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Participants

Tejal Engman - Vice President of Investor Relations
Paul McDermott – President and Chief Executive Officer
Steve Riffee - Executive Vice President, Chief Financial Officer
Tom Bakke - Executive Vice President, Chief Operating Officer

Analysts

John Guinee – Stifel
Blaine Heck – Wells Fargo
Daniel Ismail – Green Street Advisors
Chris Lucas - Capital One Securities

Presentation

Operator: Welcome to the Washington Real Estate Investment Trust year-end 2018 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, Tejal Engman, Vice President of Investor Relations will provide some introductory information. Ms. Engman, please go ahead.

Tejal Engman - Vice President of Investor Relations
Thank you and good morning everyone. Please note that our conference call today will contain financial measures, such as FFO, core FFO, NOI, Core FAD and adjusted EBITDA that are non-GAAP measures as defined in Reg G. 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 our use of these non-GAAP financial measures, and a reconciliation of them to our GAAP results.

Please also note that some statements during this call are forward-looking statements within the Private Securities Litigation Reform Act. Forward-looking statements in the earnings press release, along with our remarks, 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. Please refer to pages 8 – 25 of our Form 10-K for our complete risk factor disclosure.

Participating in today's call with me will be Paul McDermott, President and Chief Executive Officer, Steve Riffee, Executive Vice President and Chief Financial Officer, Tom Bakke, Executive Vice President and Chief Operating Officer and Drew Hammond, Vice President Chief Accounting Officer and Treasurer. Now, I'd like to turn the call over to Paul

Paul McDermott - President & Chief Executive Officer
Thank you Tejal and good morning everyone. Thanks for joining us on our year-end 2018 earnings conference call.

Introduction: 2018 was another year of solid operational performance, continued asset recycling and further balance sheet improvement for WashREIT. We delivered approximately 2% Core FFO per share and 3% same-store NOI growth on a year-over-year basis. We upgraded our Northern Virginia office portfolio with the sale of Braddock Metro Center in Alexandria and the acquisition of Arlington Tower in Rosslyn. We continued to upgrade our DC office portfolio with the sale of 2445 M Street in the West End, having acquired Watergate 600 on the DC waterfront in 2017. And we ended the year with a net debt to adjusted EBITDA ratio of 6.2X. As a result, we have entered 2019 with a strong balance sheet and a higher quality, better-located portfolio with exciting lease-up opportunities in a region that is expected to benefit from a continued rise in defense spending and Amazon HQ2 related growth.

This year, we are focused on multiple commercial lease-up opportunities that represent meaningful, long-term NOI growth for our shareholders. Our 2019 goal is to create solid visibility on our future revenue growth by executing commercial leases throughout the year, and by delivering the first units at the Trove, our multifamily development by the Pentagon, in the fourth quarter of this year. Let me now provide you with a progress report on our key commercial leasing opportunities that were referenced in the 8-K we filed last November.

Watergate 600: Starting with Watergate 600, we are very close to signing a 51,000 SF, long-term lease for the top two floors of the building with a blue-chip company that considers Watergate 600 to be its best relocation option as it looks to expand its regional footprint. We expect lease commencement to take place in early 2020, pending the completion of an extensive build out. This lease and the 22,000 SF of other leases that we have executed thus far at Watergate 600 validate our acquisition thesis on office tenants being drawn to the asset's iconic status and unparalleled waterfront views. Following the lease-up of Watergate 600's top two floors, we have a pipeline of approximately 100,000 SF of deals for approximately 40,000 SF of current availability, which includes all other 2019 lease expirations. Thereafter, annual lease expirations at Watergate 600 are negligible until 2026 and beyond.

Arlington Tower: Moving on to Arlington Tower, we delivered one floor of collaborative, furnished suites within the Space+ program from December through early January. Over that period, we have signed two leases totaling approximately 8,000 SF that are both already generating GAAP and cash revenues, and have now received multiple LOIs for a third suite. When signed, we will have leased nearly half the floor we just delivered at weighted average rents that are 12% higher than both the expiring and the market rent for traditional leases, with a weighted average term of 3.5 years, and 26 days of weighted average downtime from delivery to rent commencement. Our build out of these Space+ suites is approximately 30% lower than the average tenant incentives incurred on new Class A full floor leases in the R & B corridor over the past 12 months, according to CompStak data. Based on our proof of concept at 1600 Wilson, we expect 90% of our initial Space+ capital outlay to have a useful life of at least 10 years.

As of today, we have approximately 36,000 SF of Space+ and 27,000 SF of traditional lease space that is currently vacant and available to lease at Arlington Tower. We expect the majority of Space+ vacancy to commence throughout 2019 and for the traditional lease space to commence in the first half of 2020. We remain bullish on Rosslyn, which delivered another strong leasing year in 2018, following a record leasing year in 2017. This submarket continues to attract premier office tenants with the latest reports being that Amazon is looking to take a large block of co-working space in Rosslyn. Furthermore, the research we conducted with Congressional Quarterly projected an increase in contract awards in the R & B corridor that is resulting in robust activity among small and mid-size office users looking for finished space with immediate availability and flexible terms. We continue to see excellent small deal activity in the market and tour velocity at Arlington Tower remains high with a deal pipeline of approximately 210,000 SF.

Space+ Program: In general, we expect demand for high quality, flexible office space in our region will continue to grow and that landlords will have to quickly adapt their product offerings to capitalize on what is now regarded to be a secular shift in the office business. That said, while flexible office and co-working are often spoken of as one product offering, we believe they have different value propositions. Space+ is predominantly a flexible office offering that addresses existing and new tenants' need for greater flexibility while continuing to forge their unique corporate identities. Although co-working product also offers duration flexibility, it is a relatively more expensive option for small and mid-size users in our market, particularly those seeking space to accommodate 12 or more employees. Moreover, co-working still does a relatively poor job of helping small and mid-size users establish their unique corporate identities as it attempts to cater to a wide variety of tenants with different space needs, from freelancers to Fortune 500 corporations. Although Space+ is priced at a premium to traditional leases, it is at a very meaningful discount to co-working with creative design that allows tenants to emphasize their own brand, culture and customer experience. We therefore believe it is well-positioned to meet the growing demand for flexible space, both out of co-working and from our existing long-term tenants who regard Space+ to be a valuable amenity.

We finished 2018 with approximately 133,000 SF of delivered Space+ space, which is located in 53 spaces across 10 buildings. The delivered space is currently 86% leased with the majority of the remaining space having been recently delivered. We have another 57,000 SF across 14 spaces in the Space+ program that will deliver over the next six to eight months. Thus far, we have achieved rents that are at a premium to the market, and in full year 2018 it took us approximately 69 days on average to get from delivery to lease commencement. This compares favorably with 3 ½ months of average downtime for spec suites and 16 ½ months of average downtime for traditional, to-be-customized shell space according to NKF data.

DC Class B Office Portfolio: Moving back to Washington DC office, we finally have some availability in our value-oriented, DC Class B office portfolio after years of being largely stabilized and fully occupied. Our most significant lease-up opportunities are at 1220 19th Street, 2000 M Street and 1227 25th Street where we have approximately 71,000 SF of anticipated tenant vacates within our 2019 lease expirations. These include approximately 19,000 SF at 1227 25th Street as well as 41,000 SF at 1220 19th Street, both of which were referenced in the 8-K published in November 2018. Expiring rents for these anticipated vacates range from the high $40s to low $50s gross per square foot implying slight mark to market upside as well as a significant gap to commodity Class A product where asking rents are currently in the high $60 gross per foot range, according to JLL data. Moreover, JLL expects another 2 million SF of Class B office product will be removed through 2022, further limiting value-oriented options in the DC core.

In the 8-K we filed last November, we referenced four renewal leases in the DC Class B portfolio. Two of these were roll ups and two were roll downs, which I would like to detail further. The expiring cash rents for the 42,000 SF tenant we renewed at 1775 Eye Street were in the mid-$60s as they had escalated over a number of years and blended 8,000 SF of the high-value retail space that we have now taken back. We renewed the tenant at just above $60 a foot with 2.5% rent escalators over a term of 11 ¼ years, which is a very solid execution for lower floor, Class B office space in Washington DC. Moreover, we expect to re-lease the 8,000 SF of prime retail space at rents that will roll up in the low double digits.

The GSA renewal, which is out for signature, was atypical as the GSA held a re-compete process where we were competing against C buildings in South West DC. 1227 25th Street is one of three assets in our portfolio that has space leased to the GSA and Federal government tenants comprise less than 2% of our annualized base rental revenue as of December 31, 2018.

Retail Lease-Up: Now on to retail, we are under LOI for both the 28,000 SF former hhgregg vacancy at Hagerstown and the 23,000 SF former hhgregg vacancy at Frederick Crossing with a discount retailer that will require a significantly lower capital investment than previously estimated. We expect both leases to commence in the first half of 2020 and to generate approximately half a million dollars of combined stabilized, annualized NOI. We are also negotiating a lease with a medical user for the entire second floor of the new Spring Valley Village development. If signed, this lease is expected to commence from early 2020 and contribute a little over $400,000 of stabilized, annualized NOI.

In addition, we are very close to re-leasing a challenging 28,000 SF vacancy at Montrose Shopping Center for a term of four years with lease commencement beginning at the end of the first quarter this year, as well as a 15,000 SF vacancy at Concord Centre for a term of 10 years with lease commencement around year-end 2019. Finally, we have executed a 12,000 SF lease for another vacancy at Randolph Shopping Center. In summary, we are at LOI or lease for approximately 114,000 SF of retail vacancies that are expected to commence by early 2020. We have made substantial progress on some of our most challenging vacancies and are pleased to be re-stabilizing the retail portfolio's cash flows.

Multifamily Trends: Shifting gears to multifamily, we believe the announcement of Amazon HQ2 at National Landing is an unequivocal long-term positive for our multifamily portfolio. Approximately 95% of our multifamily units are within a 30-minute driving distance from HQ2, with approximately 70% of units located within a five mile radius of HQ2. We expect Amazon generated jobs to benefit the lease-up at the Trove, where the first units are expected to deliver in the fourth quarter of this year, as well as some of our other Northern Virginia Class A assets, including Bennett Park and The Maxwell, located in the Rosslyn-Ballston corridor. With the cancellation of HQ2 in New York, there is potential for even greater job growth in Northern Virginia.

There are several studies that have analyzed the 'multiplier' effect of the 25,000 employees that Amazon has committed to bring to the DC Metro region over 10 years. While the US Bureau of Economic analysis estimates a multiplier of 1.9, UC Berkeley forecasts a multiplier of five additional jobs for every one Amazon job. As this multiplier manifests itself in potentially 50,000 to 125,000 additional jobs over the next decade, we expect it to positively benefit our Class B assets in Northern Virginia including Paramount, Wellington, Park Adams, Riverside and Roosevelt Towers.

We remain positive on multifamily on a near-term basis as well. While supply deliveries remain at elevated levels, both our Class A and Class B multifamily portfolios continue to grow rents and occupancy as nearly 75% of our multifamily NOI is derived from assets located in Northern Virginia, and approximately 80% is from Class B assets. As a result, our portfolio is relatively insulated from the large wave of Class A supply that's delivering in the Capitol Hill Riverfront and NoMA submarkets of the District. In the fourth quarter, we grew Class A average rents by approximately 1.8% and Class B average rents by 2.6% year-over-year while ending occupancy grew 70 basis points year-over-year on a square footage basis. In full year 2018, we achieved 4.1% renewal tradeouts, 60 basis points higher than in 2017, while retention remained steady year-over-year. New lease tradeouts came in at 1.8% for the year, broadly in line with our performance in 2017.

Looking at deliveries over the next 12 months, Northern Virginia is expected to receive 42% of the region's new units, below its historical average of 50% of new units, while Washington, DC is expected to receive 45% of the new units, well above its historical share of 20% according to Delta Associates. This regional delivery trend leaves us confident in our portfolio's relative positioning in 2019.

Increased 2018 Federal Spending and Job Growth: Moving on to our region's fundamentals, in spite of the recent government shutdown we are optimistic on Federal spending continuing to be a positive driver for real

estate demand, particularly in Northern Virginia which will benefit from the continued increase in the defense budget and contract awards. As the data for 2018 contract awards is now available, we asked CQ to examine how contract spending had fared relative to their expectations at the time of the 2018 budget appropriations last spring. For the DC Metro region as a whole, government contract spending increased by 6.1% in 2018, which although significantly positive relative to recent history, was 2.1% lower than the projected year-over-year increase. Moreover, while contract spending rose 7.6% in Maryland and 6.9% in Virginia, it actually declined by 1.1% in Washington DC. Growth in Virginia was driven by defense contract awards, which grew 11% in 2018 according to CQ data, and having met annual projections, are expected to continue to rise in the current fiscal year. This is supported by the fact that for the first time in over a decade, the fiscal year 2019 defense budget was appropriated prior to the start of the fiscal year, which means that contractors have more clarity and fiscal assurance today than at any time in the past 10 years. The overall regional increase in contract awards does appear to have had a positive impact on job growth, which was robust at 52,100 new jobs in 2018 relative to 50,900 new jobs in 2017. Importantly, the region created 16,000 new Professional and Business Services jobs, which represented 31% of 2018 job growth relative to 10,400 new Professional and Business Services jobs created in 2017, representing 21% of 2017 job growth.

The fact that our region generated 54% more new Professional and Business Services jobs year-over-year is impressive. That said, we believe the pace of fiscal year 2019 contract awards has been interrupted due to the recent government shutdown. As a result, some awards may be shifted to the later months of this fiscal year. While the initial shutdown didn't have a significant impact on our portfolio, the region's real estate fundamentals do remain partially dependent on federal government spending. Encouragingly for Virginia, not only was the 2019 defense budget passed on time but the proposed defense spending levels for FY 2020 and FY 2021 also call for continued gains in spending. Now, I would like to turn the call over to Steve to discuss our financial and operational performance in the fourth quarter and our 2019 guidance.

Stephen E. Riffee - Executive Vice President & Chief Financial Officer
Thanks Paul. Good morning everyone.

GAAP Measures: 2018 net income attributable to controlling interests of $25.6 million $0.32 per diluted share exceeded 2017 net income attributable to controlling interests of $19.7 million or $0.25 cents per diluted share.

FY 2018 Performance: Core FFO of $1.86 per diluted share for full year 2018 was in-line with the mid-point of our most recent guidance range. We grew Core FFO per share by approximately 2% year over year, partly due to 3.1% year-over-year same store NOI growth. On a sequential basis, fourth quarter Core FFO grew by a $.01 primarily due to lower overall building operating expenses. Expenses as a percentage of revenues improved by 110 basis points for the second consecutive year to 34.5% for full year 2018 driven by expense management initiatives across the same-store portfolio as well as lower real estate taxes.

Core funds available for distribution, or Core FAD, was approximately $121 million in 2018, representing a 78.4% payout ratio, which was better than the 80% payout ratio we had targeted for the year. For 2019, we are targeting a Core FAD payout ratio of approximately 80%.

Our full year 2018 same-store NOI growth of 3.1% GAAP and 3.7% cash was driven by higher revenues across the office, multifamily and retail portfolios as average same-store occupancy grew by 40 basis points year-over-year and rental rates and recoveries across all three property types trended higher.

4Q 2018 Commercial Leasing: Moving on to office and retail leasing, we leased approximately 153,000 SF in the fourth quarter, including 52,000 SF of new leases and 101,000 SF of renewal leases. Office renewals included

the 42,000 SF early renewal of one of our top 10 largest tenants. As we had detailed in the 8-K filed in November 2018, the renewal was for 11 ¼ years at rents that were single-digit roll downs on a GAAP and a cash basis. Notably, the remaining approximately 49,000 SF of office renewals rolled up on a GAAP and cash basis. Retail signed approximately 17,000 SF of new leases where economics were skewed by two leases signed with service providers that are expected to further improve the merchandising mix and traffic at two of our neighborhood and community shopping centers. We achieved 100% retail tenant retention in the fourth quarter driven by our proactive approach to retention and tenants exercising early renewal options, a trend that we believe will continue in 2019.

Office 2019 Lease Expirations: Our biggest needle movers on the leasing front are Arlington Tower and Watergate 600. These two assets account for about a third of our 2019 office lease expirations and provide us the opportunity to create longer-term value by growing rents and further enhancing NAV.

Retail 2019 Lease Expirations: In retail, we have approximately 99,000 SF or 5.4% of annualized retail rent expiring in 2019. The majority of these lease expirations are in our neighborhood and community anchored shopping centers, with a median lease size of approximately 2,500 SF.

Multifamily Unit Renovation Update: With regards to multifamily unit renovations, at year-end we had 272 units left to renovate at The Wellington and 191 units left to renovate at Riverside. The Wellington unit renovation program is now 60% complete while Riverside is 78% complete. We are generating a mid-teens return on cost on the renovation dollars that have been invested at these two assets to date and expect consistent returns as we plan for these programs to be substantially completed through 2019.

FY 2019 Guidance: Now turning to 2019, we are guiding to a full year Core FFO per share range of $1.74 to $1.78. This range includes a $1 to $1.5 million impact or an approximately $0.015 to $0.02 reduction as a result of adopting the new lease accounting standard ASC 842 beginning January 1, 2019.

Our guidance includes the following assumptions; a projected same-store NOI growth range of negative .5% to positive .5%. Excluding Watergate 600, same store NOI growth is projected to range from positive 1.75% to 2.75%. As Paul mentioned, we expect the top two floors of Watergate 600 to be built out for a new tenant in 2019 and the lease to commence in early 2020. We assume same-store office NOI declines to range between negative 5.25% to negative 4.25% while we are in the process of leasing up of spaces, which we expect will contribute to same-store NOI growth in 2020 and beyond. Excluding Watergate 600, same store office NOI growth is expected to be approximately flat at the mid-point. We assume multifamily and retail same-store NOI growth will each range between 3.75% and 4.25%.

We project dispositions to range from $175 million to $200 million. Our capital plan for 2019 assumes approximately $65 to $70 million of development spending, predominantly for the Trove, where we have executed a guaranteed maximum price contract that insulates us from escalations in construction pricing.

Our interest expense is expected to range between $51 to $51.75 million. Capitalized interest is expected to range from $2.75 to $3.25 million. G&A is projected to range from $18 to $18.75 million as we have reduced costs by approximately 17% at the mid-point to partially offset the lower revenue in this lease-up period. Finally, we project office non-same-store NOI, which consists of Arlington Tower purchased in 2018, to range between $16.75 and $17.25 million dollars.

__Balance Sheet__: Our focus remains on maintaining our balance sheet strength. We expect our net debt-to-adjusted EBITDA to be in our targeted range of 6X to 6.5X and to end the year at the lower end of the range following the completion of the planned dispositions. And with that, I will now turn the call back over to Paul.

Paul McDermott - President & Chief Executive Officer
Thank you Steve. I would like to take this opportunity to announce that Tom Bakke, our COO, has informed the Company of his retirement. As many of you know, Tom joined Washington REIT in 2014 to help transform the Company. Tom turned operations around by implementing a portfolio management model that increased accountability and drove superior performance. In a nutshell, Tom helped create WashREIT 2.0. I can't thank him enough for his many contributions, his passion and leadership, and for his friendship over the years. One of Tom's greatest successes is the development of an extremely talented team of portfolio managers across all three-asset classes. I am confident in their leadership and ability to achieve our operational and strategic goals. We wish Tom all the very best for this new phase of life and his very well-deserved retirement.

To recap, we are excited about our multiple commercial lease-up opportunities and look forward to updating you on our progress on those, as well as on the robust multifamily and retail growth we expect this year. As our guidance implies, we are proactively reducing our G&A by approximately 17% at the mid-point of our 2019 guidance range as we cut costs and maximize the FFO we generate for our shareholders, while working to create long term NOI growth through leasing. We have entered 2019 with a strong balance sheet and a capital plan that enables us to deliver the first units at the Trove later this year. 2019 is about leasing execution at WashREIT and we look forward to updating you on our progress throughout the year. With that, let me now open the call to answer your questions.

Operator
At this time, we will be conducting a question-and-answer session. [Operator instructions].

Operator
Our first question comes from Blaine Heck with Wells Fargo.

Q: Paul, thanks for all the commentary on Space+. That was very helpful and it seems like a pretty-significant growth initiative for you guys. I guess how much of your office portfolio do you see as available to convert into Space+? And how big a portion of your portfolio do you envision that segment could eventually represent?

Paul McDermott - President & Chief Executive Officer

Well, Blaine. Tom has been pioneering this over the last 6 months, so I'm going to ask him to comment on the metrics.

Thomas Bakke - Executive Vice President & Chief Operating Officer
Thanks Paul. I think we've touched on Space+ before as our flexible space program. We do have a lot of things happening in the office business, one of the most important things is this push towards more flexibility and more experiential type offerings. You'll hear a lot of co-working data saying it could grow upwards of 10% of the office business. I think that's sort of on the aggressive side. The way we look at it is, we're creating an offering in the midpoint that addresses the small to mid-size tenants that have a need for speed, have a need for flexibility, have a need for sort of a broader service offering. And we think it could be upwards of 5% of our portfolio. So right now it's probably about 3%. I don't think it gets much above 5%. But we want it to be broad enough so we can address these evolving tenant needs in pretty much all the submarkets we're in.

Q: That's helpful. Maybe for Paul or Steve. You have been trading at a discount to NAV most of this year so far.

Good to see some of that is coming back today, but have you contemplated share repurchases? And, how do you think about that opportunity to invest in your own stock versus maybe going out and purchasing something at market cap rate?

Stephen E. Riffee - Executive Vice President & Chief Financial Officer
Well, Blaine, we've been asked that from time to time, as the markets have fluctuated. It's certainly in our capital allocation analysis. We've always said that we would consider it, but we would do it on our leverage-neutral basis to keep the balance sheet strong. To do that the debt we would be paying down alongside of a share repurchase would be on the cheaper end of our debt, of the short-term debt that we could pay down. Looking at the stock price we're in the 5s. We still have Trove where we have a guaranteed maximum price contract where the initial stabilization yields are over 6 in that development. Thereafter, that's an improving market for further growth. In the near term, we still have some of our renovation program's going on in our units, in our multifamily value-add properties, and that's been yielding in the mid-teens.

It's something that we do evaluate. It has not crossed the threshold to being our best allocation of capital at this point.

Q: Okay, make sense. All right, and then last for me. You have guidance for around $200 million of dispositions this year. Can you talk a little bit about what you are targeting to sell? Whether it's going to be one-offs or a larger deal? And maybe how you're thinking about the timing of those sales? Is there anything being marketed at this point?

Paul T. McDermott - President & CEO
Blaine, nothing is being marketed right now. But, as we look at our portfolio, we have some office assets that are probably reaching their inflection point, and that's been due to Tom's teams great leasing efforts. We are at the end of the value creation from our standpoint there. Those are the type of assets that we would take to market, Steve, just in terms of timing?

Stephen E. Riffee - Executive Vice President & Chief Financial Officer
Sure. I mean considering we're already a little bit into the year, our own models and forecast assume that we get, less than half down around midyear with the balance of our guidance range towards the end of the year.

Operator
Our next question comes from John Guinee with Stifel.

Q: Talk about the Trove. Looks to me like it's almost walking distance to the Pentagon, to Fashion Square of Pentagon City, and a couple of blocks further east is the new Amazon HQ2 headquarters. Can you actually walk in a tunnel under 395 to get to it or do you have to cross 395 on foot?

Paul T. McDermott - President & CEO
You have to cross 395, but from the Trove, we will be running shuttles like we do from the Wellington, its sister property on the site. We do not want people running across 395.

Q: $300,000 a unit [in development costs] seems pretty reasonable. Can you talk about how you got there? Did you allocate any land to it? Did you have to build a bunch of structured parking, et cetera?

Paul T. McDermott - President & CEO
Sure, John. So, it's just about a hair above $300,000 a door. Our competitive advantage, and you hit on it, is really the land basis. Our hard cost is around $235 a door, soft costs around $36. And our land basis, you know, we

think if you were to try to go out and buy land and replicate what we're doing on the Trove, it would probably be around $70,000 at the door, and our land basis is just between $36 and $37 a door. The only thing I would add to that is, if you're comparing it to kind of a market rate deal, on our math, since we have looked at other opportunities, yes you do, as you pointed out, in terms of parking, if you're doing above grade, we're allocating probably $22,000 install for that. And if we're going below grade, we're probably averaging around $45,000 a stall.

Q: Great, ok. And then shifting to FFO guidance, its down $0.10 year-over-year, which on 80 million shares equals about $8 million. Your FFO for 2018 is $146 million. So it's over a 5% decline year-over-year. What on earth is driving an $8 million, $0.5 decline in FFO?

Stephen E. Riffee - Executive Vice President & Chief Financial Officer
One of the reasons that we wanted to give visibility in the 8-K that we filed in November 2018 was to lay out the lease expirations. So they are laid out pretty much in sequence, with 60,000 SF that happened right off in early Jan. We talked about on this call our efforts in 2019 are really well underway we will be steadily leasing up throughout 2019 for the spaces that we have available.

So I think most of that will be contributing in early 2020 and some of the leases mentioned in the 8-K will continue to expire in May and August.

We're certainly not ready to give full guidance for 2020, but we believe that both overall same-store and office same-store will then return to same-store growth in the first quarter of 2020.

Operator
Our next question comes from Daniel Ismail with Green Street Advisors.

Q: Just a quick question on the dispositions. Are there any tax consequences associated with the dispositions?

Stephen E. Riffee - Executive Vice President & Chief Financial Officer
We always do tax planning. And having already recycled as a management team over $1 billion of capital, we've always made sure that it is tax efficient. Right now, we believe that the guidance that we put out and the way we could execute it, we would not have to reinvest the proceeds, but it really depends on what to sell and when you sell it. So it's something that that we are always mindful of and we would always keep an eye on.

Q: And I think you mentioned over the last few quarters, some difficulty in finding acquisition opportunities in the sweet spot of value-add multifamily. Can you expand on that? And how you guys are seeing the pipeline over the last quarter?

Paul T. McDermott - President & CEO
If you're looking at the D.C. market right now, I would say that predictably, given all the volatility that we saw in December, we saw a little bit of pull back by some of the portfolio managers that we thought were going to bring product to the market in January. We've had a slow start there. But we do see a lot of product, particularly office products, coming to the market. I think that is also pretty predictable, especially in Northern Virginia. I think you're going to really see a surge in Northern Virginia office product coming out, trying to do a draft off of the success of both Silverline and HQ2. We are still not seeing any core capital out there looking for product. It all has to have a value-add component. I think as we tried to say you, we are planning to continue to look for multifamily product -- that's the part of the portfolio we want to continue to recalibrate. When I say that too, there's going to be some eye-popping numbers, the rumor is now the Meridian that's on the market directly across the street from Amazon will trade in the upper 3 caps. That is not the product that were looking for. We think that we are looking at the multifamily both the one-offs and portfolios right now. The opportunities that we do look at are at better cap rates,

and I think offer better value propositions for our shareholders.

Q: And maybe for the ones that you guys are seeing come to market, have the pricing changed at all? Maybe starting the ones at National Landing or something?

Paul T. McDermott - President & CEO
I do not think we have enough data points for a fact pattern there. I think if anything, they have been flat. I think when you look at anything – I cannot pick up an OEM and that has come across my desk without giving the precise proximity to HQ2. People are definitely looking for a little juice there. Smart investors are discounting that. As I said earlier, it still has to have some kind of value-add to characteristics really get the juice. People are really looking forward just given the inflow jobs over next 10 years or what's projected to be, and drafting off defense and tech in Northern Virginia. I really think that multifamily is still the kind of sweet spot.

Q: And maybe just last one for me. The Riverside land parcel, can you give us an update on your plans for that piece of land? And maybe expectations for any type of developments in the near future?

Paul T. McDermott - President & CEO
We are in design-development of the Riverside right now. I think you are talking about the piece of land that was out in front of our property. We are still examining that. Our land basis right now in Riverside is between 20 and 21 a door. We think market land value is probably about 35,000 a door. So roughly, a 40% discount, but we are looking at Riverside both with and without that parcel and as soon as we have something further to comment on about it we will let you know.

Operator
Our next question comes from Chris Lucas with Capital One.

Q: Tom congratulations, good luck, and thanks for all of your help over the last several years.

Thomas Bakke - Executive Vice President & Chief Operating Officer
Appreciated. Thanks, Chris.

Q: As it relates to the Trove, Paul, just kind of curious, I know Phase 1 is up and you are moving forward, you expect delivery units later in the year. Is Phase II under construction at this point? And if so and if not, when will you start construction for that Phase?

Paul T. McDermott - President & CEO
Phase II is not under construction right now. I believe we are shooting for it in the back half of '20 for delivery.

Q: Right so when would you have to get started in order to meet that delivery timeframe?

Paul T. McDermott - President & CEO
Later on in the year.

Q: Will the lease-up pace at the Phase I have an impact at all on your decision to move forward with Phase II?

Paul T. McDermott - President & CEO
No. It will not.

Q: Okay, so you are going to press forward with that. Okay, and then as it relates to sort of a longer-term lease

expiration, we are inside of two years now with the World Bank. When should we be thinking about how to handicap that renewal?

Thomas Bakke - Executive Vice President & Chief Operating Officer
We are in discussions with them right now, Chris, and I think there are somethings going on in the bank right now, as we know. Their real estate department is really focusing on trying to get something done. So hopefully, we will have some good news at some point in the not-too-distant future.

Q: Okay, thank you. And then on the dispositions. I guess just curious you mentioned targeting office. I guess just curious whether or not these would be lumpy transactions or whether or not there is some granularity to the sort of mix?

Paul T. McDermott - President & CEO
I think there will be some granularity on office as they are on an asset management based on when you hit the different office inflection points. So there may be separate opportunities, the timing might be different.

Q: Okay. And then Tom's retirement, I guess just trying to understand, Paul, will you be backfilling that role? How are you thinking about what your plans are there?

Paul T. McDermott - President & CEO
Like I said, I think Tom has built out an exceptional team. They are kind of a self-leading team with the three portfolio managers so were not going to backfill it at this time. We will keep our options open going forward.

Q: And then maybe if I could just pivot over to the G&A guidance. Can you give me more color on just how you are about to wrench out that much in savings year-over-year, I am just trying to get my arms around that?

Stephen E. Riffee - Executive Vice President & Chief Financial Officer
Well, in addition to everything else we have been executing over the last couple of years. We have had pretty-large initiatives to invest in our technology, and our processes. And also in our leadership development to prepare people to step up and into bigger roles and all of that is creating efficiencies, and we feel that it was very timely. We believe those efficiencies are going to allow us to reduce cost this year and that would be appropriate for our shareholders in this period where revenues are down as we lease up again.

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

Paul McDermott - President & Chief Executive Officer
Thank you. Again, I would like to thank everyone for your time today, and we look forward to talking with many of you soon. Good afternoon.