Transcript of Piedmont Office Realty Trust, Inc.
First Quarter 2020 Earnings Call
April 30, 2020

Participants

Brent Smith - President, CEO
Robert Bowers - CFO, Executive VP & Chief Administrative Officer

Presentation

Operator
Good day, ladies and gentlemen. Welcome to the Piedmont Office Realty Trust, Inc. First Quarter 2020 Earnings Call. All lines have been placed on a listen-only mode and the floor will be open for questions and comments following the presentation. [Operator instructions].

At this time it is my pleasure to turn the floor over to your host, Robert Bowers. Robert, the floor is yours.

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Thank you, operator. Good morning and thank you for joining us for Piedmont's first quarter 2020 conference call. Last night we filed our Form 10-Q and an 8-K that includes our earnings release and our unaudited supplemental information for the first quarter, all of this information is available on our website under the Investor Relations section.

On today's call, the company's prepared remarks and answers to your questions will contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address matters which are subject to risks and uncertainties that may cause actual results to differ from those we anticipate and discuss today. Examples of forward-looking statements include those related to Piedmont Office Realty Trust's future revenues, operating income, dividends and financial guidance, as well as future leasing and investment activity. You should not place any undue reliance on any of these forward-looking statements, and these statements speak only as of the date they are made. We encourage all of our listeners to review the more detailed discussion related to risks associated with forward-looking statements contained in the company's filings with the SEC, including our first quarter 10-Q.

In addition, during this call, we'll refer to certain non-GAAP financial measures such as FFO, core FFO, AFFO and same-store NOI. The definitions and reconciliations of these non-GAAP measures are contained in the supplemental financial information available on the company's website. After our prepared comments are made, our senior management team will be available to address any questions that you may have.

At this time, our Chief Executive Officer, Brent Smith, will provide some opening comments and discuss our first quarter results and accomplishments. Brent?

Brent Smith - President, CEO
Bobby, thank you very much. Good morning, everyone, and thank you for participating in our first quarter 2020 earnings call. On today's call along with Bobby and myself are Laura Moon, our Chief Accounting Officer; George Wells, our Executive Vice President of Operations; Eddie Guilbert, our Executive Vice President of Finance and

Treasurer; Chris Kollme, our Executive Vice President of Finance and Strategy; Bob Wiberg, EVP of the Northeast and Head of Development; as well as Kevin Fossum, SVP and Head of Property Management.

Before I address our quarterly results, I thought I'd begin with the topic that is at the forefront of all our minds, the COVID-19 pandemic and its impact on the economy, our tenants, and specifically on Piedmont. First, let me say to Piedmont customers, our tenants, and investors: thank you. Thank you for entrusting us with your business and more importantly your professional friends and colleagues at our buildings. The COVID-19 pandemic has had a profound impact on our daily lives and communities. Even more difficult to fully comprehend is the suffering that many have endured and our heartfelt sympathies go out to the families whose lives have been forever changed.

With the outbreak of the pandemic, the Piedmont Board and management team set three specific priorities. First, make sure we're taking all the necessary steps to protect our tenants and our people. Second, preserve our other precious resource, which is our capital. And third, that we prepare with an eye to the future to adapt the business to do our very best to anticipate the needs of our customers, to be creative, and engineer new solutions and ways of doing business and not rely on simply what worked in the past.

As with most other businesses, our top priority is to protect our customers, contractors and employees and I want to reassure you that all of us at Piedmont are focusing our efforts to confront this new global issue. I could not be prouder of how our team has responded to the challenges that were unimaginable just a few months ago.

During the crisis our buildings have remained open to essential workers. As of today, all of our seven core markets are operating under governors' orders for shelter-in-place. In Atlanta, our second largest market and where our headquarters is located, the governor has begun reopening select businesses to start to rebuild the economy. That said, I think it's going to be challenging and slower than we would like it to be. Ultimately the recovery is largely dependent on the duration of the pandemic, an unknown factor.

At Piedmont, I believe we are taking proper and conservative precautions. We've doubled down, in fact, tripled down on sanitation, hygiene and housekeeping, striving to make our buildings safe and helping our tenants communicate to their employees to ensure they are doing everything they can to social distance, to remain six feet apart throughout the buildings' lobbies, elevators and other common areas as well as their offices to prevent the spread of infection.

Today, our essential employees and contractors continue to report to work onsite in shifts utilizing appropriate PP&E while the remaining employees continue to work from home without disruption. Across the portfolio of Piedmont the entire team is working tirelessly to implement new policies and procedures, extensive signage, expansive cleaning protocols while evaluating new products and measures to ensure our buildings promote a healthy environment.

Finally, we're providing all the support we can to the local communities and businesses we operate with to help those who need it get back on their feet and as part of those efforts, Piedmont and its related foundation, have donated over $40,000 to local charities across all our seven markets, including Seniors First in Orlando, NYU Langone Hospital in NYC, Meals on Wheels in Northern VA, and the Emory Hospital COVID-19 Impact Fund in Atlanta, among others.

Turning our attention to Piedmont's tenants and the performance of the first quarter of 2020. Overall, the consequences of the COVID-19 virus outbreak had minimal impact on our operations and financial results for the first three months of the year. The high-quality nature of our tenancy has never been a more powerful differentiated component of our strategy than it is today with the majority of our tenants investment grade quality and an approximately 7-year weighted average lease term remaining in the portfolio, we are well positioned to weather this storm. That said, we are closely monitoring a couple areas of our tenant base.

To date, we have had a limited number of tenants whose business and financials have been significantly impacted by the pandemic. We feel fortunate to have limited exposure to some of the industries most disrupted. About 1% of our forecasted 2020 revenues are related to retail tenants, and likewise, about 2% of our 2020 budgeted revenues are associated with the co-working sector.

Digging into rent collection specifics. In the first quarter rental receipts came in as anticipated; but as April progressed, we have had a number of select tenants unable to pay their rent. So far, Piedmont had 96% of its tenants submit full rent payment with many of the remaining seeking some form of rent deferral for the month of April. Most of these deferral requests are coming from our smaller tenants, largely food, travelling, consulting, retail, co-working related or provide amenity services at our properties. Most of them have subsequently begun to avail themselves of the various federal and state relief funds, such as the CARES Act loans and the Paycheck Protection Program, which can be utilized partially to meet rental obligations. All of the requests made to us were carefully reviewed and we have accommodated a limited number of the tenants that have requested deferrals of rent for typically up to three months, and repayments scheduled for later this year without penalty, or with payback in 2021 with interest.

Regarding Piedmont's second most precious resource, its capital and liquidity, we firmly believe we have ample financial capacity to confront the effects of the economic slowdown associated with COVID-19. The company can meet its financial obligations, including the servicing of its debt, as well as meet all its debt covenants with significant positive margins. Piedmont also has a favorable liquidity position, with access to our largely unused $500 million line of credit.

Further bolstering our liquidity, we have entered into a binding contract to sell our only asset in Philadelphia, 1901 Market Street, for $360 million. I would also note that a significant deposit for the transaction went non-refundable on March 31st. We intend to use the proceeds from the sale to repay the property's $160 million mortgage as well as eliminate the balance on our line of credit which will result in only one small mortgage remaining in our portfolio, with the other 56 properties being unencumbered.

While we are seeing signs of the virus outbreak slowing and the infection curve flattening, we know that this disruption is not over. The short-term financial impacts caused by the pandemic on 2020 results are still to be fully realized and the longer-term impacts will depend on a great extent upon the duration of the pandemic, its impact on our tenants, and the speed of the recovery.

Certainly, leasing activity has slowed, although we continue to execute some leasing, primarily renewals. We believe the pandemic will likely push out new leasing activity on the whole about a quarter and delay some expected growth in the portfolio. Likewise, the few tenant improvements and redevelopment projects we have scheduled will also be delayed. While we currently believe the impacts on Piedmont earnings will be contained and a majority of those impacts will occur primarily in the second quarter of 2020, the extent of the pandemic's impact on our economy, on our tenants, and on Piedmont will be dependent upon the duration of the pandemic and the depth of the financial disruption to our tenants. Bobby will go into more detail in a moment on some of the factors that could impact the second quarter and the back half of the year.

Focusing back to the first quarter, we are pleased with the operational results from a lease transaction perspective. During the quarter, we completed approximately 417,000 square feet of leasing which was well dispersed across all our operating markets and included approximately 120,000 square feet of new tenant leasing. The first quarter's executed leases for recently occupied space reflected a 5% roll up in cash rents and 15.4% increase in accrual rents. The larger leases for the quarter included the following:

In Boston, Advanced Micro Devices renewed to 2028 approximately 107,000 square feet at 90 Central Street;

In Orlando, the law firm of Greenberg Traurig renewed approximately 37,000 square feet to the year 2031 at CNL Center I. And at 200 South Orange Avenue, Jones Lang LaSalle signed a renewal and expansion through 2025 totaling approximately 20,000 square feet;

Finally, in Washington, The Association for Unmanned Vehicle Systems signed a new lease through the end of 2030 for approximately 15,000 square feet at 3100 Clarendon Boulevard.

A listing of all leases executed during the quarter for 10,000 square feet or more is included in the quarterly supplemental and in the earnings release for your review.

As of quarter end, the portfolio was approximately 90% leased. The leased percentage at the end of the quarter includes the transfer into service of our only previously out-of-service asset, the recently redeveloped, now 41% leased Two Pierce Place Tower in Chicago.

Regarding upcoming lease expirations, we have low lease expiration over the next 18 months with the only sizeable lease being the City of New York at 60 Broad St. We remain in discussions for a long-term renewal of substantially all the City's existing 313,000 square foot lease that expires this month. As common with government tenants, the lease entered holdover status on April 15th with the lease specified post expiration increase in cash rents approximating the current market rental rate. I would note, the benefit of straight-line rents will not be recognized until a long-term renewal is executed which, given the tenant, the decision is likely to be further delayed due to the pandemic. Therefore, for forecasting purposes we have delayed the full roll-up in straight-line rents associated with a long-term lease by approximately 6 months or until the middle to latter part of next year.

Turning to transactional activity, as we previously announced, during the first quarter we completed the purchase in Dallas, TX of the Galleria Office Towers, comprising 1.4 million square feet, and an adjacent 2 acre development parcel for a total of $396 million or approximately $273 per square foot, which represents a significant discount to replacement cost. The acquisition allowed us to establish a sizeable position in this strong submarket so that, along with our other assets in Dallas, we can present prospective tenants with a spectrum of high-quality office throughout this growing and diverse Sunbelt market. With the acquisition, we expect that we will be able to realize additional marketing and operating synergies with our existing operations.

The Galleria Office Towers were acquired through a reverse exchange and will be matched with the disposition of 1901 Market Street in Philadelphia that is expected to close in the middle of the summer. Therefore, there is not a need to make a special dividend distribution related to the substantial nine-figure gain we anticipate on the sale of our only Philadelphia property.

I've shared with you today how Piedmont is committed to protecting your people and preserving our capital and liquidity. As one last point, we remain optimistic about the future of commercial office real estate, but trying to predict the outcome of this event leads to many more questions than answers. One thing is certain, the industry will change and Piedmont will be positioning itself to succeed.

At this point, I will turn it over to Bobby to walk you through the financial highlights. Bobby?

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Thanks, Brent. While I'll discuss some of our financial highlights for the quarter, I encourage you to please review the earnings release and supplemental financial information which were filed last night for more complete details.

For the first quarter of 2020, we reported $0.47 per diluted share of core FFO, that's a $0.02 increase compared to the first quarter of 2019. Even with the loss of earnings contribution due to the dispositions of two almost fully leased assets during 2019, that's the One Independence Square in Washington, D.C., and our 500 West Monroe in Chicago, we were more than able to offset these sales with newly acquired Sunbelt properties in Atlanta and Dallas, as well as with new lease commencements, and with the continued roll-up of rents across the portfolio.

AFFO was approximately $19 million for the first quarter, which was lower than typical and impacted on a one-time basis due to the payment of lease commissions on a 520,000 square foot, 20-year lease to the State of New York at 60 Broad Street in New York City.

With several leases commencing in Atlanta and in Houston late last year, same-store NOI was up approximately 2% on a cash basis and 4% on an accrual basis for the first quarter of 2020.

Turning to the balance sheet, our average net debt to core EBITDA ratio for the first quarter of 2020 was 5.7x and our debt to gross asset ratio was approximately 38.7% at the end of the quarter. Both metrics reflect higher outstanding debt during the quarter as a result of the purchase of the Galleria Office Towers in February. During the quarter, we entered into a new $300 million unsecured term loan and used the proceeds to pay down our $500 million line of credit, leaving approximately $350 million of availability. As Brent mentioned earlier, we plan to pay off the remaining balance on the line, as well as $160 million mortgage, using the proceeds from the sale of 1901 Market which is anticipated to close this summer.

After doing so, we expect our leverages to decrease and to be similar to our metrics as of the end of the fourth quarter of 2019. I would add there are no scheduled debt maturities until late 2021 and that our investment grade ratings from Moody's and S&P were both recently reaffirmed with stable outlooks. Given our low leverage, strong liquidity position, and quality of our tenants, we do not currently anticipate any changes to our present dividend level.

As we said in our earnings release, since the duration and severity of the COVID-19 pandemic and the longer-term consequences on the economy and our tenants are unknown at this time, we are withdrawing our guidance for 2020. That said, we believe our strong, diversified tenant base, a majority of which is investment grade quality, and our attractive portfolio of assets located in highly-amenitized, easily-accessible business centers, and our prudent balance sheet, which provides us with excellent liquidity, all position us well and will mitigate the adverse effects of the pandemic on Piedmont.

I do, however, want to provide you with a few additional thoughts on trends we have seen so far in the second quarter that are guiding our assumptions for how the pandemic could impact us during the rest of the quarter and the back half of the year. While we have executed some lease renewals, new tenant leasing activity during the second quarter has been slow and we think this trend will continue throughout the quarter, likely pushing all new tenant leasing goals out at least a quarter, which will in all likelihood modestly lower annual operating revenues for 2020 by $1 million to $2 million, and lower our originally anticipated yearend leased percentage.

We expect most of our transient parking income for the second quarter will not occur. That would equate to a reduction of approximately $1 million of net operating income. And with respect to retail tenant income, which is about 1% of our totally 2020 revenues, retail NOI is estimated to decline by approximately $1.5 million. Cash NOI rent receipts will likely be negatively impacted on a same-store basis when compared to 2019 due primarily to rent deferral amendments that I'll discuss in a moment.

The few redevelopment projects within our portfolio will be delayed for a few months but are not expected to impact 2020 net income materially. The sale of 1901 Market Street in Philadelphia is expected to close during the summer. And while no other deals are underway, any other acquisition or dispositions during the year will be pricing, property and market dependent.

As Brent noted, for the month of April, to date we have received 96% of our regular monthly rents, with all of our 20 largest tenants representing over a third of our cash receipts paying their April rents. Of the unpaid 4% amount, we do have a number of tenants requesting their leases be restructured. The focus has primarily been on providing appropriate tenants with typically up to three months of deferred rent that will in most cases be paid back later in 2020 or with interest in 2021, although we have accepted some lease extensions in exchange for deferrals.

To date, we have agreed to about $1 million of rent deferrals per month for three months for 27 of our tenants, representing approximately 400,000 square feet of leases. These lease amendments, as you would expect, are primarily with retail, hospitality and smaller co-working tenants.

Regarding our seven tenants in the co-working sector, all but one are under traditional lease structures with standard credit requirements, and combined total about 2% of our originally forecasted 2020 revenues.

No one today knows how long this pandemic will last nor the impact it'll have on so many businesses across the broad spectrum of our economy. However, we do expect to re-evaluate guidance when we have a better grasp of the pandemic's broader economic impact, after current shelter-in-place orders that are in effect for all our operating markets are lifted, and the longer term consequences of the COVID-19 pandemic on the economy and more specifically our tenants can more thoroughly be evaluated.

However, we do believe we are in a fortunate position with no major development projects, with a sound balance sheet, with a team of employees dedicated to providing outstanding service and safety to our tenants, and with a client roster positioned to recover financially. We are thankful and appreciative to our colleagues, to our co-operative tenants, and to our supportive stockholders.

With that, I will now ask our operator to provide our listeners with instructions on how they can submit their questions. We will attempt to answer your questions now, or we will make appropriate later public disclosure if necessary. Operator?

Operator
Thank you. [Operator instructions]. And our first question is from Michael Lewis [ph]. Please go ahead, Michael.

Q: You mentioned in your prepared remarks about having a deposit on 1901 Market, could you just maybe give us a little more on your confidence in getting that across the finish line? Any chance that the buyer could re-trade or delay or anything like that?

Brent Smith - President, CEO
You know, we don't like to get into too many specifics on transactions that haven't closed. That said, I would point out, and as I noted in my prepared remarks the purchaser of the building did have a deposit that went hard on March 31st with good visibility into what was going on. And in addition, I think we've seen a continued interest in that asset, despite kind of going with one bidder. Given the long-term leased credit-worthy tenant in that building that's really been the quality of assets that we've seen continue to garner interest and we think it has a very good likelihood of trading. There are no financial contingencies and no outs in the contract.

And as I noted before, if they were to pull out, I think we feel very confident in our ability to accomplish the 1031 given the interest from non-traded REITs, we've seen Asian capital now have positive forex exchange that's improved a lot, but again I think the purchaser, all indications are they intend to close, again, middle of the summer. There are no financing contingencies and we do think that they have the all cash on hand to complete the transaction. So we feel very confident that they are going to perform.

Q: Great. My second question and you kind of talked a little bit about this too on the New York City lease. I think we all expect that to be delayed a little bit anyway, it's just the nature of the tenant. Could you talk a little bit more again on that one, you mentioned, there may be pushed back, which I think we could have expected, but what about the pricing on that? Do you think that this has a negative impact on what we, kind of, expected to be really strong rent spreads?

Brent Smith - President, CEO
I think it's a little early overall to start speculating on impact to market rents from the virus and the pandemic. It's a demand and supply issue and I don't see right now any insight into supply and demand. That said, specific to our deal we continue to work with New York State in our advanced planning and negotiation, I think that city [ph] is very unique and that it satisfies a lot of their needs. As I've noted, it's a building within the building. So, they have their own envelope, if you will. I think in this environment that even becomes more valuable in some ways.

But I do think that given where we are in the transaction, we feel very comfortable that we're providing a very high-quality location at a very competitive price versus what it could exist elsewhere on the island. And so we continue to engage them and move forward on dialogue and that has not wavered at all. I would say though that there is part of doing a lease with New York City, there is a public hearing process that typically would take anywhere from three to six months. Obviously given the pandemic, we don't really know kind of how that process will start back up, what the backlog might be, and how that will ultimately play out. And so that's why you heard me in my prepared remarks really effectively push that back six months into the latter part of next year.

I would note that we had not expected it to get signed really until the end of this year anyways at the earliest, so we're really kind of pushing it back with the expectation that that process will be slower, both given the nature of the tenant and the city in which it resides. As I would remind you though, they are in what we would call for lack of a better word, the lease specified rental rate increase beyond their expiry, some might call it a holdover rate, I wouldn't necessarily deem it that way, but it is a specified increase in rent. And that will benefit us both on an accrual basis and cash. And somewhere roughly roll up if you look in the supplemental's they're paying somewhere mid-30s right now on a cash and GAAP basis. As I noted before will be closer to a market level so there is a meaningful roll up there to be experienced just naturally in approaching roughly the 30% level on the holdover rate.

Q: Great, that's helpful, and then just lastly from me, page 39 in the supplemental, it doesn't have—at least my copy here—I see the land parcels, I don't see the redevelopment projects. It sounds like you got started on 200 South Orange, I don't know if Two Pierce is still under way, maybe that's the other redevelopment that was alluded to in the text. Could you just give an update on the redevelopment projects, maybe how much is left to spend there and how that's progressing?

Brent Smith - President, CEO
Yes, so Two Pierce, first to address your question there, that was actually completed and it is now been put back into service. This quarter is the first quarter that that will go back into service. And that is currently 41% leased and we continue to have prior to the crisis good tours and interest at the asset. The other kind of bigger project as you noted, would be Orlando. Right now, obviously given the delay and being able to get construction permits and other kind of continued involvement with the regulatory entities there as you may recall, our tenants at that building, we work with in discussions around with the Fire Marshal in terms of the density of its space. They

continue to have that dialogue. We recognize that there is some base building work that we're going to continue to do, but inherently that will be slowed down by the pandemic. The total size of that project we were estimating roughly in the neighborhood of, call it $18 million to $20 million. And so we continue to move forward the project, but inherently that capital spend will be slower than anticipated.

So we'll revisit—the magnitude of that dollars is not even yet to be spent. So it's very de minimis to-date spent and we'll revisit when to kick back up construction once it's safe and we're able to do so at the building. The other big project that I would note isn't really redevelopment, but it is the New York State build out. We continue to make good progress in the plans, we're prepared to be active on site at the building, but obviously given the pandemic that has been put on pause, but we really see no material impact to the income stream related to that delay, but we continue to keep a close eye on it. We're hopeful that it would be no more than maybe a month or two or unless the governor would come back and deem it to be an essential construction project and then we would pick back up with onsite activities.

So those are probably be the ones most impacted, anything else that we have in the portfolio would be very small in scale and more regular way based building for the most part.

Q: Okay, that's helpful. Thank you.

Brent Smith - President, CEO
Again, thank you Michael for joining today. Sorry I jumped in here and answering your questions. But one, I hope you and your family are safe; and then two, apologize for the technical difficulties at the beginning of the call. Just one of those things we're all getting used to a virtual world here and there.

Operator
Our next question is from Anthony Paolone [ph]. Sorry if I didn't say that correctly.

Q: No, very good, thanks. I guess first question on the Galleria acquisition and Dallas. Can you give us a little more color on the cash yield, any capex plans there? I think in the K that you filed, it looked like you're back into the high 5s cash. It looks like the Amazons rent was still fully coming on board. So I just wondering if you just put a little more color around that asset, where you're taking it?

Brent Smith - President, CEO
Thanks, Tony, for joining us today. Again I hope you and your family as well are safe and healthy. In relation to the Galleria Office Towers in Dallas. As you know, we completed that transaction in February. During the course of that transaction, we were engaged with a large e-commerce company in terms of their continued expansion at the project. And as part of that deal, there was additional square footage taken. So as of the acquisition we had about 130,000 square feet of signed, but yet to commence, square footage at the asset.

So the majority of that could be coming on later on this year and so that should, if you think about kind of roughly $30 net [ph] and we have some management income, etc., that's going to equate to equate at $4 million to $5 million of additional income at the building. So that's going to land you, I think by your math that, $5 million to $7 million, should come up to closer to a $7 million on a cash basis. And of course the GAAP yield is going to be well north of that as a result of those below market leases. And again, the majority of that 130,000 square feet is related to a large e-commerce company, and that has no free rent related in that transaction and that would come online again later this year.

Q: Okay. And is there much just otherwise in the planning at the asset in terms of capex or any repositioning you intend to do there?

Brent Smith - President, CEO
That's a good question and I appreciate you following up with that. The buyer that we acquired the asset from was a high-quality institutional owner themselves, who had done much of the modernization, if you will, of the amenities of the building. So it has a great set of amenities for the tenants that reside there, including gyms, conference centers, boardroom, as well as obviously the benefit of a lot of retail right at the base the building. So at this point there isn't really heavy lifting that needs to be done at the building in terms of capital plan and program. We feel like we've got a great basis and a good runway to continue to lease the project and elevate rents with a phenomenal product available today without the need to modify it.

Q: Okay. And then on the co-working side, it sounds like you're working through some deferrals or something there. But in an instance you get that space back, how do you think you all would approach it? Would you try to operate it yourself, is it in [ph] condition to just take it to market for a user? I mean, how would you think about that piece of the portfolio if the deferral situation doesn't work?

Brent Smith - President, CEO
I'd say, first, just in terms of how we approached co-working in general, we had for the most part diversified our exposure across a number of operators so that we don't have a lot of a single counterparty risk. We do have three WeWork locations and then other providers. But really no single provider makes up more than, call it a low teens percentage of the building in terms of its square footage.

If we were to have a situation where one of those tenants were to be able to no longer to pay their rent and we took back the space, I could see a situation right now, and again it's very early, but as we have tenants come back into the workplace, there may be need for a release valve, if you will for additional space. Many of those spaces that we have are not of the dense, typical co-working type. They're more I would call it small shared offices that are geared toward teams of 5 to 20 people with individual suites that our glass front, that will be more well-positioned to provide I think a healthy environment and it's also a benefit that those operators don't I guess rely as much on a very dense and jam-packed environment.

So we would operate those as release valve, bring in a management company more likely, and we have a number of those that we've talked to have relationships with even though we've never done a management deal. But clearly, that's where the industry is headed or at, at this point. So we feel like again where we've chosen to implement it makes a lot of sense as amenity and offering into the marketplace. So I think we still deem a good use of space and we'll continue to operate that ourselves and use it for existing tenancy as they come back to the buildings.

But again, I think it's still very early to tell and the majority of our co-working operators, including our largest co-working operator, WeWork, are current on their rent.

Q: Okay, thanks for that. And then last question from me, putting New York City aside, what are the larger 2020, 2021 expirations you are watching right now?

Brent Smith - President, CEO
I think one of the good things we have, Tony, in our story right now is that low expiry schedule, if you exclude New York City we're looking at about 4% this year and call it 5% next year. In terms of ALR, I wouldn't say there is a tremendous amount of exposure concentrated. If you look at our tenant schedules and stuff we typically provide a list of all of those that are greater than 1% of ALR and you'll notice the city is the only one on there. But if I look out through 2020, we do have some expiries with various tenants in Dallas, as well as in Atlanta later this year. So we continue to make some progress on those, but as we've kind of projected there are few that will vacate, and we have those already built into what was previously provided our guidance.

So I don't think the difficulty in leasing right now and getting tenants to tour spaces will really have a significant impact overall on the income stream for 2020, just given those vacates are more geared toward the back half of the year, and again we didn't have them leasing up in our numbers. So we're thankful that we do have that low expiration schedule right now.

Operator
Thank you. Our next question is from Dave Rodgers [ph]. Please go ahead, Dave.

Q: I wanted a couple of quick follow-ups. First on co-working, you said seven tenants, they're all current. How much of those were already on cash pay versus kind of still building out or in rent deferral? And then maybe Brent, what are your discussions with them? Do they all want to stay or if they approach to you about converting the leases or departing the spaces?

Brent Smith - President, CEO
I guess, first, I just want to make a small clarification, I noted that WeWork was fully current, we have had discussions with the smaller operators and we're working with one of them currently right now as we speak. But I would say all of the operators still very positive overall in their business, how they built out the space. Again, I would note that, that really all of them are focused more on the small business, small teams and less on bench style seating. So I think that does position them better when things come back.

If we think about the discussions that we've had specifically with WeWork, two of their locations are completed and built out and one of them is in free rent; one of them is paying rent. So we are current with that. We do have one location, as I mentioned before in Orlando, where they have been going back and forth with the Fire Marshal in that market, trying to get final plant approval of their plans. And so that, as we noted, we anticipated that that would probably be wrapped up sometime later this year, and therefore we never really included in our 2020 numbers even at the beginning of the year. But clearly given the disruption and in construction and their delay, in likelihood we may see a reversal of densification in the marketplace. So they may need to rethink that space, but again, we didn't have any of that coming online expecting it in 2020 previously.

I would also note that all of our leases with co-working with operators have significant credit enhancement as you know, is something that we've always been very focused on. We provide high-quality service to high-quality companies and so we often look for those instances where they're not rated or public, additional security and we look for that significantly with our co-working operators. So we think that's a positive for those locations as well.

Q: Great, helpful. Maybe a question for Bobby, I think you had mentioned that you didn't expect any significant delays in the move-ins around the TIs, I guess to confirm that for me of two big move-ins including Amazon in the fourth quarter. And then the second part of that question is Amazon, I think, moved into your top five tenant list, does that include the extra 130,000 square feet signed, but not commenced or will that be additive to that position?

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Hi, I hope you're doing okay, Dave. I'll answer the last question first. Amazon's 130,000 square feet is included in our calculations of the 5% of our ALR. The first question was, is there any anticipated delay associated with the Amazon starting later this year, I think in the fourth quarter and no, there is no anticipated delay.

Q: Okay. And then maybe just lastly on the accounting side for me in terms of, kind of, bad debt reserve straight-line rent write-offs. I think you kind of alluded to it that you'd wait and see and kind of take that approach for the year, have you increased any those reserves made any write-offs and how do you view that I guess sitting here today at the end of April?

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Well, historically we have not had much bad debt expense. I think I looked back over the last several years, one year was less than $50,000 I think last year was $150,000 in total bad debt expense. Obviously, if you look back 30 days ago, who could have imagined that there will be 30 million people filing for unemployment and the number of shutdowns and furloughs that we've seen. We have 1,000 tenants representing 70,000 individuals. It's hard to get your mind around what the impact has been from the pandemic or how long this is going to last, and that's why you see us take the more prudent avenue to evaluate a little more closely, but I have not made any significant bad debt accruals at this point nor have we have been requested to make such.

Operator
Thank you. Our next question is from Aaron Wolf [ph]. Please go ahead, Aaron.

Q: Hi, all this is Aaron Wolf, I'm with John [Indiscernible]. I hope all as well. Just a quick question, turning back to the Galleria in Dallas. What are the parking ratios there?

Brent Smith - President, CEO
Hi, Aaron and John, I hope you both are safe and healthy. I appreciate you joining today as well. In the parking ratios the building are roughly I call it 3 per 1,000. I would note that it's an exciting project that again we closed on in the beginning of the first quarter. What's interesting about that deal as well is we recognize it's the base of a large retail center and obviously retail is experiencing a lot of disruption. I think what we like about the opportunity was it's not reliant upon what goes on in the base of the building and there is ample parking at the site, not only what was ceded [ph] to us, but a relationship with the retail owner to flow the space nights and weekends, etc., into our garage [ph] on various [indiscernible] during the workday we need additional space into their garage. So what's unique about that is, of course, we owned 3 per 1,000, but we can go much, much more dense in that location given the relationships we have in the scale of that project and the other mixed use components. We think that's a really exciting opportunity in that regard.

Q: Great, that's very helpful. Thank you. And on to redevelopment, so Pierce is about, what, you said 42%, the economic occupancy. What's the NOI look like coming through there now?

Brent Smith - President, CEO
I'd say the NOI is we're covering expenses, but we're not making a significant amount of NOI overall in the project at the moment. We're basically talking a little bit of cash flow, we're hopeful and continue to see positive momentum at the asset, obviously looking for a larger user given the size of the availabilities, and the disruption did slow down that process, but it's vacant space and we're hopeful once some of the governor's orders of shelter-in-place get removed, people will come back to the building to start touring again. It's obviously a little bit easier in this environment for people to feel comfortable touring vacant space than occupied space. And so we think that will obviously be a little bit of beneficial to helping to fill that call it 200,000 square foot availability.

Q: Okay, great. And 200 South Orange, that's what, the 640,000 plus square feet? When that construction resumes, what portion is going to be coming offline? Is it all of it or what type of square footage will be coming offline?

Brent Smith - President, CEO
Well, our project, the base building component is really at the base of the building, more lobby and amenity focused. That is where if you recall SunTrust resided, they've since vacated roughly about 120,000 square feet prior through '19 in various stages. So that space has been part of it has been re-let to WeWork and that again as we've talked about previously, it's going to take some time for them to build out the space, work through the Fire Marshal, etc., and we will resume our base building construction when it's appropriate.

Q: Okay, perfect. And one last quick one, you obviously review tenant credit very carefully. Do you think WeWork will be in business paying rent in 2021?

Brent Smith - President, CEO
You know, I think it's a little bit to get ahead of ourselves to speculate on tenants financial balance sheet, capability and liquidity. But we have been very pleased with their performance and working with them as a customer and tenant. They continue to pay rent and meet all their obligations. So at this point in time, we think that that along with the security deposits we have in place, makes us very feel very comfortable with them as an operator and a tenant. Of course the duration of the pandemic will probably have a large variability on the impact overall on that type of business. But as I mentioned before, we'll see how this goes, but you could see a situation where they are a nice release valve, if you will, to help people get to a six foot spacing within their own their own build out. So we have to kind of continue to see how that plays out.

Q: Great, thanks for taking my questions and stay safe.

Brent Smith - President, CEO
Likewise, thank you.

Operator
There are no other questions at this time.

Brent Smith - President, CEO
Great, I want to thank everyone for attending today's call. Again, I want to stress that our hearts and thoughts go out to those who have been dramatically impacted by the virus. But we do recognize that as the months go on we're going to continue to get back to the office place and we look forward to welcoming our tenants and our customers, and communicating what we're seeing in the marketplace with our investors.

To that end, we look forward to seeing many of you virtually at NAREIT's REIT Week in June but please reach out to management if you have any other questions or concerns. Thank you, everyone, have a great day.