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Transcript of
Piedmont Office Realty Trust, Inc.
Third Quarter 2019 Earnings Call
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Participants
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C. Brent Smith - President, Chief Executive Officer and Director AO

Analysts
Anthony Paolone – JP Morgan
John Guinee - Stifel
David Rodgers - Robert W. Baird and Co.
Daniel Ismail - Green Street Advisors

Presentation

Operator
Good day, everyone, and thank you all for joining this Piedmont Office Realty Trust Third Quarter 2019 Earnings Call. [Operator Instructions].

And now for opening remarks and introductions, I am pleased to turn the floor over to your host, Chief Financial Officer, Mr. Robert Bowers. Please go ahead, sir.

Robert E. Bowers - Chief Financial and Administrative Officer, Executive Vice President
Thank you, operator. Good morning and thank you for joining us for Piedmont's Third Quarter 2019 conference call. Last night we filed our Form 10-Q, along with an 8-K containing our quarterly earnings release and supplemental financial information. These items are available on our website under the Investor Relations section for your review.

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. In addition, during this call, we will 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, who will provide some opening remarks and discuss third quarter results. Brent?

C. Brent Smith - President, Chief Executive Officer and Director

Thank you, Bobby. Good morning, everyone, and thank you again for joining today's discussion. On our second quarter earnings call, I reported that Piedmont was experiencing solid momentum across all aspects of our business, and more specifically, at the strong leasing operations and capital markets activity the company was generating would carry throughout the remainder of 2019, positioning Piedmont for meaningful earnings growth in 2020.

I'm pleased to share that the Piedmont team had an extremely productive third quarter on all fronts, but even more exciting than our quarterly performance was the progress we made on numerous strategic objectives. I really couldn't be more proud of the hard-working men and women that support me each and every day.

This morning I'm going to review the company's progress on key initiatives. First, an update on capital markets activity highlighting the transactions that are increasing the concentration of our portfolio in specific submarkets, as we recycle out of fully valued mature assets and redeploy those proceeds into accretive value-add acquisition.

Next, I'll touch on the operational success across the portfolio, including the New York State lease at 60 Broad Street. And finally, I'll share an update on Piedmont sustainability initiatives.

First and foremost, the Piedmont team did a terrific job continuing to concentrate our portfolio in many rich submarkets, which offer unique mixed-use environments in close proximity to major education centers and transportation nodes.

I would also note that we're experiencing incremental operational success in submarkets we can capture greater than 20% Class A market share. And although previously announced in late August, Piedmont aggregated another such stronghold position during the third quarter. Similarly to our ownership concentration elsewhere in our portfolio, such as Downtown, Orlando, the Burlington submarket of Boston, and a Las Colinas submarket of Dallas, we now own the entire Galleria office complex, giving us the dominant Class A position in the northwest submarket of Atlanta.

Let me outline why we think this burgeoning hubbub is such a terrific opportunity for Piedmont. The Galleria Atlanta is a master-planned mixed-use development hosting almost 7,000 workers every day, with prominent visibility at the pin corner location of I-75 and I-285, approximately 10 miles outside of downtown Atlanta.

The buildings themselves are best in the submarket, boasting three-story lobbies, floor ceiling window lines and great slab heights resulting in phenomenal light air, as well as 360-degree views, including Buckhead and downtown Atlanta. All located adjacent to the Atlanta Braves' new ballpark.

The Cobb County communities in the immediate vicinity of the project have the fastest growing millennial population in Atlanta, with excellent schools, low property taxes, and numerous corporate expansions. In addition, the location is just a 10-minute drive from Buckhead, a 15-minute drive from Midtown.

We believe these fundamentals, in conjunction with a vast onsite and neighboring walkable amenities, position the project for continued success. Our position in the Galleria Atlanta all began four years ago, when the

Piedmont team acquired Galleria 300, and a year following Galleria 200, with the bold vision to achieve something that had never been done, single ownership of the entire 2.1 million square foot office complex.

In the spring of 2017, the Braves began their inaugural season at SunTrust Park, and completed the adjacent $1 billion mixed-use entertainment, food, and beverage-centric development named The Battery. This 1.5 million square foot project's vast amenity set includes two new hotels, the 4,000 seat Coca-Cola Roxy Theater, and over 200,000 square feet of retail, along with a dozen restaurants from some of Atlanta's most acclaimed chefs; all just a 10-minute walk from our office buildings in the Galleria.

Since those first acquisitions, Piedmont has achieved strong operational success of the complex, increasing annualized leased revenue by almost 20%, with even more upside to capture in the next few years as leases expire. Continuing with our acquisition strategy, in May of this year we purchased the third building in the complex, in conjunction with 1.5-acre development parcel.

And I couldn't be more proud to share that the Piedmont team completed the puzzle during the third quarter with the acquisition of Galleria 400 and 600. The two buildings total approximately 860,000 square feet, are a combined 84% occupied, and were purchased for $212.4 million at an accrual cap rate of 6.8% but will stabilize above 8% after lease-up is completed over the next few years.

Piedmont also acquired an adjacent ten-acre land parcel for $18.8 million, which is already entitled to accommodate over one million square feet of commercial development. We believe the site is among the best in Atlanta, and we are well-positioned to attract some of the large corporate tenants looking to relocate to the Atlanta market.

Our total investment in the Galleria Atlanta is just under $500 million, or approximately $215 dollars per square foot, which represents over a 50% discount to estimated replacement cost.

Furthermore, the size of the project gives Piedmont the opportunity to significantly enhance through redevelopment while maintaining a competitive low basis. We think it's a great example of how Piedmont positions itself to drive incremental value and cash flow growth for investors through redevelopment. With approximately 12% of the 2.1 million square feet available for lease, and another 37% of leases rolling in the next four years at rental rates approximately 20% below today's market rate, it's another instance of how Piedmont is utilizing its scale in select submarkets to drive operational synergies and grow rental rates through the creation of unique place-making environments that today's tenants demand.

I would encourage those who have not reviewed our presentation materials regarding Galleria Atlanta to visit the Investor Relations section of our website and download the featured report dated August 2019. Integral to our growth strategy is the disposition of a select group of noncore assets, in addition to those properties which we believe the value potential under our ownership has been reached.

Over the past four years, we have sold $1.9 billion of assets, and redeployed those disposition proceeds at an average acquisition yield 170 basis points greater than our disposition yield.

Continuing with that theme, I'm pleased to report two strategic dispositions during the third quarter. First, we sold The DuPree, a relatively small noncore asset in Atlanta, for $12.7 million, incurring a small impairment charge. In addition, subsequent to quarter end, on October 28th we closed on the disposition of 500 West Monroe in Chicago for $412 million, or approximately $425 per square foot.

The two dispositions transacted at an average forward 12-month accrual cap rate of 6.1%, with proceeds used to pay down our $500 million revolving line of credit, which, as of this call, stands here as zero-dollar balance. The disposition of 500 West Monroe will result in Chicago no longer being identified as a core market for capital deployment. However, Piedmont will continue to manage 500 West Monroe on behalf of the buyer for an initial term of three years. We now third-party manage approximately two million square feet in Downtown Chicago, across 500 West Monroe, and a previously sold 35 West Wacker, earning management income at both buildings.

500 West Monroe was a phenomenal investment for Piedmont. The 960,000 square foot building was acquired in 2011 for approximately $235 per square foot, with an occupancy position to drop below 20%. Over the next several years, the Piedmont team completed a redevelopment of the asset, and enacted an aggressive leasing program to capture large suburban tenancy moving into downtown Chicago.

The team did an outstanding job leasing nearly one million square feet during our ownership to corporate tenants such as Motorola Solutions, General Electric and Lockton Insurance, while pushing the building's occupancy to 100%. This is a great example of Piedmont's strategy to drive incremental value and cash flow growth for shareholders by acquiring high-quality Class A properties in need of repositioning.

In this instance, the outcome resulted in a realized gain of approximately $160 million, which will be included in our fourth quarter results. I want to commend the entire Piedmont team for a herculean effort. Nine-digit capital gains are a tremendous outcome.

Finally, I would note that the second and third quarter acquisitions of the Galleria Atlanta, totaling $326 million, has an average forward 12-month accrual cap rate of 7.1%, and we're required to reverse 1031 exchange with 500 West Monroe, and as a result, no special dividend related to this transaction will be required.

Finally, on our last call, I noted that we would focus on completing our noncore dispositions over the next 12 to 18 months using the proceeds to fund future growth through acquisitions, development and redevelopment. The noncore properties comprise our three long-term leased single-tenant assets located in Philadelphia and Houston, as well as one multitenant asset in Chicago.

We've been encouraged by the recent private market pricing achieved by properties similar to those, fueled by the decline in long-term interest rates, in conjunction with a reduction in foreign exchange costs for international buyers over the past nine months.

For example, in Philadelphia, a high-quality multitenant Class A asset located on Market Street, with over ten years of weighted average lease term, recently traded for mid-sixes cash cap rate. And, similarly, there was a Houston trade for a long-term lease single-tenant asset that priced through a 6% cash cap rate. We believe the disposition of our noncore assets will fund additional recycle accretive to cash flow.

We will focus the redeployment of disposition proceeds into markets with the most favorable risk-adjusted return, which we currently believe to be Boston, Dallas, Atlanta, Orlando, and Minneapolis. We will also continue to take a balanced approach across CBD, urban infill, and urban submarkets within those cities, generally maintaining one-third of our portfolio in each category.

Turning to our leasing activities during the quarter, we completed approximately 564,000 square feet of leasing, with approximately 195,000 square feet related to new tenant leasing. Activity was well-disbursed throughout our markets and resulted in an almost 10% rollup in beginning cash rents, and a 23.5% increase in GAAP rents, in line with the year-to-date trends on both metrics.

The larger leases executed during the quarter include: In Dallas, Commercial Metals Company renewed approximately 106,000 square feet through 2028 at 6565 North MacArthur Boulevard, and Gartner expanded their footprint with a new lease for approximately 55,000 square feet through June 2034 at 6031 Connection Drive.

This brings their total square foot in the complex now to nearly 210,000 square feet. In Atlanta, we signed a new lease through 2035 for approximately 72,000 square feet at 1155 Perimeter Center West with WeWork. This lease, combined with our previously reported VMware expansion, now has backfilled 60% of this quarter's Arby's [ph] exploration.

In Minneapolis, Siemens Corporation renewed approximately 59,000 square feet at Crescent Ridge II through 2030. In Boston, Qualcomm renewed approximately 49,000 square feet through 2025 at 90 Central Street. In New York City, Morris Adjmi Architects renewed and expanded approximately 20,000 square feet at 60 Broad Street through 2029.

Additionally, subsequent to quarter end, we received a $550 million lease renewal and expansion for approximately 20 years, executed by the State of New York, Office of General Services, providing for the tenancy of 7 agencies, with terms and conditions better than initially anticipated at the beginning of the year. Rather than a 10% downside for New York State's current 480,000 square foot lease, the total lease square footage will increase to approximately 520,000 square feet, with beginning cash rents down slightly, and a substantial rollup in an accrual basis rents. The new lease begins on November 1st of this year with no free rent and no downtime. The lease will include a phase construction period during which several agencies will be departing and arriving to the building. Despite the protracted negotiation, this was a phenomenal outcome for investors.

We estimate the tenant improvement capital to be roughly $100 per square foot, which inclusive of leasing commissions should equate to approximately $7 per square foot per year of lease term in capital commitments.

Our only sizable exploration over the next 18 months is also at 60 Broad Street, where we remain engaged in active negotiations with the City of New York for the renewal of substantially all of their existing 313,000 square foot lease scheduled to expire in April of 2020.

We're in advanced discussions incorporating detailed design and space planning with the various seeding [ph] agencies. The City of New York’s lease is anticipated to include 20 years of term, and we estimate a significant rollup in accrual rents once a long-term lease is executed, in addition to a large rollup in cash rents.

I would note that, like the New York State, the City of New York's premises incorporates numerous agencies, which complicates the transaction and could delay the execution of a new deal beyond the current lease expiry. Potential delays in the City of New York's lease could temporarily impact Piedmont's 2020 accrual rental income stream and company earnings until a new lease is consummated.

One final strategic update. I would like to take a moment and draw your attention to our website where we’ve released our inaugural sustainability report this week, providing portfolio-wide benchmark data, as well as outlining our sustainability policy, annual performance, track record and progress toward long-term goals for electrical, water, and other utility consumption.

One of my top initiatives is for Piedmont to be a leader in environmental, social, and governance disclosure, and we look forward to expanding upon this initial report as the company’s sustainability efforts continue to run. In short, Piedmont is committed to materially reducing waste and carbon emissions in our buildings, with a goal to eliminate 20% of our energy and water consumption over the next eight years.

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

Robert E. Bowers - Chief Financial and Administrative Officer, Executive Vice President

Thanks, Brent. While I'll discuss further some of the key financial results 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 third quarter of 2019, we reported $0.45 per diluted share of core FFO, which is consistent with the same period a year ago, and AFFO was approximately $36.7 million for the third quarter, well in excess of our current $26 million quarterly dividend level. I'd like to note that the current quarter's results also included over $2 million of excess G&A expenses related to accruals for potential stock compensation due to our top quartile relative stock performance year-to-date.

We continue to believe our normalized G&A expense to be around $6.5 million per quarter, after the management staffing changes that took place at the end of the second quarter. Same-store NOI was up approximately 5% on a cash basis, and up 0.5% on an accrual basis for the third quarter.

The increase in cash basis same-store NOI was attributable to the expirations of several lease abatements, including the upgrade [ph] lease in Washington, DC, the Gartner lease in Dallas, and the Slumber J lease in Houston. The slight increase in accrual basis same-store NOI was related to the commencement of leases with higher straight-line rents, was offset by downtimes between leases at 200 South Orange Avenue in Orlando, and at 1155 Perimeter Center West in Atlanta, where we've already backfilled 60% of the space related to recently expired leases. On a year-to-date basis, same-store NOI was up 5% on a cash basis, and up 2% on the accrual basis.

Turning now to the balance sheet. Our overall leverage metrics at September 30th, 2019, are higher than typical, with us using our line of credit to interim fund The Galleria acquisitions in advance of the sale of the 500 West Monroe building.

Reported net debt to core EBITDA was six times, and our debt to gross asset ratio was approximately 39% at the end of the quarter. We've included an additional pro forma disclosure in our supplemental financial information this quarter that illustrates these metrics returning to their normal range, with the application of the disposition proceeds received from the sale of 500 West Monroe.

In the pro forma, leverage is in the low 30% range, and net debt to core EBITDA is in the low five times range. We have no debt maturities until late 2021, and as of today we have almost all of our $500 million line of credit available.

Our estimates indicate that we've completed the 1031 Exchange requirements for the gain on the 500 West Monroe sale, and again, as Brent mentioned, no special dividend is needed in 2019 to cover the REIT distribution requirements.

At this time, I'd like to raise the lower end of our 2019 annual guidance for core FFO per diluted share. We now estimate $1.77 to $1.79 per share for the year.

And just as a reminder, all major acquisitions and dispositions through today are included in this guidance, and no speculative capital activity is included. Also, final results will be dependent upon our relative stock performance over the remainder of the year. We'll keep you informed of any transactions as they occur, and what we believe the impact of such activity will be on the current year and next year's projections.

Looking ahead to 2020, we are not prepared to issue formal guidance at this time, although we do believe the current midpoint of street consensus for 2020 core FFO is below our preliminary estimates by $4 million to $5 million. Also, despite down times, abatements, and capital needs associated with the new leases that we've signed for tenants and renewal leasing, 2020 estimates indicate AFFO easily exceeds our current dividend level.

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

Operator
Gentlemen, thank you for your remarks. [Operator Instructions]. We'll take our first question today from Anthony Paolone from JP Morgan. Please go ahead, sir. Your line is open.

Q: Thank you, good morning. Just a couple clarifying items on the New York State lease. What was the GAAP spread on that, as it turns out?

C. Brent Smith - President, Chief Executive Officer and Director
Hi, Tony, good morning. It's Brent. Thanks for joining us today, this Halloween Day. Happy Halloween. In regards to New York State, the GAAP spread from the prior lease to the new lease was approximately 40%.

Q: And I guess maybe trying to tie this in with Bobby's comments about the preliminary look into 2020 consensus and the $4 million to $5 million shortfall. I mean, that's probably not a number that we have in our model of that order of magnitude. Is some of that sort of related to New York State and this large GAAP spread?

C. Brent Smith - President, Chief Executive Officer and Director
Absolutely, part of it is related to the New York State, but I'll let Bobby maybe give a comment on it a little bit broader in the depth of that answer. Bobby?

Robert E. Bowers - Chief Financial and Administrative Officer, Executive Vice President
Yes, there's several factors, Tony, that add to that. Part of it is that we have 600,000 square feet of leases that are executed that haven't commenced yet, that includes the 300,000 square foot lease with Transocean that will begin later this quarter.

So you'll get the full year's benefit of the Transocean lease next year, as well as 65,000 square feet from the Gartner lease that begins in the first quarter. Also, as you just indicated, a full year of the New York State lease, that rollup will begin here in November. Obviously, there's some speculative leasing that we've included as we're doing our budgets for next year. And we've also included the New York City lease, which is 313,000 square feet, and it will begin sometime during the second quarter of 2020.

Q: Okay. And on the New York City part of it, just to again clarify these two things with the New York State comments, and then Brent's comment about New York City potentially having a little bit of an FFO drag as you work through that next year. Why is that? I don't remember the New York State dynamic having that effect on earnings. Is there something different with the way New York City is going?

C. Brent Smith - President, Chief Executive Officer and Director
Actually, it is no different. There was a similar effect from the New York State this year, and I would say we, first and foremost, we continue to make good progress in New York City, and we still remain confident that they want to remain a tenant of ours. But like the state, it's complicated, there are multiple agencies.

So if you recall with the State, they originally had planned to expire basically end of March of '19, and we did an extension, and then we did an additional extension to get to the point where we could announce what we just did so in our earnings release.

But as a result of that, New York State, we did not recognize the full rollup that we just described, that 40%, effectively, until Bobby pointed out until November 1st. We were losing "FFO" that we had thought might be within our numbers as we tripped over what was the original expiration without signing that 20-year lease.

We could have that same effect if the city didn't reach a point where they can sign by the second quarter of next year, but again, we have some time, and we still remain very productive on those discussions.

Q: Okay, great. I understand that now. And second question, as it relates to Galleria now that you have it all put back together, how should we think about the pacing of lease-up there? I mean, what's your sort of expectation in terms of absorbing some of that vacant space?

C. Brent Smith - President, Chief Executive Officer and Director
Well, we continue to have very good activity across the project. As we've noted, we have roughly a little more than 10% currently vacant, and we have a great 75,000 square foot block at the top of one of those buildings, frankly the best in the submarket.

And as I did note before, we still see great activity across corporate tenants, ranging in size from, call it 10,000 plus, but what's also interesting at that side is the opportunity that the development site also has there as well, and we are running for a potential build-to-suit for the Sherwin-Williams Corporation.

I would also add that we have the opportunity to add some pretty interesting enhancements to the project, which we believe will allow us to push rental rates even further on the existing product and it stands today, which was in the low '30s, and we think we have the opportunity to drive rates into the mid-30s in short order. And we're already swinging hammers on a number of those projects right now to add some of the amenities to the space and thinking towards a grander vision, but we're taking our time on that approach and thinking about how to really create an interesting and mixed-use environment there.

And I want to be clear, we would not look to own or develop anything that was not an office-use for the most part, but we would look to partner with those other individuals. That's not our area of expertise, but we do believe there is an opportunity there to densify and create a very exciting environment.

Q: Okay. And last question. You talked a bit about like Philly and Houston markets being strong as you contemplate dispositions. What about on the acquisition side, what does that pipeline look like right now?

C. Brent Smith - President, Chief Executive Officer and Director
I'd say we still have a very good pipeline, opportunities in Boston, Dallas. We continue to see and look at Atlanta, although it's our largest market, we'd be very mindful of that. Minneapolis still remains very interesting too. I'd say our pipeline looks as robust as I would have said it's been in the past. I will say it does seem like looking into next year as I talked to some brokered, others in the brokerage community, the pipeline that they're seeing seems to be reducing a little bit; but overall, I still, think we see a lot of great opportunity in the marketplace.

Q: Okay, great. Thank you.

Operator
Thank you, Tony. Next we'll take a question from John Guinee at Stifel. Please go ahead, sir. Your line is open.

Q: Great, thank you. Two questions. First, impressive execution on 500 West Monroe; $425 a foot in Chicago seems very high. Are you at liberty to talk about who bought it and why?

C. Brent Smith - President, Chief Executive Officer and Director
Hi, John, good morning. This is Brent. Happy Halloween. We don't usually comment on transactions to other parties. I think it has been reported in the press generally who that counterparty was. But I'll be frank, we were the benefit of a declining interest rate environment, and the next buyer has a great opportunity to utilize an extensive amount of leverage versus what we could accomplish, as well as some upside through parking and some other opportunities.

So that led to what we thought was a solid execution. What's even more exciting is we do get the chance to maintain management at that property and earn some fee income as well, and we'll continue to kind of help the new owner out, if you will, in that process. But we're excited about the transaction and look forward to continuing to manage it.

Q: Great. Then next question. I have a relative that works over in the Galleria market, and the last time I checked MARTA doesn't run over to the Galleria. Does that concern you in terms of tenants wanting to check the MARTA public transportation box when they consider leasing space?

C. Brent Smith - President, Chief Executive Officer and Director
Well, if it's a high priority to be on MARTA for that tenant, then I would say I would agree with you, we're a little bit at a disadvantage, but I do think we create an interesting environment at that location. And more importantly though, I think it's interesting that in Atlanta, the infrastructure that predominantly moves individuals to and from their house and work is a highway system, not so much the MARTA system.

Despite even, for instance, the State Farm development at the perimeter stop here, which is about a little over two million square feet of office, ridership at that station is down since they've opened the first half of that project. It's just a mode of transportation that has not fully been adopted in the city, but it is very useful to certain businesses, and we recognize that. But what's nice about overall in the Galleria is the short drive that it is from a lot of different areas of the city, whether it be the airport, Midtown, Buckhead, or even north of the city with the new hot lanes, or toll lanes that allow individuals to move pretty rapidly to this location. And the fact that it's right off the highway with dedicated highway access, it's really unique in that transportation point at 285 and 75 in Atlanta. And that's what really gets us excited about the whole thing, and that's kind of our view on things.

Q: Great. Nice job. Thank you.

C. Brent Smith - President, Chief Executive Officer and Director
I would add, if you want to take a look at that presentation that we mentioned during our prepared remarks on the website, will also go into some detail around all of those points we just made.

Q: Great, thank you.

Operator
[Operator Instructions]. Next we'll hear from Dave Rodgers with Baird.

Q: Yeah, good morning. Brent, you already were asked about acquisitions and addressed it to some extent. Maybe just to kind of refine that question. It seems like you had a plan to kind of even further refine your own plans around these suburban markets. And so, Galleria, you kind of talked about. Can you give us a glimpse into kind of where more might be, and whether you'll have the ability to kind of be able to recycle these assets that you've discussed into that, those types of suburban markets?

C. Brent Smith - President, Chief Executive Officer and Director

Sure, Dave. Thanks again for joining. It's kind of interesting. There's this perception that there's a "flight to quality", and we do see a lot of that, particularly with tech tenants. Where I think where Piedmont really shines is finding those diamonds in the rough, like the Galleria, and those submarkets that will outperform longer term in the more suburban and urban infill locations, as well as our CBD positions.

We look for those large-scale developments. And the good news is, in the kind of '90s and early 2000s, there were a number of these kind of in that first level of Ring Road as there was a lot of expansion outside of the CBDs and cities, and as that expansion continued, these areas were sometimes forgotten, if you will. And so, you're looking at Atlanta, Dallas, Boston as well, there has kind of been a resurgence in those areas in that kind of first ring.

And those are the opportunities, and there's actually quite a few, many out there. I don't want to get into specifics of what we're chasing, just given some of it is live, but I would say, I think we think buying properties in that $200 to maybe $300 a foot, repositioning them, taking that value add to a core, and really creating a lot of interesting NAV and cash flow growth is our strategy, and it seems to be playing well into [ph] today's capital markets activity.

Q: Great. One follow-up for me is related to the dividend. Bobby, in your comments you mentioned a good AFFO coverage based on the consensus view. So, for Brent and Bobby, how do you guys think about recommendations to the board in terms of dividend increases going forward for Piedmont?

C. Brent Smith - President, Chief Executive Officer and Director
We've been very encouraged about the amount of cash flow growth. However, we are cognizant of the fact that with the city and the state, despite the fact we will be covering the dividend, there will be a fair amount of cash going out the door, I think our view is it's probably more prudent to wait, evaluate that process and revisit it, call it in '21, once we're through some of that heavier lifting, if you will. I would also add we continue to invest in our properties and seeing good returns on that investment.

I think you had the opportunity to visit our asset in Minneapolis to see one of those exact situations, and we're going to continue to look at those opportunities, and where we can generate returns north of a 20%, we're going to be involved, and then redeploying into those as well.

Bobby, anything you would add?

Robert E. Bowers - Chief Financial and Administrative Officer, Executive Vice President
Well, it may be [indiscernible] here on your comments, but last quarter we talked about, as you look at 2020, you should expect some very attractive GAAP rollup that's going to take place in our same-store basis, and it's 2021 is when the cash is expected to increase nicely.

C. Brent Smith - President, Chief Executive Officer and Director
Great one.

Q: Lastly for me, just, I guess, maybe [indiscernible] on the WeWork topic. Obviously, you have two leases yet to commence, one that you signed in the quarter. Do you feel like maybe just given all the news out there that you're getting full? Do you want to spread that out to some other co-working tenants; how you're viewing that kind of in light of recent events and the two big move-ins you have coming?

C. Brent Smith - President, Chief Executive Officer and Director
I guess, first and foremost, we recognize that the co-working flex space, however you want to deem it, I think flex is probably more appropriate term, tenants are demanding that, and what WeWork has proven is they're willing to pay to have that flexibility.

We've seen the benefits of how having a lot of scale in a single market allows you to accommodate that flexibility for tenants, but we really deal with larger tenants, and we find that these operators are a great way to target that 2,000 to 5,000 square foot tenant and help us kind of leverage our operating model.

As we think about these locations in specific where we put WeWork, we feel very confident in that was a logical place to put that type of facility into the building, and then we looked at within that not having too much concentration with any single building. That was important to us. And then we already have actually spread around our exposure to a number of different providers already. And, in fact, had not done a lease with WeWork until the second quarter of this year, primarily because they weren't able to meet our credit terms. They did reach a level that we felt comfortable with and we did decide to move forward with that, but we would still, I would say, make those deals today. We feel very confident in where they are and the rationale for putting them where we have.

I would finally point out that WeWork represents less than 1% of our overall annualized lease revenue or ALR, and total co-working exposure to these types of operators from the more traditional [indiscernible] more WeWork style and more new product is 2.2% of annualized lease revenue.

Q: Great, Brent. Thanks for the added color. Happy Halloween, everyone.

C. Brent Smith - President, Chief Executive Officer and Director
Thank you.

Operator
Next we'll take a question from the line of Daniel Ismail with Green Street Advisors. Please go ahead. Your line is open.

Q: Great, thank you, and Happy Halloween to you guys as well. Just a quick question on the Sherman-Williams build-to-suit potential. Can you provide any insight into sort of the total size of any potential build-to-suit timing, and obviously a sensitive subject, and you can't just disclose a lot, but just curious as to what kind of potential impact that could have for you guys?

C. Brent Smith - President, Chief Executive Officer and Director
I'm sorry to clarify, Danny, are you referring specifically to our Galleria location, or do you want me to just highlight across the portfolio?

Q: Yeah, the highlights across the portfolio, because they might be looking in more than one area.

C. Brent Smith - President, Chief Executive Officer and Director
More what, I'm sorry?

Q: I'm sorry. I believe that tenant may be looking in more than one area, or any other build-to-suit opportunities.

C. Brent Smith - President, Chief Executive Officer and Director
Oh, that is absolutely correct. They are looking at a number of cities, first and foremost, it's Atlanta, Charlotte and Dallas, because that's been reported in the press. And even within Atlanta there are multiple locations they could go. It is still very early. But I think I wanted to mention that because it demonstrates the scale of the opportunity that we have at that location. It's effectively unhindered, in terms of development, only by the actual footprint

itself. It's zoned for an effective, you could build it even greater than one million square feet, although we think that's probably logical given the overall size of the site.

And so, that is something that we continue to feel. It's probably the best land site in the Central Perimeter area. And if there was a relocation coming to Atlanta that was, I mean, admittedly tech-focus is generally going to go to Midtown, but obviously, if there is a tenant that is not tech-focus, we think we are well-positioned to garner that opportunity, and we're getting looks as we speak right now.

I'd say the other opportunity that, we've had nibbles, if you will, but have not found an opportunity to consummate anything, would be in our Lake Mary location. Up there, as you well know, we have two assets already, and adjacent to that the ability to build another million square feet.

And we've talked to a number of companies looking to maybe relocate to the northeast into that market who would be interested in those opportunities. Again, though, very early, nothing imminent yet. And we've even seen a few of the local Orlando companies also interested in that site.

Those two are probably the most near term. I think the others in our portfolio are adjacent and great opportunities, adjacent to what we already own and great opportunities, but maybe not as near term as those two, which we are hopeful, maybe something could come around in the next year or two.

Q: And let's say the land site at Galleria, would that be something, the entirety of that 1 million square foot, you guys would do on your own, or would you guys think about bringing a JV partner on that?

C. Brent Smith - President, Chief Executive Officer and Director
I think we'd have to consider our overall capitalization and how we would fund that. Obviously it's a sizable development, but I don't necessarily think we would need a partner in that instance.

We have the ability and relationships to utilize other construction management firms, but we would want to do that in-house and capture all that upside. But of course it would need to be pre-leased, and we would focus on the office component of that project, because it would be likely to include other uses and partners on the non-office component. But if it came just to the office, I want to be clear, that's our expertise and we're going to do that in-house and manage that construction.

Q: Okay. And just last one for me. In some of your submarkets like Las Colinas and Burlington, how would you guys frame year-over-year net effective rent growth in those submarkets?

C. Brent Smith - President, Chief Executive Officer and Director
In Burlington, we've had actually very good net effective rent growth. Over the last 12 months we've seen rents generally move from across [ph] the high 30s well into the low 40s, and capital has remained roughly flat on all those deals.

In some instances, we've existing tenancy, we're seeing the benefit to kind of utilize that relationship to get better economics in the margin, as I alluded to earlier in my prepared remarks. And Las Colinas, it has not been as [indiscernible] as you will in Boston, but we still have had very good absorption in that market, but I would say net effective rents in that market have been generally flat to slightly up.

Q: Okay, great. Thanks, guys.

Operator

And, ladies and gentlemen, thank you all for your interest and for your questions today.

Mr. Smith, there are no questions pending from the audience. At this time, I will turn it back to you, sir, for any additional or closing remarks.

C. Brent Smith - President, Chief Executive Officer and Director
Thank you. I want to thank everyone for joining us today. We appreciate the opportunity to spend time with the investment community, and we look forward to seeing many of you at NAREIT in Los Angeles in two weeks. Please feel free and reach out to us if you'd like to schedule a meeting. We thank everybody again, and everyone have a Happy Halloween and a safe Halloween. Good night or good day.