Transcript of Piedmont Office Realty Trust, Inc.
Fourth Quarter 2019 Earnings Call
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Participants
Brent Smith - President, CEO
Edward Guilbert - Executive VP of Finance & Treasurer
Robert Bowers - CFO, Executive VP & Chief Administrative Officer

Analysts
Nicholas Thillman - Baird
Daniel Ismail - Green Street Advisers
John Guinee - Stifel
Anthony Paolone – J.P. Morgan

Presentation

Operator
Ladies and gentlemen, hello and thank you for joining today's Piedmont Office Realty Trust, Inc. Fourth Quarter 2019 Earnings Conference Call. All participants are in a listen-only mode, but you will be given an opportunity to ask questions after today’s prepared remarks. And as a friendly reminder, today’s session is being recorded.

With that, I am pleased to turn the floor over to your host.

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Thank you, operator. Good morning, and thank you for joining us for Piedmont's Fourth Quarter 2019 Earnings call. Last night, we filed an 8-K containing our quarterly earnings release and supplemental 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 that we anticipate and discuss today. Examples of forward-looking statements include those related to Piedmont Office Realty Trust 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'll refer to certain non-GAAP financial measurements 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 fourth quarter's results and accomplishments. Brett?

Brent Smith - President, CEO

Thank you, Bobby. Good morning, everyone. We very much appreciate you joining us on today's call. In our last two earnings call, I reported that Piedmont was experiencing solid momentum across all aspects of our business, and more specifically, with the strong leasing, operations and capital markets activity, the company was generating would carry throughout the remainder of 2019, while positioning Piedmont for meaningful earnings growth in 2020. I believe the results for the fourth quarter of 2019 and now our outlook for 2020 confirm this previous guidance.

Our optimism is centered around the following, continued strong leasing activity in most of our targeted submarkets, along with the realization of the benefits from further concentration of our portfolio in unique, mixed-use of many rich submarkets that are in close proximity to major education centers and transportation nodes, and capitalizing on the earnings growth strategy from the disposition of non-core assets and the subsequent accretive redeployment of proceeds into select assets within our targeted submarkets that generate higher cash and accrual based yields with greater growth in cash flow projected over time from a far more cohesive portfolio.

We were pleased with our fourth quarter results. Specifically, the positive leasing and transaction momentum that we continue to experience across the portfolio were the most of our core office submarkets, particularly those in Boston, Dallas, Atlanta and Orlando, where job growth is strong, and in Minneapolis in the RB Corridor, where the outlook continues to improve.

As we announced previously, during fourth quarter, we sold 500 West Monroe Street, a 46-storey, approximately 967,000 square foot, 100% leased trophy office building located in the West Loop submarket of downtown Chicago for a gross sales price of $412 million or $426 per square foot.

500 West Monroe was a phenomenal round-trip investment for Piedmont. Acquired in 2011 for approximately $235 a square foot and with an occupancy position to drop below 20%. The sale of 500 West Monroe resulted in the recognition of an approximately $158 million gain on sale of real estate, which is included in the fourth quarter's results of operations.

We were able to match this transaction with our Atlanta Galleria acquisitions earlier in 2019 in a reverse 1031 exchange, and therefore, no special distribution will result from the significant gain.

The terms of the disposition agreement included that Piedmont will also manage the building for a buyer for an initial three year term, bringing our total third-party management services to over 2 million square feet in Chicago.

Subsequent to year end, we entered into a binding contract to purchase a 1.4 million square foot project in Dallas, Texas for approximately $400 million. This represents a significant discount to replacement cost.

Since the transaction is yet to close, we will not be providing a full description of the project at this time. However, this acquisition will allow us to capture additional marketing and operational synergies within our existing 2.1 million square foot Dallas portfolio.

Our forecast and planning team will be happy to work with individual analysts on modeling the acquisition. But under the terms of the purchase agreement, we will not be disclosing more specific information about this transaction until it closes. That said, the Dallas market continues to be one of the most dynamic office environments in the state of Texas and in fact the nation. From 2019 to 2023, according to Oxford Economics, Dallas-Fort Worth's forecast is ranked number one and number two in the nation in terms of population and job growth, respectively.

Its rapidly growing, high energy atmosphere is attractive to large corporations and blue chip firms, including J.P. Morgan Chase, Toyota, Liberty Mutual, Amazon, Gartner and Boeing, among many others, all of them call it home. As a result, the area is a magnet for top talent in the US and a frequent target of corporate relocations. As a result of this nation-leading employment growth over the last five years, CoStar indicates the Dallas-Fort Worth office market has absorbed more total square feet than any other metro in the country, with over 26 million square feet of net absorption.

The submarket in which our acquisition is located fits our description of a hubbub based on the concentration of business activity, nearby residential communities, dense mixed-use amenities and direct highway accessibility to the DFW Airport.

Upon completion of this transaction, almost 50% of Piedmont's portfolio will be located in the Sunbelt markets of Atlanta, Orlando and Dallas, with Dallas soon becoming our second largest market by annualized lease revenue. The transaction is expected to close later this quarter. And again, we will provide more details at that time.

Similar to how we initially funded our Atlanta Galleria purchases in 2019, we anticipate funding the Dallas acquisition initially using our $500 million line of credit, which is currently almost fully available. Plus, we intend to add $150 million of available floating rate capacity.

However, on a long-term basis, we intend to fund the asset largely through a reverse 1031 exchange from the disposition of our 1901 Market Street property in Philadelphia. The 1031 exchange structure will remove the necessity for a special dividend in 2020 related to the anticipated gain from the sale of 1901 Market Street.

Consistent with our capital recycling activities over the last few years, the potential Dallas purchase, coupled with the anticipated Market Street sale, we'll continue our growth strategy of disposing of mature assets in our non-strategic markets and reinvesting the proceeds accretively into value-add projects in our targeted amenity-rich submarkets. Since 2014, this strategy has resulted in historical accretion of 180 basis points between the buys versus sells based on $2.8 billion of disposition while improving the quality and growth profile of our portfolio. In keeping with this trend, we estimate that this Dallas transaction will result in a 2020 accrual yield of greater than 8%.

Looking further out, in addition to our Philadelphia property, the Two Pierce Place building, which is our only remaining Chicago asset, along with our two Houston properties in the energy corridor, are some of our larger non-core assets that will likely be recycled over the next 12 to 24 months.

I do want to point out that earnings accretion initially coincides with the completion of capital transactions, but then it also comes through the growth through occupancy increases as well as the synergies and efficiencies garnered with mounting dominance within our target submarkets. Furthermore, we look to generate outsized rental rate growth through the creation of enhanced amenities and improved tenant experiences.

In terms of development activity, the Galleria in Atlanta and Lake Mary in Orlando continue to be garnering the most attention for ground-up development, although we have nothing specific to announce at this time. We do have two major redevelopment projects underway, approximately $10 million and $18 million at the Galleria and at 200 South Orange in Orlando, respectively, creating unique and vibrant environments with new lobbies and indoor/outdoor collaboration space, updated, conference and fitness facilities, along with food courts and additional retail offerings that will drive the tenant experience and demand with an anticipated corresponding growth in rental rates.

Turning to our leasing activity for 2019, which totaled almost 2.3 million square feet, nearly 40% of that leasing or 867,000 square feet occurred during the fourth quarter. The largest lease executed during the fourth quarter was the previously announced 20 year renewal and expansion with one of our largest tenants, the State of New York at 60 Broad Street in New York City. The $550 million lease totals 520,000 square feet and commenced in November 1.

Beginning cash rents decreased slightly. However, we experienced substantial roll up in accrual basis rents as evidenced in the 22% increase in GAAP rents for leases executed during the fourth quarter of 2019. The New York State lease provides for the tenancy of 8 separate agencies and will include a phased construction period during which several agencies will move around within their dedicated space in the building, and which includes about 80,000 square feet of space on which the tenant won't pay rent for a short period of time during the reconstruction.

The total capital spend for the lease is approximately $7 per square foot of lease term. Despite the lengthy renewal process, which is not too unusual in dealing with large government tenants, this was a phenomenal outcome for investors.

Some of the other notable leases executed during the fourth quarter included: in Orlando, Orange County, Florida renewed for five years for approximately 49,000 square feet at 200 South Orange Avenue, and Foundry Commercial extended their lease for approximately 24,000 square feet through 2025 at CNL Center II. In Minneapolis, Cherne Contracting Corporation signed a new eight-year lease for approximately 32,000 square feet at Norman Pointe 1. In Washington, Leidos Inc. renewed approximately 27,000 square feet for 11 years at 400 Virginia Avenue, in Dallas, Drees Custom Homes renewed for over five years on approximately 18,000 square feet at 161 Corporate Center. In Atlanta, Crawford Investment Council, Inc. signed a renewed expansion through 2026, totaling approximately 17,000 square feet at Galleria 600, and Southern Communication services renewed through the end of 2025 approximately 16,000 square feet at Glenridge Highlands One. And finally, in Chicago, Konica Minolta Business Solutions renewed 16,000 square feet for six years at Two Pierce Place.

As of yearend, the overall in-service portfolio lease percentage was 91.2%, with our only major exploration over the next 18 months being with the City of New York at 60 Broad Street, where we remain engaged in active negotiations for the renewal of substantially all of their existing 313,000 square feet that is scheduled to expire in April this year.

Like the New York State lease, the city's premises incorporates numerous agencies and we're working diligently with each on detailed design and space planning. Ultimately, we anticipate the multiyear lease to be encompassing a significant role in both cash and accrual rents. However, as Bobby will discuss in more detail in a moment, for the purposes of our 2020 guidance, we have conservatively assumed the city will go into holdover status beginning in April of 2020, as happened with the New York state fees, as the longer term renewal is anticipated to be wrapped up closer to the end of the year.

Finally, I want to address the development of the coworking industry sector over the last few years and Piedmont's limited exposure to that business model. We do believe that coworking is a service offering that will remain in some form in the office space industry. And for some of our locations, it's an ideal means for tracking and serving smaller sized tenants. As we mentioned on last quarter's call, our overall exposure to coworking tenants in general is minimal, representing approximately 2.5% of our annualized lease revenue. And all of our coworking leases are straight leasing arrangements with standard lease credit terms as opposed to the many management agreements that we're seeing others engage in today.

About 1.2% of our annualized lease revenues are attributed to our largest coworking service provider, WeWork, who occupied space at three locations within our portfolio. As of today, two of these leases have commenced with tenants taking occupancy at the Washington, D.C., and Atlanta locations, and construction permitting and build out plans underway in Orlando, with that lease currently expected to commence during the fourth quarter of 2020.

For more information regarding the company's industry diversification, please see our quarterly supplemental information, which details the number of tenants, square footage leased and annualized lease revenue related to our larger industry sectors.

At this point, I'll turn it over to Bobby to walk you through the financial highlights of the quarter and guidance for 2020. Bobby?

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Thanks, Brent. As always, while I 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 fourth quarter of 2019, we reported $0.46 per diluted share of core FFO, $0.01 ahead of S&L's [ph] consensus and $0.01 over the fourth quarter of 2018. Despite the disposition of two almost fully leased assets during 2019 and the expiration of leases at 200 South Orange and 1155 Perimeter Center West, these losses of income were more than offset by accretive acquisitions in Atlanta as well as by the commencement and roll-ups of several leases including the 301,000 square foot lease commencement with Transocean at Enclave Place in Houston and the 520,000 square foot lease roll up with New York State in 60 Broad, both of which occurred late in 2019, and by the growth in rents that occurred throughout the portfolio during the year.

I will note that while the reported quarterly G&A expense was flat when compared with the fourth quarter of 2018, total G&A expense was higher for the year than original forecast due to over $8 million of higher accruals related almost equally to two items, non-cash accruals resulting from the company's top quartile stock performance in a one, two and three year basis, and due to certain retirement and termination costs associated with the senior management transition that took place on June 30, 2019.

AFFO was approximately $36 million for the fourth quarter, which is well in excess of our current $26 million quarterly dividend level. As detailed in our quarterly supplemental information, same-store NOI was up over 8% on a cash basis for the fourth quarter of 2019 and up almost 6% for the year.

On a GAAP basis, same-store NOI was up over 5% for the fourth quarter and up 2.5% for the year. I will point out that individual quarters will vary greatly in terms of the number of leases executed and the average size of those leases.

When looking overall at the entire year, cash rents on executed leases increased almost 10% during 2019. And GAAP basis rents increased over 21%, with an average lease term remaining at December 31st, increasing to seven years. Also, at December 31st, we reported occupancy of 91.2%.

While we are pleased that almost 800,000 square feet of leasing was completed during the year for currently vacant space, the disposition of two large fully leased assets totaling over 1.3 million square feet combined, that's at 500 West Monroe in Chicago and One Independence Square in Washington, D.C., more than offset the strong leasing of vacant space during the year.

The good news is even when including the impact of the large 320,000 square foot City of New York lease that is currently in active renewal, Piedmont's exploration schedule for the next four years still averages around 7% per year.

Turning to the balance sheet. Our average net debt to core EBITDA ratio for the fourth quarter of 2019 improved to 5.4 times, and our debt to gross asset ratio was approximately 32.5% at the end of the quarter. We currently have almost full availability on our $500 million line of credit, and no debt maturities until late 2021.

At this time, we'd like to introduce 2020 guidance in the range of $1.90 to $2 per diluted share for core FFO. Now this guidance includes the following items: Looking only at 2020, same-store cash NOI growth is expected to be approximately flat, but accrual growth is expected to be in the 4% to 7% range.

As is evident, with the guidance range when compared to our performance in 2019, the year 2020 is expected to have attractive accrual based rent growth. This was related to lease commitments like the 301,000 square foot Transocean lease in Houston and the 520,000 square-foot lease with the State of New York and related to the full year impact from the accretive recycling of assets from Chicago into Sunbelt assets in Atlanta and the projected recycling from Philadelphia into Dallas assets.

This accrual NOI growth will be followed in 2021 with significant cash growth after the burn off of current abatements on the Transocean and VMware leases and with the projected end of downtimes between leases at 200 South Orange in Orlando and 1155 Perimeter Center West in Atlanta, and with forecasted roll-off of below market rents with the City of New York at 60 Broad and throughout our portfolio.

The consummation of the Dallas acquisition is modeled to incur during the first quarter of 2020. And the disposition of 1901 Market is anticipated to close around the end of the second quarter. No other speculative capital markets activities embedded within this guidance. We'll keep you informed of any further capital markets transactions as they occur and what we expect the impact such activity will have on our annual projections.

We believe the renewal of the City of New York lease will not be completed before it goes into holdover during the second quarter at escalated holdover rates. However, the lease renewal is anticipated by the end of the year, which is expected to generate significant accrual roll-ups and cash roll-ups upon execution.

Our one out of service property, Two Pierce Place, that was recently redeveloped and is currently 42% leased, will be reclassified to in-service and will thus lower our in-service 2020 lease statistics to approximately 90% during the first quarter of this year.

Even with the addition of Two Pierce Place and the anticipated sale of the 100% leased, 801,000 square foot Market Street building, we estimate overall occupancy of approximately 91% to 92% by the end of 2020.

General and administrative expenses, including compensation levels at target, are estimated to be approximately $28 million for the year. Current projections anticipate that the first quarter of 2020 will be our lowest earnings quarter for the year, yet it will be comparable to our fourth quarter 2019's core FFO results.

It's also important to note as you prepare your financial models that our quarterly earnings can vary by a penny or two based upon the timing of seasonal expense items and accruals related to potential stock-based compensation.

We'll be happy to work with each of you later individually on your financial models. We'll attempt to answer all of your more granular modeling questions at that time, or if necessary, we'll make appropriate later public disclosure.

With that, I'll now ask the operator to provide our listeners with instructions on how they can submit general and overall corporate questions at this time. Operator?

Operator
Very good. Thank you. [Operator instructions]. We'll take our first question from Nick Thillman with Baird.

Q: I was wondering if we could go over the One Pierce asset, in particular. Just wondering what you guys have for leasing activity there?

Brent Smith - President, CEO
Hi, Nick, Dave, this is Brent. Appreciate you joining us this morning. I think you're referencing our Two Pierce asset, which is our loan asset in Chicago and suburbs of Chicago. Admittedly, that's been a difficult market. We just completed the renovation of the project. It will go into service this quarter, as Bobby mentioned in his prepared remarks. And as I also mentioned in my prepared remarks, we did about a 13,000 square foot lease with Konica Minolta there.

So we're getting more than our fair share, but I will admit that that is probably the most difficult submarket within our portfolio with high vacancy rates. The good news is, like I said, building has been repositioned and is best in the market to garner more than its fair share of leasing.

We do think, as I noted also in my prepared remarks, that's likely to be a disposition candidate over the next 12 to 24 months, and that will remove the capital out of Chicago entirely for the company at this point in time.

Q: Okay. And then, looking on your market positioning, I know you mentioned some of the development parcels that you've seen activity. Do you guys see some of these development starts potentially happening later in this year in Lake Mary or Atlanta?

Brent Smith - President, CEO
We do see a lot of interest in those assets and those parcels, rather. But I think that's a little hopeful to be able to get something into the ground and get going this year. It takes time for these types of transactions, even if we're able to bring [ph] in a tenant, there's a lot of work that has to go on in the background and preparation.

So unfortunately, no, nothing this year that will be able to put a shovel in the ground, but we're hopeful for 2021, and we continue to entertain a number of opportunities around, particularly, as I mentioned, Galleria and Lake Mary.

Q: And then lastly, on your guidance numbers, how much would you attribute to the purchase in Dallas and then the sale of the Philly asset?

Brent Smith - President, CEO
Yes, Nick, it's always complicated when you think about buys, sells and capital structure impacts, and particularly given the Dallas deal is not closed yet. So we want to be very mindful of what we can and cannot say around that at this point. We're very excited to share what we can, when we can upon closing.

But I think to give you a rough ballpark, we think that's probably net between the two transactions, about $0.06 to $0.07 on an annualized basis.

Q: Alright. Thank you.

Brent Smith - President, CEO

And we look forward to giving you more details again later this quarter on that round-trip potential.

Operator
Next, we'll hear from Green Street Advisers and the line of Daniel Ismail. Please go ahead. Your line is open.

Q: Just a question on share buybacks and where they fit in the equation these days. Is it fair to say that given that the discount to NAV has shrunk recently, that you're finding better opportunities for your capital elsewhere than your current shift in repurchasing shares?

Brent Smith - President, CEO
Hi, Danny. Appreciate you joining this this morning. I've always said that we look at the ability to buy back stock not mutually exclusive from assets. In other words, you can be doing both at the same time. And we've shown that propensity, having bought back almost $800 million of our stock over a decade since we've listed.

That said, as you point out, at this point in time, where we trade, we see a number of opportunities to continue to build positions within our core markets, accretive in nature, accretive from our dispositions, but also at this point, as you point out, accretive to our stock.

Although there is no anticipation to need to issue equity at this time, we still find a lot of opportunity to recycle assets, continue to grow our earnings in that manner, and we see a good pipeline to continue that process into 2020.

Q: And then just last one for me. The pace of concession growth across your markets, can you just maybe frame how TIs have trended over the last 12 months across your major markets?

Brent Smith - President, CEO
From a concession basis, just focusing on TI, I think, is a somewhat incomplete picture. I think the phenomenon we've continued to see is free rent has continued to come in. And as a result, TIs are also growing. I think we benefit from focusing on tenancy that does longer-term leases. So putting out that higher TI capital is a little bit more palatable.

I think if you look in our supplemental, we've continued to kind of be averaging around a total of capital per square foot per year on the TI side of, call it, in the mid $4 per square foot per year. And we think that's a good basis for the portfolio. Now that said, we have continued to see construction costs trending up really across the United States, probably more so in our markets of New York and D.C., but less so in Boston, Atlanta, Orlando, Dallas and Minneapolis, where they're just a little bit right now, more palatable [ph] for landlords in terms of TI capital required.

Q: And are you guys expecting a relatively steady state for those type of leasing economics in your markets?

Brent Smith - President, CEO
I think at this point, yes. It does vary by market. But that trend, I think we're going to continue to see elevated. I think that's one of the reasons why you've continued to see the office sector trade at a difficult discount to NAV is because the construction costs have become elevated. And as an industry, we need to figure out how to begin to rein that in. And I think the onus is on us to continue to be creative around construction.

We continue to look at also creative ways to reduce costs. And one of the benefits of scale on some of these larger projects that we've talked about, the Atlanta Galleria is an example, is to be able to spread high capital costs at a base building level across a large portfolio of assets.

Q: Okay, great. Thanks, guys.

Operator
Thank you for your question Daniel. Next we'll move to John Guinee with Stifel. Mr. Guinee, your line is open.

Q: Have you guys announced—I mean, I think you're buying Galleria Towers in Dallas. Can you talk a little bit about that?

Brent Smith - President, CEO
I'm not familiar with that description, John. At this point in time, I can't go into any details as to what we might be acquiring in Dallas. As we did note, we do have a purchase under contract, the $400 million. It is in the city of Dallas. We're excited about that. It would become our second largest market, should we consummate that transaction. And we think given the job growth, population growth, the education center, the amenity base of these assets, we're pretty excited about what we can accomplish. But at this point in time, I can't go into any more detail than that.

Q: Great. Okay, great. Thanks. A couple of sort of detailed questions. First, it looks to me like your city lease, 313,000 square feet at 60 Broad, maybe $36 or $37 full service, is it safe to say that the deal you would do there would be similar to the state maybe in the 50-plus or minus full service, I think, about $140 total per square foot total spend long-term lease?

And then the second question regarding both the state and the city. What sort of operating expense and tax reset do you get? And what's the resulting increase or decrease in net rents?

Brent Smith - President, CEO
A number of parts to that. So again, you're talking about a potential lease that we have not completed. So I want to be very clear that I can't give you any specifics around that dialogue.

What I can share with you is, as you point out, the state metrics, roughly a $50 rent, that state space is below the New York City space within the building. So I would say the New York City space is a little bit better located. But in terms of a capital requirement, I think it's maybe a little bit more favorable, but generally in line with what you're describing that occurred with the New York State.

In terms of opex resets, any time you've had a long-term lease, you're going to reset the base year. So that is occurring with the New York State. I can't comment on the city at this point. But that will occur, and the net effect of rents are still going to be very, very strong at the asset, although they will diminish a little bit initially, they will be climbing considerably given the rent bumps and the term of that lease.

Q: So just I think on either cash or GAAP basis then just focusing on the state lease, and does your cash and GAAP net rent after opex tax reset, does it go up or down? What happens there?

Brent Smith - President, CEO
Well, you're getting to a lot of details, but on a GAAP, obviously, you're getting the benefit of the significant GAAP roll up that we've shared with the Street in the high 20% level. As we've noted on a cash basis, there's a slight roll down from the holdover rate, but meaningful cash roll up over time because of the bumps inherent in the lease.

The net effect of rents on those, on a GAAP basis, therefore, are up considerably. And on a cash basis, initially, slightly down from the holdover rate.

Q: Net rents. Okay, great. Thank you very much.

Brent Smith - President, CEO
Yes.

Operator
[Operator instructions]. We'll move next to Tony Paolone with J.P. Morgan.

Q: Apologies for jumping on late, and so I may have missed this. But can you spend a minute on just how to think through cash flow through the course of this year and source of uses, just given the pre-rent [ph], some outsized checks that will be written over time relating to the state lease and just other factors that will probably make AFFO a bit less smooth compared to your FFO this year?

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Hi, Tony. It's Bobby. Thanks for the question. There certainly are a number of moving parts that impact the cash NOI this year. As you know, the start of the Transocean lease and the New York State lease really have a dramatic impact on the GAAP side, where you have a nice roll-up. But we're really projecting there are flat cash NOI this year.

If you look specifically, for example, the benefits from that Transocean lease, remember it's in abatement. And not only is it in abatement, the operating expenses associated with that will be in abatement. So we'll get a negative impact on cash simply because we're covering those opex costs throughout this year. There are a number of downtimes that are outstanding or abatements as well throughout our portfolio. I'll point out a couple of assets, then we can go through this in more detail with you individually, but for the benefit of most of the people on the phone.

At 1155 Perimeter Center West, remember, we had a vacate of 125,000 square feet that's been leased back up. As those leases commence, you'll pick up the cash or I'll go into abatement at that time with VMware and with WeWorks. We have downtimes associated at 1430 Enclave, where there's 50,000 square feet between the Technip lease and the starting of the Schlumberger lease. You have 200 South Orange with vacate of 125,000 square feet from SunTrust, but starting later this year with the lease I think, in the fourth quarter with WeWorks. Also at 6031, we have 55,000 square feet that's in abatement there.

All those things combined put a dampener this year on our cash projection, but you get a significant roll up in cash taking place next year, probably on the same scale that you're seeing, the GAAP roll ups this year.

Eddie, did you have anything you wanted to add?

Edward Guilbert - Executive VP of Finance & Treasurer
I think that covered it.

Robert Bowers - CFO, Executive VP & Chief Administrative Officer
Okay. We do [ph] expect, by the way, to cover [ph] from the AFFO standpoint.

Edward Guilbert - Executive VP of Finance & Treasurer
I think Bobby was saying, a final point, we will be covering the dividend with AFFO.

Q: Okay. And remind me, the $100 foot for State and then perhaps, depending on how the city lease works out, will all of that capital be deducted when you think of your AFFO? Will some of that just be considered a bit of more redevelopment costs that won't be in AFFO and then also likely timing of that spend?

Brent Smith - President, CEO
Yes. We'll include what would be deemed the non-incremental component as we have always, but there will be a small component, there always is, that's deemed incremental, but it would be kind of regular way business de minimis for the most part.

Q: Okay. Do you think that spending though will happen mostly this year? Or do you think that drags out for a few years. Do we see that hitting it?

Brent Smith - President, CEO
Well, it is eight agencies at the State, 520,000 square feet. It's a construction project that will span multiple years, likely two, two and a half years.

Q: Okay.

Brent Smith - President, CEO
So it will be spread out, not all this year.

Operator
And ladies and gentlemen, thank you all for your questions as well as your participation today. With no questions remaining in the queue, I'll turn it back to Mr. Brent Smith for any additional or closing remarks.

Brent Smith - President, CEO
Thank you. I appreciate everyone taking the time to join us today. I also just want to give a special thank you to our investors and analysts for giving us your time and support. We had a great year in 2019, providing investors with over a 35% total return. I'm very proud of what the team at Piedmont has accomplished, and we look forward to an exciting 2020. Thank you, everyone, for joining. Take care.

Operator
Ladies and gentlemen, this does conclude today's teleconference. We thank you all for your participation. You may now disconnect your lines, and we hope that you enjoy the rest of your day.