Transcript of
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Participants

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Presentation

Operator

Good morning, and welcome to Piedmont Realty Trust Inc. Third Quarter 2026 Earnings Call. At this time, all lines are in a listen-only mode and we will open the floor for your questions after the presentation. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Laura Moon, Chief Accounting Officer. The floor is now yours.

Laura Moon - Chief Accounting Officer and EVP, Piedmont Office Realty Trust, Inc.

Thank you, operator, and good morning, everyone. We appreciate you joining us today for Piedmont's third quarter 2026 earnings conference call. Last night, we filed our 10-Q and an 8-K that includes our earnings release and unaudited supplemental information for the third quarter of 2026. These documents are available for your review on our website at piedmontreit.com under the Investor Relations section.

During this call, you will hear from senior officers at Piedmont. Their prepared remarks, followed by answers to your questions will contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements address matters which are subject to risks and uncertainties, and therefore actual results may differ from those we anticipate and

discuss today. The risks and uncertainties of these forward-looking statements are discussed in our supplemental information as well as our SEC filings.

We encourage everyone to review the more detailed discussion related to risks associated with forward-looking statements in our SEC filings. Examples of forward-looking statements include those related to Piedmont's future revenues and operating income, dividends and financial guidance, future financing, leasing and investment activity and the impacts of this activity on the company's financial and operational results. You should not place any undue reliance on any of these forward-looking statements, and these statements are based upon the information and estimates we have reviewed as of the date the statements are made. Also on today's call, representatives of the company may 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, which were filed last night.

At this time, our President and Chief Executive Officer, Brent Smith, will provide some opening comments regarding third quarter 2026 operating results. Brent?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Thanks, Laura. Good morning, and thank you for joining us today as we review our third quarter 2026 results. In addition to Laura, on the line with me this morning are George Wells, and Alex Valente, our Chief Operating Officers; Chris Kollme, our EVP of Investments; and Sherry Rexroad, our Chief Financial Officer. We also have the usual full complement of our management team available to answer your questions.

Piedmont had a phenomenal third quarter in operations, portfolio repositioning and capital markets activity. First, customer demand for Piedmont Places remained robust, fueling record-level leasing metrics. Second, capital recycling activities improved the quality and strategic positioning of the portfolio. And last, a $230 million exchangeable notes offering and subsequent redemption of the company’s outstanding 2028 unsecured notes were accretive to earnings and cash flow.

Diving into the quarter's results, leasing was strong. We executed over 400,000 square feet of total leasing with almost half related to new tenants. As we've noted for the past several quarters, quality office space, especially large blocks, is becoming increasingly scarce as historically low construction deliveries and ongoing conversions have reduced total office inventory, creating increasingly tight availability for high quality space and supporting broader landlord pricing power. Piedmont's portfolio is directly benefiting from a scarcity of unique, differentiated premium office environments.

Some trends we are witnessing in our portfolio that emphasize the dwindling availability of high quality office space. First, the number of lease expansions is increasing. Existing customers with renewal dates as far as 2030 are seeking early

renewals. And more existing customers are exercising their ROFO rights to block new tenants leasing so they may expand. These are indications that customers are recognizing the current and forecasted conditions. The quality office is in high demand, supply is shrinking, and economic terms are shifting to the owner's benefit.

Piedmont is taking advantage of these market dynamics, pushing net effective rents after CapEx to all-time highs, reaching $29 a foot for the first time during the third quarter, an increase of more than 30% over the trailing 12-month average. The growth is top-line driven as we continue to achieve higher rental rates across our properties.

Piedmont's differentiated assets achieved cash and accrual leasing spreads for the third quarter of 26% and 35% respectively, the second highest in the company's history, and are further testament to the positive rental rate growth embedded in the portfolio. With our current asking rents in our markets still 40% below those required for new construction, we think the growth in rental rates will continue for the foreseeable future.

As a result of the leasing completed over the last 12 months at substantially higher rental rates and the subsequent burn-off of the associated free rent, same-store NOI continued to trend positively, growing by approximately 8% on a cash basis and 7% on accrual basis during the third quarter. Today, the signed but yet to commence pipeline equates to approximately $29 million of annual revenue, equivalent to 410 basis points of portfolio occupancy that will flow into earnings over the next several quarters.

The third quarter was also active for asset recycling with the acquisition of 4075 Wilson Boulevard and the disposition of a land parcel. 4075 is an outstanding building and a strategic addition to the Piedmont portfolio. Please check out the Investor Relations section of the website for transaction presentation, and Chris will share additional details in a moment. During the quarter, we also placed one of our two Houston assets under contract for disposition, with closing expected before year-end. Looking ahead, we continue to track a number of acquisition opportunities, which we would anticipate funding with proceeds from dispositions.

Finally, we executed an impactful financing activity during the quarter that Sherry will review, but the headline is this: we refinanced the last of our high coupon bonds, significantly improving our weighted average cost of debt and lengthening our remaining debt maturity profile, with no maturities until late 2028. All of this momentum has led us to raise and narrow our annual outlook for the third quarter in a row, with a midpoint now $0.06 ahead of our original 2026 outlook.

Sherry will provide the specifics, but I did want to note that we have adjusted our projected year-end in-service lease percentage to a range of 87.5% to 88.5% to reflect the introduction of our Meridian project, along with our 222 South Orange Avenue building earlier this year, placing both projects back into the in-service population by year-end. The recent acquisition of the 83% leased 4075 Wilson Boulevard property,

and the anticipated sale of the 100% leased Enclave Place asset during the fourth quarter.

In addition, we are deliberately preserving our larger blocks of space, as we believe our amenity-rich, hospitality-driven Piedmont places are among the best assets in their respective sub-markets, and these spaces will command a premium as availability in our markets continue to tighten.

In summary, the investment thesis in Piedmont is simple. Demand for our differentiated office products is increasing, while supply is shrinking. Leasing fundamentals continue to improve, and it's quickly becoming a landlord's market. With our portfolio of well-located assets designed for the modern workforce, Piedmont is uniquely positioned for success in the marketplace. We're generating among the highest earnings and cash flow growth in the office sector, and traded a very compelling valuation, with recent net effective rents after CapEx of $29 per square foot, on a stock price that equates to a gross asset value of approximately $220 per square foot.

Furthermore, we currently have an outsized earnings backlog, great opportunities for occupancy absorption, and 10% to 15% of embedded rental rate growth, which will continue to drive core FFO higher in the near term.

With that, I'll hand the call over to George for further details on third quarter operational performance. George?

George Wells - Chief Operating Officer & EVP, Piedmont Office Realty Trust, Inc.

Thanks, Brent, and good morning, everyone. We're pleased to see how durable demand for our amenity-rich workplaces has translated into another very productive quarter. We completed 43 leases totaling over 400,000 square feet, with volume evenly split between new business and renewals. Average lease size was approximately 9,000 square feet, and the weighted average lease term was approximately 10 years.

Since the beginning of 2024, our executed leasing activity, encompassing both new and renewal transactions, has carried a weighted average lease term of approximately nine years, generating long-term reliable future income. For the 10th consecutive quarter, the number of tenant expansions exceeded contractions in our portfolio. Financial, engineering, and law firms are experiencing substantial organic growth. This quarter, we had seven firms expand by 100,000 square feet.

And as another example of the power of the Piedmont brand to generate additional business across our markets, I'm proud to share that an existing customer, with offices in two separate locations in our portfolio, expanded its footprint with us, adding two additional offices, one in Orlando, and the other in Atlanta, a testament to the effectiveness of our placemaking approach.

As Brent noted, tightening market conditions for high-quality space are leading to stronger pricing power. Cash rents for space vacant one year or less increased by 26%, while accrual rents increased by 35%, well above the previous 12-month average of 11% and 22% respectively. We continue to witness a highly inelastic consumer and a meaningful gap between asking rents and the cost for new construction, which is unlikely to get completed before the end of the decade.

Leasing capital spend for the quarter remains stable at $5.21 per square foot per year, and slightly below our nine-month average of $5.44. Capital continues to be paramount in lease discussions. That said, we are seeing a modest decline in free rent required for new and renewal leases.

Net effective rents surged by more than 30% from the prior 12-month average to $29.31 per square foot per year. We anticipate maintaining NERs in the mid to upper 20s, supported by persistent demand for high-quality space and little to no new development in our submarkets. In Dallas, where a quarter of deal volume was completed this quarter, renewals were the dominant theme and a great example of Piedmont's improving pricing power.

With few full floors available and a very active pipeline, we increased our asking rates between 20% and 30% over the past 12 months. Record high rental rates are translating into meaningful rent roll-ups of 30% or more. As Brent noted earlier, some of our customers are advocating for early renewals of lease expirations beyond 2028, recognizing intensifying demand for a rapidly declining supply of larger blocks of space.

For instance, at Galleria Towers, a two-floor customer expiring a few years out elected to renew at today's record high asking rate with virtually no concessions, generating a substantial 43% cash rent roll-up. As we head into next year, we expect that early renewal discussions will continue to facilitate a reduction in the capital required to retain our existing customers.

Atlanta was our most active market by a third of overall volume or 120,000 square feet, and majority of that was new business and landed in each of our vibrant sub-markets of Central Perimeter, Cumberland, and Midtown. Galleria on the Park is leading the Cumberland sub-market with asking rates now in the mid-50s per square foot, up over 20% from just 12 months ago, and comparable to, and in some cases, exceeding Buckhead rental rates. At 60 Broad, we are finalizing the lease document and are currently expecting a first quarter execution under the same terms we've shared in the past.

Looking ahead, our leasing pipeline is healthy and remains consistent with prior periods and now has approximately 700,000 square feet, either already executed or in the legal stage for the fourth quarter.
Outstanding proposals continue to hold steady at approximately 2 million square feet. Assuming a typical quarterly run rate of 175,000 square feet of new transactions, we are still on track to reach our annual total leasing volume range, despite

adjusting the New York City renewal to the first quarter of next year. Our hospitality-inspired portfolio and elevated service model is unmatched, and the formula continues to drive leasing, rent growth, and occupancy gains.

I'll now turn the call over to Chris Kollme for investment activity. Chris?

Chris Kollme - EVP, Investments, Piedmont Office Realty Trust, Inc.

Thank you, George. As Brent mentioned, during the quarter, we closed on the acquisition of 4075 Wilson Boulevard, a 186,000 square foot Class A office building located in the thriving Ballston submarket of Arlington, Virginia, for a net purchase price of approximately $52 million or $280 per square foot. 4075 Wilson is 83% leased and has five and a half years of weighted average lease term. The property received a Walker Score of 97. It's surrounded by food and beverage, high-density residential and retail, and is a five-minute walk to the Metro.

The Ballston submarket has emerged as a hub for defense and cybersecurity tenants, and 4075 Wilson is ideally situated in the heart of the submarket, just two blocks from the Defense Advanced Research Projects Agency and the Office of Naval Research. According to a second quarter JLL report, Ballston Class A product is demanding rents 15% higher than the remainder of Northern Virginia, and rental rates in Ballston between 2024 and 2026 have grown almost three times faster.

The Class A market in Ballston is 3.2 million square feet, and Piedmont now controls about 25% of the inventory with no development in sight and several residential conversions expected to remove a little over 1 million square feet of lower quality product, or 12% of the overall office market. We believe there's imminent upside with the lease-up of currently vacant space and resetting in-place rents that are approximately 10% below current market rates.

On the disposition side, during the third quarter we closed on the sale of the Royal Lane land parcel that we have discussed for the last several quarters. This was a 10.6 acre undeveloped land parcel located in the Las Colinas submarket of Dallas, Texas, which we sold for $12 million, generating a gain of approximately $9 million. The planned multifamily development will also provide approximately 20,000 square feet of retail directly adjacent to our connection drive assets. Our land parcel in Orlando remains under contract and is projected to be a late 2027 close.

Finally, during the third quarter we also entered into a binding contract to sell Enclave Place, one of our two remaining assets in Houston, Texas, for $81.75 million. We have been clear regarding our intention to exit the Houston market, and this is a big step towards that goal. The transaction is subject to customary closing conditions and is anticipated to close during the fourth quarter of 2026. Although the market has been unsettled over the past few weeks, we continue to actively weigh the disposition of mature and/or non-core assets which lack the growth profile of the balance of our portfolio.

Our capital allocation priorities remain focused on, one, high return leasing capital, two, improving balance sheet flexibility, and three, acquisitions that enhance the overall quality of our portfolio are accretive and consistent with our long-term growth strategy in the Sunbelt markets.

With that, I'll pass it over to Sherry to cover our financial results.

Sherry Rexroad - Chief Financial Officer & EVP, Piedmont Office Realty Trust, Inc.

Thank you, Chris. While we will be discussing some of this quarter's financial highlights today, please review the earnings release and accompanying supplemental financial information, which were filed yesterday for more complete details.

Core FFO per diluted share for the third quarter of 2026 was $0.39 per diluted share, $0.04 ahead of the third quarter of 2025. Growth was largely driven by higher rental rates and higher commenced occupancy, as many of the leases that the team has executed over the last 12 months to 18 months have now begun. AFFO generated during the third quarter of 2026 was approximately $30 million.

Turning to the balance sheet, I am very pleased to report that during the third quarter we issued $230 million of 2.875% exchangeable senior notes due in 2031, enabling the redemption of all of our remaining 9.25% unsecured senior notes due in 2028. The conversion premium for the exchangeable notes is 37.5%, equating to an initial conversion price of $12.65, which is above street consensus for our net asset value.

I would also note that we also issued under our ATM program during the quarter for the first time, issuing 4.1 million shares at an average price of $9.72 per share, and conversely, repurchased approximately 5.4 million shares at an average price of $9.20 per share in conjunction with the exchangeable notes offering. So a lot of moving pieces, but overall, a transformative transaction for the company, resulting in a reduction in our overall weighted average cost of debt of over 70 basis points, which is now 4.8%, as well as an increase in our weighted average remaining maturity to 4.3 years, with no final debt maturities until October of 2028. As a result of this transaction, our line balance at the end of the quarter was $152 million.

However, as Chris previewed in his remarks, we are currently under contract to sell Enclave Place during the fourth quarter and anticipate using the approximately $80 million of net proceeds from that transaction to pay down our line of credit balance, bringing our net debt back to pre-transaction levels. We continue to project that our net debt to EBITDA ratio will trend below seven times by the end of the year and is projected to continue to improve in 2027, as cash flow associated with recently executed leases continues to increase.

As Brent noted in his remarks, for the third quarter in a row, we are increasing and narrowing our 2026 annual core FFO guidance to a range of $1.55 to $1.57 per diluted

share, an increase of $0.06 per share at the midpoint when compared to our original 2026 guidance, and equating to an earnings growth rate of over 10%. Same-store NOI is projected to increase 7.5% to 8.5% on a cash basis and 5% to 6% on an accrual basis for the year. Please note that, consistent with our standard practice, this guidance does not include any speculative acquisitions dispositions other than Enclave Place or refinancing activity.

The most important financial takeaway is that Piedmont's leasing activity is now converting into earnings and cash flow growth. Further, our recent refinancing activity will meaningfully decrease our interest expense in both the fourth quarter of 2026 and in 2027.

With that, I will turn the call back over to Brent for closing comments.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Thank you, George, Chris, and Sherry. As we step back and take a look at the quarter, the message is clear. Piedmont is benefiting from a powerful combination of improving supply-demand fundamentals, disciplined execution, and a portfolio that is aligned with what office users want today. Leasing demand remains healthy across our markets. Rental rates continue to move higher, occupancy is growing, and the significant leasing activity we have generated over the last several years is now translating into meaningful earnings and cash flow growth.

The office market continues to evolve, but one trend has become increasingly apparent. Companies are prioritizing high-quality, well-located, amenity-rich workplaces that help attract and retain talent. That trend plays directly into Piedmont's strengths. Across our portfolio, we are seeing customers make long-term commitments, expand their footprints, and engage earlier on renewals as quality space becomes more difficult to find. At the same time, we are thoughtfully enhancing portfolio quality, recycling capital into higher growth opportunities, and strengthening our balance sheet. These actions are creating greater flexibility while positioning the company to capture the benefits of a market characterized by limited new supply and improved pricing power.

Looking ahead, our priorities remain straightforward. Continue growing occupancy, drive rental rate growth, convert our substantial lease commencement pipeline into cash flow, and further optimize the portfolio. With an embedded earnings backlog, improving balance sheet metrics, and strong leasing momentum, we believe Piedmont is well-positioned to deliver sustained growth in core FFO, cash flow, and shareholder value in the quarters and years ahead.

With that, I will now ask the operator to provide our listeners with instructions on how they can submit their questions. Operator?

Operator

Thank you. The floor is now open for questions. [Operator Instructions] First question comes from Michael Lewis at Truist Securities. Please go ahead.

Q: Great, thank you. My first question may be for Chris. You know, I thought, and I think a lot of investors thought too, that maybe as you sold assets and redeployed proceeds into value-add opportunities, that that would be initially dilutive. The activity you announced in the quarter was not. It looks like a higher cap rate on the acquisition right out of the box. As you market other assets, right, the other Houston asset, eventually New York, maybe DC, and you look at the opportunities to reinvest, should we expect that that may, future capital recycling may be dilutive initially, or do you think it kind of works the way that it worked this quarter?

Chris Kollme - EVP, Investments, Piedmont Office Realty Trust, Inc.

Hey, Michael, it's Chris. I'll start, and Brent can jump in. I think the question is really, can we redeploy disposition proceeds in an accretive manner? It's not easy, but it can be done, and we just showed that, as you pointed out, pairing 4075 with Houston, but I do want to be clear. We're going to be really picky on what we chase and what we try to transact on, both in terms of quality and risk-adjusted returns. We are looking at assets that might have some lease-up opportunity, that have some short-term role, and or may require some modest repositioning. We've proven that we can execute against that profile.

I will also say the bidder pools between that, when it gets around $50 million to $75 million, it thins out pretty dramatically, but these aren't your core profiles with long WALTs and that are fully leased, that trade at 6.5% to 7.0% caps. But again, they're not easy to find, but to be clear, they're out there. We're also not going to sacrifice on quality. We're only going to chase opportunities that deliver a differentiated experience for the tenants and attractive returns for our investors.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

And I would only add, and just to echo those points, we think about accretion both on the opportunity going in day one, but also where you can drive over the next few years. And I think 4075 was an outstanding acquisition because one, the base building work amenities in the lobby have all been completed, and two, we can drive going in at roughly a 10% cap on 83% lease up to a 12%, and so I think that is emblematic as we think about accretion both on the buy, but also on the growth profile.

Q: Okay, thanks. And then my second question, I could hear the enthusiasm in your voice, Brent, as you as you describe the quarter and kind of the positioning of Piedmont. I wanted to ask, just in the last few weeks, we've been in this low-hire, low-fire environment, but in the last few weeks, Amex, Barclays, Microsoft, eBay, Amazon, I think Meta and Citi are laying people off still, all at least partially citing AI

as a reason. So this seemed like a big threat early in the year in the second quarter. Maybe people saw AI driving leasing demand. Are you seeing anything on the margin here that's at all concerning regarding office using employment and leasing demand?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Great question, Michael. I think the short answer is no. We continue to have a very good dialogue with tenants that are currently in lease negotiations. No one has pulled back from the table or reduced their requirement. Probably even more insightful to what's going on would be tour activity, and that has not evaded or slowed down at all. And I think when we talk to our customers, we continue to see and recognize, or they do, that their workforce is going to evolve, but the fact of the matter is their team needs to be in an office to collaborate efficiently. This AI technology requires both senior and junior team members to be able to harness it and learn how to use it within their company.

And so that continues to drive office utilization, which is also increasing renewals and demand. I'd also point out a couple statistics. Within our own portfolio, we've had about 10 straight quarters of expansions that were greater than contractions, and that momentum continues. And then as you pointed out, that list of companies you named were all large corporate users. And as we've talked about, as we've had roll throughout the portfolio since the pandemic, we focused a lot more on small and medium businesses. And we've continued to see strong demand from those, call it full-floor users or less.

And we think AI has less of an impact on those small and medium enterprises, which have been more of our focal point. And I'd also point out that a lot of these larger corporations have hired an immense number of workers since the pandemic. And so part of this I do believe is right-sizing their organizations and sometimes hiding under the cover of AI. But obviously AI is going to change the profile of workers, particularly for some of these larger companies.

I would also say that we have seen, just like in the pandemic, a lot of the design of space that was done in '22 and early '23 shrank too much and was an overreaction. We're seeing those tenants expand. So I would caution, there is a potential for a very similar fact pattern here in that companies are shrinking more and may need to hire back as time proceeds.

But I think overall we feel like the portfolio is well mitigated from the impact potentially of AI job reductions in large corporates. And we're seeing no impact, again, in our pipeline, tour activities, or anything else from a discussion with our tenant base.

Q: All right, thank you. Look forward to seeing you soon.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Likewise.

Operator

Thank you. Next question from Anthony Paolone with JP Morgan. Please go ahead.

Q: Yeah, thanks. Good morning. And just to follow up on that line of questioning, can you maybe go through your major markets and talk about the nature of the demand in your pipeline, the types of industries that it represents, and just anything else that you're seeing trend-wise among different groups of tenants?

George Wells - Chief Operating Officer & EVP, Piedmont Office Realty Trust, Inc.

Good morning, Tony, this is George. I'll take that question. It's really gratifying to see that overall demand continues at a pretty strong pace even after that record year of new leasing activity in 2025. And the characteristics of that demand continue to be pretty much the same: legal, accounting, insurance, finance. We're seeing a little bit more technology, smaller technology companies, cybersecurity. I would say the defense industry has been a bright spot for us.

And just to give you an indication, if you look at our NoVA portfolio the past few years, I think in '23, I think we did 25,000 square feet. It doubled in '24, doubled again in '25, and we're on track to even exceed in '26 what we've done in 2025. So we're pretty excited about that. I would say Brent mentioned expansions. Even to this day, we're seeing deal activity in the legal stage that are coming from the same characteristics: legal, accounting, finance. It's really widespread across the board in terms of what people are looking for in terms of expansion.

So we're pretty excited about that. I will highlight, though, that Atlanta, our Central Perimeter submarket, where we have Broadcom and Pfizer, which is expiring third quarter of next year, really pleased with how that particular submarket is accelerating in terms of its overall fundamentals, right? About a year ago, you had about eight spaces over 100,000 square feet that were available, now that has shrunk down to two or three.

And on top of that, 10% of the market is in some sort of conversion, right, so you've reduced supply by being converted from office to resi. So that combination has really given us some real good confidence in terms of backfilling that space. In fact, we've probably got enough proposals today that's double the amount of vacancy that we will see in that particular submarket. And so we're pretty confident about addressing that.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

All right. Just to add to that, we continue to see the proposal pipeline in around the 2 million square foot mark, which is historically what it's been in the quarters past and robust demand in suburban Minneapolis, you asked, the different markets. Dallas is strong across the entire market. We were very pleased and almost 98% leased Galleria, but still continue to see immense demand and it's picking up in Midtown and Central Perimeter, as George noted. Northern Virginia and Boston, very robust activity. I think the District is probably one of our more muted submarkets overall, but it is starting to pick up, particularly at the high end of the market.

And then Orlando continues to be strong, both downtown and in the suburbs, from engineering, accounting, and some financial services firms. And I'd say probably Boston is a little bit of a laggard in that it's just not as robust. It's a technology-driven market. It's starting to come back. Thankfully, we don't have any role there really near term and just a little bit of vacancy that we can address here as the market picks up.

Q: Okay, thanks for all of that. And then my second question just relates to where things stand on the dividend and your ability perhaps to keep retaining capital as we start to look into '27.

Sherry Rexroad - Chief Financial Officer & EVP, Piedmont Office Realty Trust, Inc.

Tony, it's Sherry. And that's a call that our Board will make after consultation with us, and we will review all of the factors with them. Importantly, what is our taxable income? At this point we're not forecasting a taxable income in '27 and likely not in '28. So that is one factor the Board will take into consideration along with what are our capital needs, which should be going down going into next year. We've had this year in the prior couple years up over $200 million and we've been guiding people to $160 million to $180 million for next year. So, as that capital need decreases, it will allow for greater capital for distribution.

The other factor in our net taxable income that you have to take into consideration are transactions, some of which will have some gains, some will have losses. For this year, we think it's a neutral impact. You also have to factor in the expense to repurchase the 9.25% bond that is deductible against taxable income. And so that reduced the burden for this year.

So all of that said, I think as you look forward, those are the factors we'll be providing the Board come our January and February Board meeting. That does not make me feel like a dividend is imminent in '27 and will be evaluated as we go through '27, gaining greater visibility into what our taxable situation will be.

Q: Okay, great. Thank you for that.

Operator

Thank you. Next question comes from Nick Thillman with Baird. Please go ahead.

Q: Hey, good morning. Brent and George, wanted to comment a little bit or get your thoughts on the spread outlook. Obviously you finally are starting to see what you guys have been mentioning of limited quality blocks, ability to push rate. Just curious on if there's any other markets. It seems as though Dallas and Atlanta were really the standout on these metrics and driving a lot of performance. But comments on the broader portfolio as we look for '27 and beyond on the ability to push rate, how you feel comfortable at those spreads and the sustainability of what we saw in third quarter persisting going forward.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Thanks for joining this morning, Nick. It's Brent, great question. You know I characterized you mentioned Dallas and Atlanta as being the drivers. It is really across a number of markets in our portfolio, even beyond Dallas, Atlanta, which are standout. I know our large projects, the Gallerias, at both cities as well as our Midtown product in Atlanta generating 20% to 40% cash roll ups. But Northern Virginia and Orlando are just right behind that. We're seeing anywhere from, call it, 15% to 30% roll ups in those two markets and submarkets, and suburban Minneapolis, also another submarket where we are a dominant landlord. We've leased about 500,000 square feet there in the last 18 months and we've pushed rental rates well into the $30 net. Really created our own segment of the market and we continue to generate nice roll ups, call it in the 10% to 20% range for renewals in that market.

I'd say submarkets where we're not seeing as much robust pricing power would be, as we noted, D.C. and Boston. But again those two make up, call it maybe about 12% of the portfolio amongst the two of them combined. So not a large portion of the portfolio is just not experiencing this robust growth. And what's exciting for us is in each of those markets, suburban Minneapolis, Orlando and Northern Virginia, Atlanta, Dallas to some degree all have replacement cost rents that are 40%, 45% above the rents we're charging. So we see a long runway and no new supply.

I think the only place in our portfolio where we're seeing supply would be Uptown Dallas and they're asking almost $100 net rents in that location for that product. So really good backdrop that sets up for us continuing to be able to meaningfully push rate for the foreseeable future as I noted in my prepared remarks. So it is really across the portfolio again outside of maybe Boston and D.C., the District.

Q: That's really helpful. And then as we're thinking about 2027, you guys commented a little bit about holding back maybe on leasing some space for some larger blocks given the scarcity effect. But just curious on some of the larger vacancies you have pending, overall activity and coverage on that space. Then it also looked like U.S. Bank, their lease term shrunk a little bit and the expirations for 2Q26 increased. So

maybe just reconciling the changes there, is there a termination with their downtown Minneapolis assets and associated activity with that as well?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

So as you noted, we did say in '27, we do have a number of, for looking ahead to '27, a number of larger blocks that are in the market right now, particularly here in the Central Perimeter in Atlanta. George did note, we now have, call it, two out of the 350,000 square foot blocks that remain in the submarket with a lot of corporate activity. So we think that there is rationale and good reason to continue to keep that block together and we have good activity.

Our other larger block is in Dallas. As we've noted, Epsilon renewed for about half their space. They did give back about 120,000 square feet. We had some prospects in the beginning of the year. It didn't quite pan out. We put the lower first floor space into a light renovation, it's wrapping up. And for that about 125,000 square feet, we currently have about 500,000 of prospects. In Atlanta, where we have those two blocks for about 150, we've got about 400,000 square feet of prospects. And really the only other considerably large blocks that we have in the portfolio, we have a little bit of space up in New York in the tower at 60 Broad. However, with a planned monetization of that event at some point probably doesn't make sense to be doing a large lease other than New York City again which we've noted will wrap up in the first quarter.

Your question then specifically, I think that covers the larger blocks in the portfolio. The other question was U.S. Bank's change in their metrics. So as you kind of alluded to, in downtown Minneapolis, when we did the lease with U.S. Bank in the middle of the pandemic, they didn't know exactly what their long-term size needs would be. They have reduced their space in the building slightly. But we continue to see A, they're dedicated to downtown Minneapolis and the building, and B, some good prospects given that is the best asset in the submarket. So they have right-sized, but we have very good activity behind that.

Chris Kollme - EVP, Investments, Piedmont Office Realty Trust, Inc.

If I could add a little bit to that, I mean the best building is they've got seven and eight retail F&B users directly in our building. It's really creating that right kind of environment that users want today. So it's very activated. We did sign a couple of deals this quarter in the tower for 20,000 square feet and our pipeline actually looks pretty good. We've got several proposals for over 100,000 square feet that's out there today. We're seeing that from a wide range of groups, and legal want to be in this kind of environment. We're seeing insurance, accounting, real estate, and we're even seeing the Target vendors come back to the market because we sit adjacent to Target headquarters, and we're really pleased to see that come back to the market. So we're feeling pretty good about the near term.

Q: No, I appreciate all that commentary. Maybe just the last one rounding things out on the disposition side, it seems as though acquisitions are mostly going to be funded via dispositions and it's likely going to be what you guys can sell before you can hit the buy button. But I know you guys have a couple of assets within the market, I guess. How has reception been on the early process of marketing those assets? With the recent rise in interest rates, has there been any change in the buyer pool or bidders that you've been seeing on those prospective assets, and anything that's worth highlighting over the last couple of months just as you've been marketing those assets in particular?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Yeah, Nick, I think it's a fair characterization to say that acquisitions would be right now funded with dispositions given where our stock currently trades. And as we think about dispositions, we've always kind of put the framework out that we always want to, call it, the top 10%, the bottom 10% of the portfolio. The top 10% being very mature long-walled assets and the bottom 10% just being those that are underperformers or just long term we don't have the conviction to push rates meaningfully higher.

As you know, Houston, our building there, Enclave Place, fits the kind of fully baked long-term walls you're going to not be able to create more value. And we do expect that to close this quarter. Behind that we do have, as I think we've noted in the past, a land parcel that's under contract in Orlando that's probably likely to be completed towards the middle to end of next year, call it maybe third quarter. And then we do have a couple of buildings in the market today for sale, can't get into too much specifics because they are active transactions. But I would say for the assets we are in the market with, the District in D.C. and then a building in the suburban Boston, market receptivity has continued to be very positive. It is still early in that process but I think we have not seen our buyer pools be discouraged with a slight movement in rates. I think they're up maybe 25 basis points since we started the process. But it's early.

We haven't fully taken round one bids so it's a little tough to say if it's impacted it. But tours and debt availability are still there, it's just debt pricing has maybe gone up a little bit. And I would point out that some of our buyers are unlevered buyers or will look to finance the asset after close, and it is not a financing contingency included in that, similar to what we had with Houston.

So with that I think that we will take those proceeds and, as we talked about, redeploy those into strategic acquisitions that fit within our submarkets. We would not add a dot on the map until we take one off. And we continue to see very interesting opportunities to rotate that capital from dispositions accretively, both in opportunity near term, but growth as we think about improving the growth trajectory of the overall portfolio.

Chris Kollme - EVP, Investments, Piedmont Office Realty Trust, Inc.

Nick, just to clarify, the Houston disposition is the only one we project to close in 2026. The other assets we have out in the market, to the extent they trade, and as Brent mentioned, it's early, those are '27 events.

Q: Great. That's it for me. Appreciate the time guys.

Operator

Thank you. [Operator Instructions] Next question from Dylan Burzinski with Green Street. Please go ahead.

Q: Morning guys. Thanks for taking the question and appreciate your comments, Brent, on not noticing yet any impact on the higher rate environment on your disposition processes that you have in the market. But I guess maybe another way to ask it, as you guys are out there underwriting acquisitions, has your underwriting changed at all from higher rates as it relates to maybe a higher hurdle rate? Any sort of potential impact as you think about rent growth in years two, three, four into the future? Just any thoughts there would be helpful.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Great question and thanks for joining us today, Dylan. Underwriting -- certainly the debt capital markets have a direct influence on underwriting, whether you're public or private, and whether you're asset-level or corporate-level debt. A movement in interest rates is going to have some impact, particularly if it remains elevated longer term. I think, as we obviously had a lot of transactional activity this quarter, and particularly towards the end of the quarter with rates moving around, we recognized that. Let's temper the speed at which we're moving on some of these potential acquisitions. Let's wait to see what the interest rate environment and really capital and fund flows really will dictate pricing.

And so we've -- I wouldn't say clicked the pause button, but I would characterize it as saying let's let the interest rate market mature and work things out a little bit. That said, we continue to stay very engaged on probably anywhere from, call it, $600 million to $800 million of potential acquisitions. As we've noted, we've got these dispositions in the marketplace, so we're keeping a close eye on it. We have not, and we are not -- did a price change on our Houston asset, which has been in the market during that time period. So we continue to remain optimistic that our other dispositions that are active right now will have a similar outcome. But at this point, I'd say we've not seen direct impact to pricing, but I would expect it if rates continue to increase from here.

Q: Thanks, Brent. And obviously maybe switching gears here -- cash releasing spreads have been very strong year to date, noticeable uptick in Q3 versus where

first half was. So as we sort of think about 2027, the next few years, I mean, was there anything in a specific lease in Q3 that drove that higher? And I guess how should we be thinking about how that trends given the strong net effective rent growth that you guys have seen?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

A great point, Dylan. And I'd say we've continued to tell the story. Since the beginning of this year, and really the end of last year, we moved rental rates continuously and materially through the whole portfolio. So what was $22 net effective rents went up to $25 last quarter, now $29 this quarter. There is no specific tenant that drove either of the last two quarters. In terms of an anomaly, it is driven by good leasing in the Sunbelt. Again, as I noted earlier, that's where we've seen the majority of our rental rate growth. But suburban Minneapolis continues to contribute to that as well.

The spreads going forward, as we noted in the prepared remarks, $25 to $30 NERs is certainly where I would say is what I would expect, and we will direct the Street to consider or to evaluate. The reality is that we continue to be able to push rents even further in these markets. So I think saying that the portfolio is 10% to 15% below market at average rates in the Sunbelt -- that's probably closer to 20% to 30% but blended through the portfolio 10% to 15% mark-to-market. And I think you're going to continue to see re-leasing spreads in that similar vein.

Q: Great. Appreciate the comments, Brent.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

Thank you.

Operator

Thank you. We have no further questions. I'll turn the call back over to Brent Smith for closing remarks.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.

I want to thank everyone for joining us today on the call. It was a phenomenal third quarter, and I want to thank the Piedmont team for incredible execution across the entire platform -- from leasing, obviously, but financial and continued capital markets transactional activity -- and everyone who has put forth a lot of effort to get us in the position we are today. I also want to highlight we've put out our corporate responsibility report on the website, recent addition with this year's annual report.

Please look into that. It outlines our initiatives around sustainability, social impact, and governance.

And then finally, we are going to be hosting meetings in Atlanta for Nareit on the 17th and 18th of November. And on the 17th we're also hosting a tour of our 999 Peachtree Street project and dinner with management at our Michelin-star restaurant, the building Lazy Betty. So if you would like to join that, we're hosting that in conjunction with Truist. Please reach out to either Truist and Michael Lewis and team or Sherry and our team. If you're interested in attending that event, we'd love to host you and show you our recent renovation at 999 Peachtree.

Thank you again, everyone, for joining. Have a great day.

Operator

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.