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Transcript of Washington REIT
Third Quarter 2018 Earnings Conference Call
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Participants
Tejal Engman - Vice President of Investor Relations
Paul McDermott – Chairman, President and Chief Executive Officer
Steve Riffee - Executive Vice President, Chief Financial Officer
Tom Bakke - Executive Vice President, Chief Operating Officer

Analysts
Dave Rodgers – RW Baird
John Guinee – Stifel
Chris Lucas - Capital One Securities

Presentation
Operator
Welcome to the Washington Real Estate Investment Trust third quarter 2018 Earnings Conference Call. As a reminder, today's call is being recorded. Before turning over the call to the company's President and Chief Executive Officer, Paul McDermott, Tejal Engman, Vice President of Investor Relations will provide some introductory information. Ms. Engman, please go ahead.

Tejal Engman - Vice President of Investor Relations
Thank you and good morning everyone. Please note that our conference call today will contain financial measures, such as FFO, core FFO, NOI, Core FAD and adjusted EBITDA that are non-GAAP measures as defined in Reg G. Please refer to our most recent financial supplement and to our earnings press release, both available on the Investor page of our website, and to our periodic reports furnished or filed with the SEC, for definitions and further information regarding our use of these non-GAAP financial measures, and a reconciliation of them to our GAAP results.

Please also note that some statements during this call are forward-looking statements within the Private Securities Litigation Reform Act. Forward-looking statements in the earnings press release, along with our remarks, are made as of today, and we undertake no duty to update them as actual events unfold. Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially. We refer to certain of these risks in our SEC filings. Please refer to pages 9 – 25 of our Form 10-K for our complete risk factor disclosure.

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

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

Introduction: Today, I would like to focus on our key leasing opportunities within the context of the current trends in DC real estate and increased Federal spending. Steve will then highlight the main elements of our third quarter performance and provide greater color on our updated 2018 guidance assumptions.

Watergate 600: Starting with Watergate 600, we are at LOI with a large user for *two* of the top three floors of space that are currently leased to Blank Rome. Signing this highly coveted, 50,000 SF deal would further validate our acquisition thesis on tenants being drawn to the Watergate's iconic status and unparalleled waterfront location. The prospect is a blue-chip company that considers Watergate to be its only relocation option as it looks to expand its regional footprint. As we are currently in lease negotiations, we look forward to providing further details after the lease is signed. Additionally, in the current quarter, we signed leases with a law firm and an association for over a third of the remaining floor leased to Blank Rome. Once we sign the top two floors, we will have leased approximately 80% of the upcoming expirations at Watergate 600.

Arlington Tower: Moving on to Arlington Tower, our collaborative suites within the Space+ program are on track to deliver by the end of November, while our first floor food and lounge amenities are scheduled to deliver at the end of the first quarter next year. Commensurate with the research we conducted with Congressional Quarterly that projected an increase in contract awards in the RB corridor, there is robust activity among small and mid-size office users looking for finished space with immediate availability and flexible terms in Rosslyn. Tour velocity at Arlington Tower remains high and we look forward to converting the activity into signed leases as the suites and amenities deliver.

Space+ program: As discussed, we are addressing the rapidly evolving office leasing paradigm with a portfolio-wide flexible space program branded Space+ that is designed to meet our tenants' growing demand for flexibility, speed to market and competitive amenities. The Space+ program currently has approximately 113,000 SF in 42 spaces across eight buildings. The program is 84% leased with the majority of the remaining space having been recently delivered. We have another 85,000 SF across 26 spaces in the Space+ pipeline that will deliver over the next six to eight months. Thus far we have achieved rents that are at an 8% to 10% premium to the market and it now takes us approximately 57 days on average to get from delivery to lease commencement. This compares favorably with 3 ½ months of average downtime for spec suites and 16 ½ months of average downtime for traditional, to-be-customized shell space according to NKF data. For example, in the third quarter, the Space+ suites in the atrium section at Silverline commenced within 37 days on average and achieved approximately 49% GAAP and 32% cash rent spreads and a 10% to 12% premium to market.

Continuing on to Silverline, the asset continues to create excellent value for Washington REIT with mid-teens rent roll ups expected for approximately 105,000 SF expiring over the next two to three years. To conclude on office, the Army Navy Building is fully committed this quarter with rents that are at or better than our redevelopment proforma underwriting.

Retail: Moving on to retail, for the hhgregg vacancy at Hagerstown, the opportunity we discussed last quarter is on hold because the prospect is delaying its store expansion plans for the market. For the hhgregg vacancy at Frederick, we are negotiating an LOI with an off-price discount retailer that is interested in taking the entire 23,000 SF of space. We are in active negotiations and expect both vacancies to be re-leased early next year.

Moving on to K-Mart, we have one 95,000 SF store at Frederick County Square, which recently exercised its option to renew through November 2023. While we have not received any further notification from the tenant, re-leasing this space would represent a long-term NOI growth opportunity as K-Mart pays us about $2.40 per foot in an $8 per foot market. Moreover, the prospects we are proactively speaking with have significantly greater ability to activate and energize the center.

Finally, our portfolio has two Mattress Firm stores of approximately 5,500 SF and 4,300 SF at our Foxchase and South Washington shopping centers in Alexandria, Virginia and neither location is on the closing store list. We understand the list of closing stores is mainly composed of underperforming stores that geographically overlap with competing Mattress Firm stores. According to our analysis, there is not a significant geographic overlap for either of our two locations. On a related note, a trend worth mentioning in retail is that of 'click to bricks' where online retailers are opening brick and mortar stores nationwide. So while Mattress Firm is closing stores, Casper, an online mattress retailer is planning to open physical stores over the next three years.

Our retail leasing efforts over the past 12 months have purposefully worked to position our centers for everyday needs as well as experiences, capitalizing on areas where consumer brick and mortar spending is rising. To that end, nearly 1/3 of our new and renewal leasing over the past 12 months has been to food-related experience and service providers such as restaurants and grocery stores. These are thriving retail segments that have seen a new wave of growth due to a surge in consumer spending buoyed by tax reform.

Multifamily trends: Moving on to multifamily, while supply deliveries remain at elevated levels, both our Class A and Class B multifamily portfolios continue to grow rents and occupancy as nearly 75% of our multifamily NOI is derived from assets located in Northern Virginia, and approximately 80% is from Class B assets. As a result, our portfolio is relatively insulated from the large wave of Class A supply that's delivering in the Capitol Hill Riverfront and NoMA submarkets of the District. In the third quarter, we grew Class A average rents by approximately 1.3% and Class B average rents by 2.6% year-over-year while ending occupancy grew 90 basis points year-over-year on a square footage basis. Looking at deliveries over the next 12 months, Northern Virginia is expected to receive 38% of the region's new units, well *below* its historical average of 50% of new units, while Washington, DC is expected to receive 44% of the new units, well *above* its historical share of 20% according to Delta Associates. This sustained delivery trend leaves us confident in our portfolio's relative positioning heading into 2019.

That said, we continue to like multifamily product across our region, including in the District where the median sales price of a home in DC hit a record high of $730,000 year-to-date in September, according to MRIS data. Expensive homeownership in a rising interest rate environment coupled with apartment rents that are out of reach for many, create a powerful tailwind for Washington REIT's value-conscious multifamily product.

Multifamily unit renovation program: With regards to multifamily unit renovations, at quarter-end we had 274 units left to renovate at The Wellington and 230 units left to renovate at Riverside. The Wellington unit renovation program is now 60% complete while Riverside is 73% complete. We are generating a mid-teens return on cost on the renovation dollars that have been invested at these two assets to date and expect consistent returns as we plan for these programs to continue through 2019. We are also expanding our value-add programs across the multifamily portfolio with a renovation-lite model that generates a high-teens or better return on a smaller budget. These programs focus on more targeted upgrades such as a change from carpet to wood flooring or upgrading to stainless steel kitchen appliances. For example, at Yale West, we have invested $3,500 for new wooden flooring that achieved a $75 increase in monthly rents and generated a 26% return on cost. We expect this program to help sustain our multifamily same-store NOI growth momentum next year, when deliveries are expected to peak.

Increased 2018 Federal spending and job growth: Moving onto Federal spending, we are still awaiting data on the pace of contract awards in the government's fiscal fourth quarter, which runs from July through September 2018, and is typically when the largest share of annual appropriations are awarded. As the FY 18 Omnibus Spending bill was only passed at the end of March, almost seven months into the government's fiscal year, contract awards were expected to be back-end loaded. However, we have already seen a significant increase in job growth since that metric bottomed in April. We experienced an uptick in May and June followed by a sharp acceleration from July through September when the region added approximately 211,000 jobs year-over-year, compared to 127,000 in third quarter 2017. That's a 66% increase over the job growth generated in the third quarter last year.

Moreover, the quality of these jobs is better than it's been in quite some time. In September, Professional and Business Services grew 22,900 jobs and represented 34% of all new job growth. Year-to-date, Professional and Business Services jobs have averaged 30% of all jobs created through September, compared to 20% for the first nine months of 2017. This is the strongest growth professional and business services has seen since 2006. Furthermore, Professional, Scientific and Technical jobs, which are the most important subsector of PB and S grew 21,800 jobs in September and have averaged 29% of all jobs created this year through September as compared to their 13% average in 2017. These numbers appear to represent the impact of increased federal procurement spending that was projected by our study with CQ earlier this year. If contract awards accelerated from July through September as they typically do, we would expect to see sustained job growth momentum.

In terms of office leasing, we expect increased leasing activity as job growth accelerates and expect certain submarkets to continue to outperform others. Within our portfolio thus far, we have seen increased small and mid-size contractor activity in Rosslyn, as well as increased contractor activity at Quantico in Stafford and Monument II in Herndon.

2019 Federal spending: Finally, we are very encouraged that the majority of Fiscal 2019 spending has now been passed. The President signed an $855 billion FY 2019 "minibus" funding bill for five of the 12 annual appropriations, which includes appropriations for the Department of Defense, as well as a short-term Continuing Resolution to temporarily fund remaining government programs until December 7 this year. Notably, with the completion of this package, Congress will have approved approximately 75% of all discretionary funding for 2019 prior to the end of fiscal year 2018, an achievement our region hasn't experienced in over a decade.

Of the seven remaining bills, a four bill spending package appears to be mostly wrapped up with CQ's budget team expecting little need for further negotiations. This leaves us with only three bills that have not come to either chamber's floor or headed to conference yet, which is significantly better than where we were at this time last year. Federal spending remains a key demand driver for DC Metro real estate and having fiscal 2019 appropriations passed on time is expected to have a positive impact on the region's real estate fundamentals.

We continue to believe that multifamily will be the greatest near-term beneficiary of the new jobs that result from the increase in Federal spending in 2018 and 2019, as a tight labor market should help the region achieve its previous domestic in-migration highs. While we remain committed to allocating capital to our multifamily portfolio long-term, our stringent investment criteria remain unchanged. We continue to seek value-add multifamily assets that are undermanaged, trading at a discount to replacement cost, located in submarkets with a wider-than-average gap between Class A and B rents, which leads to unit renovation potential and that have room to add greater density.

Transaction market update: This brings me to conclude with an update on the investment sales environment in the DC Metro region where there is still no shortage of capital especially for value-add multifamily which is seeing peak pricing and continued cap rate compression. That said, the volume of A and B multifamily product coming to the market has also increased substantially in an attempt to capitalize on what is a sellers' market. One of the two value-add multifamily portfolio's I mentioned on the last call has cleared while the other has been broken up and has cleared in parts. In office, we have seen a sharp increase in commodity A office supply and while stabilized product is expected to clear, the market is not being as aggressive with underwriting on near-term lease expirations. There is increased investor appetite for stabilized DC B office product, where leasing is strong and vacancy and concessions continue to decline. And finally on retail, there continues to be a dearth of retail opportunities available to investors as good, in-fill retail in the DC Metro region is redeveloped and repositioned more often than it is traded. Now, I would like to turn the call over to Steve to discuss our financial and operating performance in the third quarter.

Steve Riffee - Executive Vice President, Chief Financial Officer
Thanks Paul. Good morning everyone.

GAAP measures: Net income attributable to controlling interests was $5.9 million, or $0.07 per diluted share, which was higher than the $2.8 million, or $0.04 cents per diluted share reported in the third quarter of 2017, as the 2017 quarter included the recognition of an impairment charge related to Braddock Metro Center.

Q3 2018 performance: We grew Core FFO by 1.1% year-over-year primarily due to 3.4% same store NOI growth. Non same-store NOI declined by approximately 9.2% year-over-year due to the sales of 2445 M Street and Braddock Metro Center, which were partially offset by the acquisition of Arlington Tower.

On a sequential basis, Core FFO declined mainly due to the sale of 2445 M Street at the end of the second quarter. Sequential same-store NOI was slightly lower due to a couple of known office tenant move-outs as well as sequentially lower reimbursements and higher abatements in the office same-store portfolio.

We delivered robust year-over-year same-store NOI growth across all three-asset classes. Office delivered 4.1% GAAP and 5.6% cash year-over-year same-store NOI growth as we grew average occupancy by 80 basis points year-over-year through lease commencements at Army Navy, 1901 Penn, 1140 Connecticut and 1220 19th Street in DC as well as Silverline Center and Monument II in Northern Virginia.

Multifamily delivered 3.4% GAAP and cash year-over-year same-store NOI growth driven by 230 basis points of year-over-year rental growth and 20 basis points of average occupancy gains. All but one of our multifamily assets grew average rents both year-over-year and sequentially. New lease and renewal tradeouts were also strong at 3.3% and 4.1% respectively. Our Class B multifamily assets delivered 3.7% new lease and 3.9% renewal tradeouts while our Class A multifamily assets delivered 2.2% new lease and 4.9% renewal tradeouts during the quarter.

And finally, retail delivered 2.4% GAAP and 3% cash same-store NOI growth year-over-year due to higher rental income and reimbursements and lower provisions for bad debts compared to third quarter 2017.

Same-store expenses were higher across all three asset classes on a year-over-year basis due to increased weather-related costs in multifamily as well as higher operating expenses across the portfolio.

3Q 2018 commercial leasing: In the third quarter, we leased approximately 103,000 SF, including 54,000 SF of new leases and 49,000 SF of renewal leases. Office new leasing tenant incentives were $10.34 per foot per year of average term due to a large component of shorter duration Space+ leases in the quarterly mix. We expect a share of these TIs to be re-utilized when the spaces are re-leased. For example, we have been able to re-utilize approximately 90% of the first generation tenant improvements for the few second-generation leases that have been signed thus far from our early prototype of the Space+ program at 1600 Wilson.

On retail renewals, we achieved positive cash and GAAP rent spreads for all of our retail renewals except one where the tenant is investing heavily in improving the store with their own capital and where we achieved a 10-

year term with no incentive dollars in exchange for a 9% roll down in initial cash rents and a 13% roll up in GAAP rents.

Office lease expirations: Moving on to office lease expirations, with 92.7% of the overall office portfolio occupied at quarter-end and only about 2% of rentable square feet expiring in the remainder of this year, our focus is on our 2019 leasing challenges, particularly at Arlington Tower and Watergate 600. These two assets account for about 1/3 of our office lease expirations and provide us the opportunity to create longer-term value by growing rents and further enhancing NAV. As Paul mentioned, we are making good progress on our leasing opportunities. It is important to note that if we finalize the 50,000 SF deal at Watergate, it will require a very significant tenant fit out which will require a termination of the master lease in order to meet the tenant's 2019 occupancy target.

Retail lease expirations: In retail, we have approximately 89,000 SF or 5.5% of annualized retail rent expiring in 2019. The majority of these lease expirations are in our neighborhood and community anchored shopping centers, with the median lease size at under 2,500 SF.

FY 2018 guidance: Now, turning to guidance, with one quarter of the year remaining, we are tightening our Core FFO guidance range by $0.04 to $1.85 to one $1.87 from a previous range of $1.83 to $1.89. We have maintained the $1.86 mid-point of our guidance range although 2445 M Street is contributing approximately $0.02 per diluted share less than our original guidance as we sold it a quarter earlier.

While we are tightening and maintaining the midpoint of both the Core FFO range and the overall same-store NOI growth range, we have updated the following detailed guidance assumptions. First, we project office same-store NOI growth to range from 4% to 4.5% from a previous range of 4% to 5%. Second, we project multifamily NOI growth to be approximately 3.3% from a range of 3.25% to 4%. Third, we expect retail same-store NOI growth to range from .5% to 1%, up from a .25% to 1%. Fourth, we expect non-same-store office NOI to range between $35.25 to $35.5 million from $35.5 to $36.5 million previously expected. Finally, we expect interest expense to be approximately $51 to $51.25 million dollars from a previous range of $51.25 to $52 million. We expect no further acquisitions or dispositions for the balance of 2018. Let me now discuss the changed office, multifamily and retail guidance assumptions in greater detail.

Starting with office, as a result of a few later than assumed lease commencements we are tightening and slightly lowering the mid-point of our office same-store NOI growth. For multifamily, we've lowered the guidance by approximately 30 basis points from the prior mid-point of 3.6% year-over-year growth due to an increase in repair and maintenance related operating expenses as the region has experienced near record levels of rainfall and weather-related challenges in the third quarter. Importantly, our revenue growth assumptions remain unchanged as we continue to experience strong leasing momentum.

Finally, on retail we've raised guidance to reflect higher revenues and specialty leasing as well as lower than expected real estate taxes. To that end, we have retained approximately 95% of our expiring retail square footage and renewed close to 250,000 SF of retail leases year-to-date. Most of the retail renewals this quarter have been driven by tenants exercising early renewal options, a trend that exemplifies the resiliency of retail in the DC Metro region and our proactive approach to tenant retention.

Lease accounting change: Although we are not providing 2019 guidance at this time, we would like to address our adoption of the new lease accounting standard ASC 842, which becomes effective for us on January 1, 2019. While we are still evaluating the impact this standard may have on our consolidated financial statements, our preliminary estimate is that had we implemented the standard at the beginning of 2018, our annual earnings would have been reduced by $1 to $1.5 million, or approximately $0.0125 to $0.02 per diluted share, related to indirect leasing costs that will no longer qualify for capitalization under the new standard.

Balance Sheet*:* To conclude with the balance sheet, in the third quarter we further unencumbered our balance sheet with the pay down of one more secured loan and have reduced our secured debt to 2% of gross assets. Our debt service coverage ratio is 3.7x and our net debt to adjusted EBITDA ratio is 6.3x. We expect to remain within our target range of 6x to 6.5x net debt to adjusted EBITDA at year-end. And with that, I will now turn the call back over to Paul.

Paul McDermott - Chairman, President & Chief Executive Officer
Thank you, Steve. We believe prospects for a sustained acceleration in regional job growth appear bright with Federal spending on the rise and large tech companies such as Amazon Web Services and Apple looking to significantly increase their regional presence. With unemployment in the Metro region at 3.5%, we believe growth at this stage in the cycle will likely result in net in-migration into the region, which should provide continued support for multifamily, office and retail. Washington REIT remains a secular way to play the DC recovery, with a platform that’s strategically positioned in segments with the strongest supply demand dynamics within DC real estate.

To conclude on a topic that may be on your minds today, a few weeks ago there were media reports about Washington REIT considering a sale of all or a portion of its retail portfolio. In keeping with our company policy, we do not comment on market rumors or speculation and that will be our response to any questions asked on this particular topic. We delivered a stable third quarter with solid same-store NOI growth across all three asset classes and continued balance sheet strength. Washington REIT is well-positioned to capitalize on key regional growth drivers and create value for our shareholders. With that, I would like to open the call to answer your questions. Operator, please go ahead.

Operator
At this time, we will be conducting a question-and-answer session. [Operator instructions]. Our first question comes from the line of Dave Rodgers from RW Baird. Please proceed with your question.

Q: I wanted to start with you on a comment you made early in your prepared comments about spending on kind of the broader rollout of the co-working suite program that you guys have developed. Give us a sense of maybe how broad you're thinking of that program now? Or maybe I read too much into that, but thoughts on how much that might cost up front, and how pervasive that program could be here in the near term?

Paul T. McDermott Chairman of Board, President & CEO
I'll start it off and then I'll ask Tom Bakke who's in charge of that program to jump in. I think we're looking at it as an opportunity to draft off of some of our current tenants, and take a look at some of the vacancies within our portfolio. I think I gave some numbers in terms of total square footage that we have in the current portfolio and what we're building out. What we're looking at in particular right now and what we are showcasing which we'll deliver soon is this Space+ program at Arlington Tower. I'll ask Tom to comment a little bit further on that.

Thomas Bakke - Executive Vice President & Chief Operating Officer
The program, we have talked about this on previous calls, where you look at how much exposure do you want to a flexible space program. Some of that is dependent on the size of the building. Some of it's just dependent on the size of the portfolio and the types of assets you have in the portfolio. The Arlington Tower asset as a great example of that. It's a 400,000-foot building. We think Rosslyn is a perfect market to attack the opportunity with a flexible space program. We are starting off with one floor, we've got another floor behind that. So that would roughly be about 40,000 of flexible space in a 400,000-foot building. So at 10% which we think is about the right

amount, but our goal would be to probably not have the program be more than a couple of hundred thousand across the entire 4 million-foot portfolio, so that is sort of one way to look at it.

Q: So appreciate that. Maybe jump over to Watergate 600. Steve, heard your comments that if you were to sign this tenants, in the fourth quarter that you could terminate the master lease. So that was clear. I think you had mentioned another floor for a law firm and association space. Does that also fall under the master lease, and what is the timing on that?

Stephen E. Riffee Executive Vice President & Chief Financial Officer
The master lease is for three floors. If we sign the lease to build out the top two floors, then we would break the master lease for that. We've got about 1/3 of the third floor already spoken for. We won't be getting master lease income for the space that we're building out, that we are leaving for that. So that would leave the remainder of the third floor under the master lease until we get further leasing done.

Q: Paul, sorry, I can't resist. On the retail side, you said there's a lack of options out there. Regardless of whether you may or may not sell it, what are the pros and the cons of keeping it at this point given the opportunity to invest in other asset classes that seem to be having higher transaction volume?

Paul T. McDermott Chairman of Board, President & CEO
I'm not going to comment on the retail portfolio. I didn't talk about options out there. We're always looking for opportunities on a macro level that will create value for our shareholders on a long-term basis. We are going to consider all opportunities as they are presented, but aside from that, I can't really comment any further on the retail portfolio.

Stephen E. Riffee Executive Vice President & Chief Financial Officer
What we've talked about is that 80%+ of the portfolio's community or neighborhood centers which are frankly some of the best real estate to own at any time in any cycle. So we sort of like retail in that regard.

Operator
Our next question comes from John Guinee with Stifel.

Q: First, congratulations on the ATM execution in the recent quarter. Very, very smart. Drill down a little bit more on Blank Rome. What's the master lease gross and net rent? And then when do you think you'll be able to sign in your next 50,000 SF lease, and what kind of TI's will it take to get there?

Thomas Bakke - Executive Vice President & Chief Operating Officer
The deal is still in negotiation. I would tell you that like any big deal in the market, you have a pretty good flavor on what those economics look like. We think we are outperforming the market at this point. That being said, the master lease is roughly 215,000 a month, and so depending on how this deal plays out, that would go away at that time.

Q: Does 215,000 get replaced with 180,000 or 300,000 and what's it cost to put that new tenant in?

Thomas Bakke - Executive Vice President & Chief Operating Officer
Yes, we can't really comment on it right now. It's still in negotiation, and we got a lot of work to do to get it done. I would be presumptuous to even contemplate those numbers at this point.

Q: You hear a lot of news in D.C. that the majority of new leasing relocations is happening along the Silverline from Tysons out to Dulles. Can you drill down a little bit, Tom or Paul, in terms of what submarkets are benefiting and what aren't, and an evolution as these millennials get a little older?

Paul T. McDermott Chairman of Board, President & CEO
I think our observation would be that we're definitely seeing the RB corridor, Tysons and the Toll Road in close proximity to Metro, i.e., the Silverline benefiting the most. If you are beyond 1/2 mile to 3/4 of a mile off of that, we're not seeing any large deals really going into these areas. In terms of millennial clustering that you're referring to, we're certainly seeing that around the rails, but specifically, those three particular markets are probably getting the lion share. But I would also drag back into D.C. The ballpark area and the Capital Riverfront, while there's a lot of supply, there is also a tremendous amount of absorption taking place there. Those are probably more for people that are working within the confines of the District.

Q: Last question, you hear about these gut rehabs in the CBD that the market's very aggressive. You're up to $10, $12, $14 per square foot per lease year for tenant concessions. How is that affecting your bread-and-butter product in the CBD?

Paul T. McDermott Chairman of Board, President & CEO
Both new development and some of these glass boxing that you're seeing. When I look at new development right now, and I'll just pick on the CBD for example. I believe the numbers that I have seen are 1.8 million SF in the CBD, and 70%, and that's under construction, 70% of that 1.8 million is being priced at $80 SF or greater. Then I go to the glass box, which still has kind of the same deficient 8.2-foot ceiling height finished and 20- by-20 column spacing. I drill down to probably an average B rent in Washington, D.C. in the CBD being $55. We just have not really seen a tenant that is going to keep the same type of footprint decide that they want to pay anywhere from $15 to $25 for floor-to-ceiling glass. The relocations where we're seeing people compress and give back space. Those are really gravitating towards new construction. And particularly, in these redevelopments that you are referring to, we can name a couple of buildings right now that they've done a pop top, they are probably over 9 feet on the top 2 to 3 floors. That is getting leased as well as The Street retail, just from a building amenitization standpoint. It is really the commodity, a lower ceiling heights space in the middle that we are seeing probably very stagnant in the leasing market.

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

Q: Steve, just a quick follow-up question. On the lease accounting charges that you mentioned, is that a 9-month or a full year number that range, the $1 million to $1.5 million?

Stephen E. Riffee Executive Vice President & Chief Financial Officer
That's a full impact for 2018. We really don't have our estimate for '19 yet. That was as if it had been implemented in '18.

Q: I guess the question is does leasing volume matter to that number much? Or is it a pretty static number?

Stephen E. Riffee Executive VP & CFO

Well I think it's going to be pretty representative. It really depends on what you use to capitalize and who use to do your leasing and your legal work and your support work. It will be representative for '19, but we still have a little bit more work to do before we finalize that.

Q: Paul, a bigger picture as you look at the market in terms of opportunities in either the office or the apartment side. Is there any place that you find particularly attractive, or said differently, what's the least unattractive pricing out there in the market place right now between office and apartments?

Paul T. McDermott Chairman of Board, President & CEO
It's hard to pick just one. I'll step back a second. Let's talk about what we're competing with right now. This is both for multifamily and office. Definitely, have seen kind of a drying up of core capital. The bulk of the capital that we are competing against is really value-add capital, and that can be either domestics or hedge funds. We have definitely seen the Asian capital pull out. Interestingly, just on some of the value-add deals that we are seeing downtown, I think three of the four deals that I've heard that have been tied up downtown are South American capital. That's a new one for us. The elements of the deal where there is a pricing disconnect, and I'll pick up on say a value-add office deal in the CBD right now, that deal is probably 80% occupied, the sales pro forma is at 95%. Where I think the disconnect we're seeing between sellers and buyers such as Washington REIT would be -- is on that 15% delta. That 15% occupancy delta where we're hitting that pretty hard. We are not getting any credit to get it to 95% stabilization, because we think that is an artificial number. Most of these value-add B's usually have a store clock, it could be somewhere between 90% and 92%. We're not given credit for that 30 basis points. And that's where a lot of people are losing deals. Multifamily it's really the value-add capital. I think our multifamily team has really done a good job identifying affordability gaps in the submarkets that they are in. But we're definitely seeing people either not put enough in to achieve that affordability gap, or allocate capital that they think is value-add capital that they're going to get mid-teens return. It's capital they're going to need to put in just to hold the rents that they have from a competitive standpoint. The cap rate compression has been fairly dramatic, especially in the multifamily space over the last 12 months.

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

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