to see a premium to market rents of 9% to 10%. We have also been able to reutilize nearly all of the first-generation tenant improvements for second-generation leases signed thus far, including three signed in the third quarter.

In terms of our outlook for office NOI growth, we are making solid progress on backfilling the 2019 lease expirations. Year-to-date, we've addressed approximately 80% of the office vacancy that was highlighted in our 8-K filing last November and we currently have a leasing pipeline of prospects totaling over 220,000 SF for that remaining vacant space, which is over two and a half times the square feet of that existing vacancy.

We've also made progress on addressing our 2020 expirations. The sale of our retail assets reduced our 2020 retail lease expirations by over 90% and our overall lease expirations by over 40%. Moreover, after quarter-end, we renewed and extended our lease with the World Bank through year-end 2025. Including the World Bank renewal, we've reduced our 2020 lease expirations by nearly 70%.

Overall, we are in a better position now than we were at this time last year. We are pleased to be achieving rent growth despite an elevated level of lease expirations. We expect key commencements in early 2020 to set us on a path to return to same-store office NOI growth on a year-over-year basis in 2020.

With that, I will turn it over to Steve to discuss our third quarter financial and operational performance, as well as the key drivers of our inflection for sequential NOI growth.

Steve Riffie – Senior Vice President & Chief Financial Officer

Thanks Paul. Good morning everyone.

GAAP Measures: Net income was \$332.8 million, or \$4.14 per diluted share, compared to net income of \$5.9 million, or \$0.07 per diluted share in the prior year. The large increase is primarily due to net gains on asset sales from our executed strategic capital allocation transactions.

FFO: Core FFO was \$0.41 cents per diluted share, which was in line with our expectations. On a year-over-year basis, core FFO per share declined by \$0.04 cents due to our asset sales, partially offset by the acquisition of the Assembly portfolio and Cascade, as well as the previously disclosed office vacancies that we continue to make substantial progress on backfilling.

Now turning to same store performance.

Same-Store NOI: Overall same-store NOI declined 1.6% year-over-year on a GAAP basis and 0.7% on a cash basis due to the expected 5.2% GAAP decline and 3.7% cash decline in same-store office NOI.

Same-Store Office NOI: The primary driver of the same-store office NOI decline is the expiration of two large leases at Watergate 600 at the beginning of this year. Excluding the impact of these spaces, which have since been substantially re-leased with long-terms to credit tenants, same-store office NOI increased slightly compared to the third quarter of 2018 driven by positive rent spreads on new and renewal leases signed this year. We expect both same store office NOI and total NOI to return to growth on an annual basis in 2020.

Same-Store Multifamily NOI: Turning to multifamily, same-store NOI has increased 4.6% year-to-date and 3% in the third quarter. Moreover, excluding the net impact of higher than usual tax appeal settlements recognized in the third quarter of 2018, same store multifamily NOI grew by 4.6% year-over-year for the quarter. Rents grew across all of our same-store multifamily assets on a sequential basis, as well as, year-over-year, and rent trade outs during the summer leasing market exceeded our expectations. New lease rates increased 4.2% and renewal lease rates increased 4.4% during the third quarter, resulting in a blended lease rate increase of 4.3%.

On the whole, both renewal and new lease rent increases across our entire multifamily portfolio exceeded our expectations and we have maintained occupancy levels in the mid-90s as a result, allowing us to optimize NOI growth as we approach the winter months.

Other NOI: Same-store GAAP NOI increased at our residual retail centers, which we report as other, by 1.8% and cash NOI increased by 2.4% year-over-year driven by high rental value-lease commencements at Spring Valley Village as well as higher recoveries of previously reserved bad debt.

Commercial Leasing Activity: Turning to leasing activity for the quarter, we signed approximately 35,000 square feet of new office leases and 16,000 square feet of office renewals in the third quarter.

We achieved solid rental rate increases of 22.3% on a GAAP basis and 7.8% on a cash basis for new leases and 15.5% on a GAAP basis and 6.6% on a cash basis for renewals, driven primarily by demand for our well-amenitized Class B office assets, specifically, in the District this past quarter.

The increase in tenant improvements and the free rent period for new office leases compared to the second quarter of 2019 and prior year period was due to an increase in the weighted average term, as we signed several long-term leases for high quality credits during the quarter. On a per-year per-foot of term basis, tenant improvements for new leases were in line with the prior quarter and lower than the prior year quarter. For renewal leases signed during the quarter, tenant improvements were lower than usual due to a high number of shorter-term renewals for smaller spaces that did not require improvements.

All in all, we are pleased with the leasing that we have executed as we continue to make progress with backfilling our 2019 office lease expirations.

While our office and other leasing volume was a little light this quarter, we signed several leases after quarter-end including two long-term leases comprising over 22,000 square feet at Watergate 600 with lease economics that reflect the increase in the value of that space following lobby renovations and amenity upgrades. Watergate 600 is now over 92% leased and continues to generate leasing momentum with value creation.

Once again, as Paul mentioned subsequent to quarter-end, we renewed and extended our lease with the World Bank through year-end 2025 thus we have another six years of lease term. The terms of the renewal include two additional five-year renewal options. Also as mentioned, this reduces our lease expiration schedule substantially reducing cash flow risks in our portfolio. Separately, the World Bank requested, and we agreed to given them a one-time purchase right that expires before year-end. If they exercise that right, we will update details once a sale has concluded. Otherwise we have an extended lease with additional renewal options.

In terms of our other leasing activity, having sold most of our retail leasing exposure, leasing volumes were light yet economics were positive. Post quarter-end, we signed a long-term lease for the entire second floor of the new building at Spring Valley Village to a concierge pediatric practice that has been operating in DC for over 90 years. Spring Valley is now 92% leased. Additionally, we signed a significant expansion for a current Space+ tenant lease in Arlington Tower, allowing their growth within the program. Arlington Tower is now 90% leased.

Guidance: Now turning to guidance, with only one quarter remaining, and the strategic transactions having now been executed, we are reiterating the midpoint and narrowing our 2019 Core FFO per share guidance to a range of \$1.70 to \$1.72 from a prior range of \$1.69 to \$1.73.

We expect to sell an additional \$125 to \$150 million of office assets by year-end, which are yet-to-be announced. Our 2019 Core FFO guidance does not assume we will complete any additional acquisitions this year.

We reiterate our expectation for our overall same-store NOI to decline within a range of 1.25% to 0.50%. We expect same-store multifamily NOI growth to range from 4.25% to 4.75%, same-store office NOI to decline in the range of 5.25% to 4.5%, and same-store Other NOI to range from \$13.25 million to \$13.50 million.

We expect development expenses to range from \$45 million to \$50 million. We now expect the annual impact of the adoption of the new lease accounting standard ASC 842 to be approximately \$1.75 million dollars in 2019, reflecting higher leasing activity completed. We expect Core G and A to range from \$20.75 million to \$21.25 million, and interest expense to range from approximately \$54.5 million to \$55 million. Capitalized interest is expected to range from \$2.75 million to \$3.25 million.

Lastly, we continue to expect our 2019 Core FAD payout ratio to be in the low 80% range.

Balance Sheet: Turning to the balance sheet, we are committed to maintaining our investment-grade credit metrics. We maintained our liquidity levels even while executing our strategic transactions and while our net debt to EBITDA ratio was elevated temporarily at June 30th as we were in mid execution of our strategic capital allocation, we were back to 6.3x by September 30th, which is well within our targeted range of 6.0x to 6.5x. We continue to expect to have a strong year-end balance sheet.

Before I turn the call back over to Paul, I would like to discuss our NOI inflection in light of recent transaction activity and expected lease commencements. As previously communicated, with our 2019 Strategic Capital Allocation Plan, we are going through earnings reset period and we expect Core FFO to bottom in the first quarter of 2020 driven primarily, by our expected year-end asset sales.

Following the first quarter of 2020, we expect sequential quarterly NOI growth to be driven by a combination of factors. First, the long-term lease for the top-two floors of Watergate 600 commences in the first quarter. Second, we have addressed the large majority of 2019 commercial expirations and expect rents to commence and commercial vacancy to decline throughout 2020. Third, overall multifamily rent growth will be further enhanced by on-going renovations and operational improvements at our newly acquired assets. And lastly, the Trove will lease-up throughout 2020 and is expected to contribute approximately \$0.01 per share of NOI in 2020 and \$6 million, or \$0.08 per share in 2021. We currently expect stronger overall full-year FFO growth in 2021.

As we close in on an inflection point for FFO growth, we are optimistic about the path that we are on, with multiple growth drivers across both our multifamily and commercial portfolios.

And with that, I'll now turn the call back over the Paul.

Paul McDermott – President & Chief Executive Officer

Thank you, Steve. We have made significant strides in executing on our multifamily strategy in 2019. We recycled capital out of higher-risk retail assets into value-add multifamily assets and stabilized and improved our NOI growth outlook. Our portfolio is well-positioned to capitalize on the supply-demand imbalance for value conscious renters in the DC area, and we've now expanded to the surrounding suburbs, where over 70% of regional household growth is projected to occur over the next five years.

In addition, we have potential development opportunities that will unlock embedded value by adding on-site density at desirable returns. Following the Trove, we have the near-term opportunity at Riverside, as well as longer-term opportunities to increase density at some of our remaining retail and multifamily assets.

Alongside the execution of our multifamily strategy, we've made significant progress on leasing our 2019 commercial expirations. As we signaled at the end of last year, 2019 was a difficult year with an elevated level of vacancy due to several large commercial lease expirations. Year-to-date, we have addressed approximately 80% of that vacancy and we expect to deliver improvement in same store office NOI growth in 2020.

To conclude, it's been a transformative year for WashREIT, with key achievements across both our multifamily and commercial portfolios. Looking forward, we're focused on driving a strong trajectory during 2020 and very strong year-over-year FFO growth in 2021.

Now I would like to open the call to answer your questions. Operator, please go ahead.

Operator

At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Brendan Finn from Wells Fargo. Please proceed with your question.

Q: I wanted to ask about the redeployment of proceeds from your year-end asset sales. I guess, just given the success you've had with your multifamily development and the opportunity you have for more units at Riverside, how are you thinking about using those proceeds on development versus additional multifamily acquisitions.

Paul McDermott - President and CEO

We're going to continue to fund out the Trove, we're delivering units this quarter, and that will continue into 2020. And then, as you've pointed out, we have a capital spend on renovated units in 2021. We have a pipeline of 3,300 units to renovate. So that will continue over the next three to four years. And then, in terms of new development, we're going to consider all opportunities for capital sourcing at that level.

Steve Riffie - EVP and CFO

And Brendan, I'll just add, it's been our guidance all year that we expected asset sales at the end of the year. Especially since we're not ready to give 2020 guidance and we thought it was appropriate for you and everyone to know that, that's the case. Our expectations are that we would end the year, assuming we execute asset sales with a stronger balance sheet. That's important because that really explains why the inflection point is in the first quarter of next year instead of the fourth quarter of this year. We're not committed in terms of having to reinvest proceeds due to our tax planning and prior execution. So we're going to give ourselves optionality. We've done enough execution and tax planning for this year that we've assumed that we can complete asset sales and have a stronger balance sheet with optionality going forward.

Q: Steve, on guidance, you talked about the purchase option that World Bank has. Is that assumed that they'll exercise that in the \$125 million to \$150 million of dispositions?

Steve Riffie - EVP and CFO

If they do exercise that option, then that will be our asset sales at the end of the year. We're not going to comment on transactions until they close. But if they exercise, that would be one of the ways we would get there.

The other thing I should say for everybody's benefit is we literally got the signed lease for the World Bank last night, and it was after the earnings release went out, we were expecting it earlier throughout the day yesterday. We held the release as long as we could, and we do apologize if it went out a little later than normal. It did at least arrive last night so that we could at least comment on it today, and we're glad that we could.

Q: Sure. And then just following up on the World bank lease, are you able to give any high-level commentary on either the mark-to-market on that, the TIs or any free rent components?

Paul McDermott - President and CEO

Sure Brendan, So we re-signed the World Bank lease. From today, it's a six-year deal, given the year that they still had left and the lease is for 218,000 square feet. It's basically a five-year extension. We are going from an old face rate of \$54.33 down to \$52.50 on a cash basis, so about a 3% decline, but we have 2.25 rental rate bumps annually built into that. We have six months of free rent that will be associated with that, commencing in 2021 and TIs of \$45 a foot. They can spend that now, but the pay would not take place any time before 2021. And then associated with that, they also have two extension options of five years each, which is consistent with the way the World Bank has been leasing that space for the last 20-plus years. In addition, they also have a right of first offer on any space remaining in the building, which comes available.

Steve Riffie - EVP and CFO

I'll add one thing. It really is a point of emphasis, and Paul said it in the prepared remarks, the big point for us is we announced the strategic capital allocation plan at the end of April when we tied up the Assembly portfolio. And we've been talking all year about our lease execution, and as of last night, we've actually been able to address more than 70% of the lease expirations for 2020. That is what we said we set out to do this year, and that significantly de-risked the company and its cash flows going forward. That's a big point for us.

Operator

Our next question comes from line of John Guinee from Stifel. Please proceed with your question.

Q: Paul, nice job, got to ask you one important question, how good does it feel to say you have zero co-working tenants.

Paul McDermott - President and CEO

It feels okay, I'm not only happy about that, but I'm happy with our Space+ program, which is doing quite well and is 80% leased also.

Q: Great. Out of curiosity, what happens on your operating expense? What's your operating expense on the World Bank building? And do you have an OpEx reset when you renew this lease?

Paul McDermott - President and CEO

Believe we have a base year reset, but I can check that and circle back with you.

Q: Talk a little bit about \$30 billion cybersecurity contracts. I'm assuming that's a combination of government, military and corporate, but you correct me. And then where do those employees, contract employees want to office. So they want office in their own buildings these days that they want to office in government or DoD buildings? How's that working out these days.

Grant Montgomery – Director of Research

There are about five contracts that are set to be awarded over the next 24 months. The one that's really gotten all the headlines is the Jedi contract with the DoD, that's \$10 billion. But there are others, including agencies like NOA at DHS and even at GSA that are in the range of \$2 billion to \$8 billion. And those are all set to be awarded over the next 24 months. We expect that it is highly likely that these will be in commercial space. And in that corridor that Paul mentioned during the call, in the Silverline corridor sort of starting in the Rosslyn Ballston areas and out through the Dulles corridor.

Q: Last question, it looks to me, Steve, like you guys are going to be trading at about 19x 2020 FFO and maybe a little below on a six implied cap. How do you guys feel about issuing equity at this level?

Steve Riffie - EVP and CFO

We certainly would look at all sources of capital. And if it's appropriate, where we can create value, we would. We always evaluate it. Obviously, conditions are more favorable now than they have been over the last few months. But on the other hand, we also have some assets that we think it might be appropriate to recycle as another source of capital. And clearly, we're not giving guidance on 2020. So those are your numbers for now, and we'll take responsibility for those when we're ready to update them.

Paul McDermott - President and CEO

The base year reset up is correct, but it's not until this current lease expires. So the reset is not until 2021.

Q: When you look at the old expense stop plus the pass-throughs and look at the new base year reset, does that end up helping or hurting the cash decline. Said another way, is on a net basis? Is it more than 3% decline or less than 3% decline?

Paul McDermott - President and CEO

I will have to get back to you. I don't have that in front of me.

Operator

Our next question comes from the line of Tony Paolone with JP Morgan. Please proceed with your question.

Q: Congrats on World Bank. Just a question about the purchase option. You mentioned exercise it by the end of the year, would that also mean close and be done with it as well?

Steve Riffie - EVP and CFO

Yes, if they exercise the right, it will be our year-end transaction.

Q: Do you have other assets for sale in the market right now. I'm just trying to understand how you juggle short of if they exercise, and if you have other things in the market because it sounds like the \$125 million to \$150 million is the number.

Steve Riffie - EVP and CFO

Well, we do have other options, and we can't comment on things because they're just not far enough along. But we do believe it's appropriate at this point to signal that we do expect to have asset sales, we'll certainly update it and how they turn out, once we execute the transactions. And we've done that all year in our guidance even before the strategic capital allocation plan was announced, just so people would understand when to expect an inflection point.

Q: If you have stuff in the market, and it goes well. And then World Bank does exercise, it's possible you could do more? Or you'll just stop those other deals?

Steve Riffie - EVP and CFO

It's inappropriate right now to comment. We have some optionality. We've done enough planning to be able to execute more than one way. I look forward to being able to tell you more of what we did once we complete some transactions.

Q: Okay. Understood. And then you talked about some of the pipeline beyond Trove on the multifamily side in terms of areas to invest. Is that kind of what was now when I look at the press release, the comment about just expanded opportunities for renovations on the apartment side? Or are there other projects that you've got teed up?

Paul McDermott - President and CEO

Well, we have two, if you're looking at newer opportunities, Like I said, we're going to be finishing up the Trove and that will deliver throughout 2020. It's delivering right now. First wave of the units are delivering right now as we speak, we have a pipeline of 3,300 doors teed up for renovation between the Assembly and what it was already embedded in our portfolio prior to that. And then we can add 757 units at Riverside. We are looking at our options on that right now as we speak.

Q: Last question, as you build out multi-family here. I know you all have used a couple of third-party providers to kind of run some of those assets, at what point would you think of bringing that in house? Or do you feel like that's just not necessary because you're getting good execution as it stands? How should we think about that?

Paul McDermott - President and CEO

I think, first and foremost, we want to make sure we're constantly offering the best product and the best service to our residents. Our two third-party service providers are doing that. With that said, we're extremely sensitive as we grow and scale the business of controlling our brand. I think we have always looked at between 8,000 and 10,000 doors that it may make sense to look at that. So we still have a little time before that. But that's definitely something that we will be giving due consideration to.

Operator

Our next question comes from the line of Daniel Ismail from Green Street Advisors. Please proceed with your question.

Q: Great. Just one quick one for me on World Bank or any potential sales? Any of those that would necessitate a 1031 exchange? Or how much capacity do you guys have to shelter any capital gains?

Steve Riffie – EVP and CFO

We've done enough tax planning and execution this year that we've assumed we can execute these year-end transactions without having to do a 1031. And so we can absorb them within our taxable income and our dividend levels.

Operator

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

Q: Quick ones for me. On the World Bank, if the World Bank does not exercise their option to purchase. Is that an asset you would look to sell regardless down the road here, say, in the next year?

Paul McDermott - President and CEO

As we've talked about, and we've been pretty transparent about it. For a company of our size to have concentration risk with single tenants we just don't think it's a good proposition for our shareholders. So if the World Bank does not exercise its option to purchase this year, we would look at monetizing that asset going forward.

Q: Okay, great. And then as it relates to expected development yields on, say, whether it's Riverside or the next phase of the Trove, how do those yields compare today from an underwriting perspective to what is available in the market in terms of the transaction market. Does that GAAP stay the same? Is it narrowed? Is it widened? What are you seeing in the marketplace?

Paul McDermott - President and CEO

Well, it depends on which market, and where you're playing. When I look at the multifamily space right now, and I'll start with acquisitions in the core space, it's pretty thin, in terms of the product that's available. And that space is really trading in the low to mid-4s, and they're solving for the 5. The value-add capital that's out there that's chasing yield, they're probably on the acquisition front, they're probably looking for high 4s, and they're solving for an 11 to 12 IRR with about a 65% LTV. And those guys are being pretty aggressive on rental growth. I think the interesting thing that we're seeing on the acquisitions front, since we've probably done a little bit more of that than we've done development is really in the kind of suburban core to core plus. And what I'm talking about there is the 2013 to 2015 deliveries. You know the Atley on the Greenway Apartments, Northwestern Mutual just sold, That's a 4-story walk up in Loudon County, and we know the broker was guiding \$205 million and that went for, about a 46% rate, which translates to about \$285,000 a door. It's pretty aggressive. I look at the people that are getting squeezed out of those core acquisitions, and they're definitely willing to develop decor, and they're probably developing to mid-5s, In some cases, one deal we shadowed, they were at a low 5 return on cost metric. That's not what we would do. If you look at the Trove, and you look at Riverside, for example, our low land basis really gives us a competitive advantage. And when I look at \$285 out add on the Greenway versus, I think, we're going to deliver the Trove for just over \$300 a door for new product. I'm pretty comfortable with what we're putting on the table from a development front.

Operator

We have reached the end of the question-and-answer session, and I'd like to turn the floor back over to management for any closing comments.

Paul McDermott - President and CEO

Thank you. Again, I would like to thank everyone for your time today, and we look forward to seeing many of you at NAREIT in a couple weeks.