Transcript of
Piedmont Office Realty Trust, Inc.
Fourth Quarter 2023 Earnings Call
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Participants

Laura Moon - Chief Accounting Officer & SVP, Piedmont Office Realty Trust, Inc.
Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
George Wells - Chief Operating Officer & EVP, Piedmont Office Realty Trust, Inc.
Christopher Kollme - EVP of Investments, Piedmont Office Realty Trust, Inc.
Robert Bowers - Chief Financial and Administrative Officer & EVP, Piedmont Office Realty Trust, Inc.

Analysts

Anthony Paolone - JPMorgan Chase & Co.
Dylan Burzinski - Green Street Advisors, LLC
Nick Thillman - Robert W. Baird & Co.

Presentation

Operator
Good day, everyone, and welcome to the Piedmont Office Realty Trust, Inc. Fourth Quarter 2023 Earnings Call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation.

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

Laura Moon - Chief Accounting Officer & SVP, Piedmont Office Realty Trust, Inc.
Thank you, operator, and good morning, everyone. We appreciate you joining us today for Piedmont's fourth quarter 2023 earnings conference call. Last night we filed an 8-K that includes our earnings release and our unaudited supplemental information for the fourth quarter of 2023 that is 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 press release as well as our SEC filings.

We encourage everyone to review the more detailed discussion related to risk 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 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 reconciliation of these non-GAAP measures are contained in the earnings release and 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 fourth quarter and overall 2023 operating results. Brent?

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

Thanks, Laura. Good morning, everyone, and thank you for joining us today as we review our fourth quarter results and reflect a bit on 2023. In addition to Laura, on the line with me this morning are George Wells, our Chief Operating Officer; Chris Kollme, our EVP of Investments; and Bobby Bowers, our Chief Financial Officer. We also have the usual full complement of our management team available to answer your questions.

You don't have to search hard to find an article recounting the demise of office. The topics longevity in the headlines rival Taylor Swift, and every form of media carries the story. Business websites, social media platforms, and most recently, the godfather of television news, 60 minutes, even reported on the impending financial calamity from a Tsunami of vacant office space as a result of remote work.

And it's exactly the fact that despite the overwhelming negative sentiment for office and the press, business leaders and executives continue to denounce fully remote work. And while it may be deeply buried in your news source, in the last 4 weeks, UPS, IBM, US Bank, and hundreds more American businesses remove tens of thousands of employees from a remote office model. And it is in the face of these sector headwinds that makes the leasing success of the Piedmont team in 2023 all the more impressive. And what gives me the expectation that the continued migration towards a hybrid work model will further fuel the flight to quality and the flight to capital leading to more demand for Piedmont's assets.

I'd like to take a moment and remind investors of several points I've made on prior earnings calls that bolsters the thesis in Piedmont. First, that market statistics can be very deceiving. And despite 30% vacancy, the top 5 to 10 assets in the sub-market are having leasing success. And in reality, as JLL research has noted, 50% of the vacancy resides in the bottom 10% of the office stock. This product is obsolete and will eventually be redeveloped for other uses.

Second, quality does not just strictly equate to new buildings. Investors can look at the Piedmont portfolio for validation that higher quality, older vintage assets can find leasing success and generate meaningful rental rate growth. Third, the landscape in the office sector is changing.

Fewer institutions are equipped to win in the capital and operational intensive business, resulting in a more favorable competitive environment.

And finally, we're witnessing incremental cluster demand as more workers come back to the office, including non-technology-related businesses that initially seized upon the remote work model, who are now beginning to consider space expansion, and with the best buildings in a given sub-market approaching full occupancy. Piedmont is positioned to continue the occupancy and rental rate trends and gains across our portfolio.

Since the pandemic, Piedmont has leased almost half of our 16 million square foot portfolio. And over the last 4 years, we've helped our customers achieve their business objectives for the built environment. We've continued to reflect how we design, construct, and market a new standard of hospitality-driven office. Today, we're seeing tremendous demand for assets that are non-commodity and offer a hospitality experience with thoughtful design from a well-capitalized service-oriented sustainable owner. No doubt, the story of office's comeback is still being written, and Piedmont is excited to help lead the next chapter.

Transitioning to our 2023 accomplishments, new tenant leasing totaled 830,000 square feet, which is the largest amount of new tenant leasing that we've completed on an annual basis in the last 5 years. Allowing us to be our year-end portfolio goal of 87% leased, while achieving 40 basis points of absorption during the year. Demonstrating the robust demand for our buildings. George will delve into market specifics and details on a leasing pipeline in a moment, but we believe our operational strategy will continue to garner outsized market share from small- to medium-sized businesses, as well as larger corporate tenants that we see starting to return to the market.

In fact, thus far in 2024, we've executed over 260,000 square feet of leasing across our markets. For the year-ended 2023, Piedmont had an increase in cash same-store NOI of 2.2%, which is an improving trend from a 1.9% increase in 2022 and solid growth despite the challenging market fundamentals. Rollups, where the increase in rental rates on executed leases for the full year on a cash and accrual basis were 4.7% and 12.4%, respectively. Furthermore, excluding U.S. Banks' sizeable renewal, the cash rollup for 2023 was 7.4%, indicative of the mark-to-market for the portfolio's in-place rents, which stand today at roughly 5% to 10% below current market rates.

As a result of the 2023 leasing success, Piedmont has generated a backlog of 1.1 million square feet of leases yet to commence or in abatement, which equates to approximately $35 million in future annualized cash rents and once these leases commence and abatements burn off. Over time, this lease backlog will more than offset the lost rental revenue from the previously disclosed expiration of Meridian Crossings and 9320 Excelsior Boulevard in suburban Minneapolis.

In addition, while we're executing our repositioning program at both projects, in a few months, the buildings have been available to lease, we experienced strong receptivity and tour activity, resulting in approximately 25,000 square feet of leases either signed or in legal documentation today.

Lastly, I want to acknowledge the herculean efforts by Bobby and his team that have they put forth over the last 12 months to address our 2024 and 2025 debt maturities, despite the challenging credit backdrop.

I'll let them walk through the specifics in a moment, but I want to note that we refinanced over a $1 billion worth of debt, while significantly improving the liquidity of the company, demonstrating our continued access to the capital markets and preserving our largely unencumbered pool of assets, a clear operational advantage. Today, we have just $325 million, or roughly 15% of our total debt expiring over the next 3 years, and an average interest rate of 4.9% compared to the weighted [ph] average interest rate of all the company's debt at 5.8%.

With that, I'll hand the call over to George, who will go through more details on the quarter's operational results.

George Wells - Chief Operating Officer & EVP, Piedmont Office Realty Trust, Inc.
Thanks, Brent. Our attractive workplace offerings and strong sponsors should continue to bear fruit with solid operational results. We had another strong leasing performance in the fourth quarter with 42 lease transactions completed for approximately 816,000 square feet of total volume. The most quarterly volume executed since 2019.

Renewing our largest tenant, US Bank's entire 447,000 square foot world headquarters in our downtown Minneapolis Tower for 10 years was the highlight, but aside from the US Bank, the totals included 155,000 square feet of new tenant leasing across 20 transactions, approximating our pre-COVID quarterly average and representing 7% of our overall direct vacancy.

Furthermore, our weighted average lease term achieved on new lease activity for the quarter was well over 9 years. Excluding the sizable US Bank lease, the average lease size executed during the fourth quarter was approximately 12,000 square feet. Again, continuing the theme we saw throughout 2023. Increased market demand for small- to medium-sized enterprises requiring 15,000 square feet or less.

Smaller users across a broad range of industries are driving our leasing success. This quarter, outside of the 77,000 square foot GE Vernova deal in Atlanta, all of our new deals were under 10,000 square feet. That said, we are continuing to see increased activity from larger requirements of over 50,000 square feet, looking at our bigger blocks of space in both the Sunbelt and our more recent availabilities in our northern markets.

As we've discussed in the past, how we market space to those smaller users has evolved over the past several years. Today, we operate a strategic pre-built office suite program that has been very successful in meeting this demand segment. In fact, over the last 36 months, we've leased a total 41 spec suites, and that's just in the Southeast. Furthermore, with the disruption of the debt capital markets, we're seeing incremental deal flow emanating from tenants fleeing projects with a distressed capital structure, whether it's an owner with refinancing risk or a lender unwilling or unable to fund tenant improvement capital.

Piedmont's unencumbered assets, ability to invest in our properties, our brand and reputation as an attentive and service-minded landlord are helping us gain market share during this period of economic uncertainty. For instance, our Atlanta portfolio now stands at over 91% release with an absorption rate of 640 basis points that's been achieved over the last 12 months, despite the overall market being at an all-time high for space availability at around 32%. Proving out that high quality office can thrive despite the overall market malaise.

Continuing with operational metrics, rents on leases for space vacant 1 year or less were flat on a cash basis for the quarter and increased approximately 11% on accrual basis. As anticipated, same-store NOI on both a cash and accrual basis continues to strengthen during the fourth quarter to 4.8% and 1.1%, respectively, as new leases commencing or those with expiring abatements began to outweigh expirations that occurred earlier in 2023.

Leasing success pushed the overall lease percentage up by 40 basis points to end the quarter and year end at 87.1%, slightly above our previously announced guidance. Although new tenant leasing was achieved in all of our markets, once again, most of our new tenant activity or 90% occurred in our Sunbelt portfolio where a majority of our vacancies reside.

Tenant retention rates spiked to 84%, which was heavily influenced by the US Bank renewal, but I'd also note they have remained consistently high for the past 4 quarters at 70%, no doubt a reflection of the Piedmont brand. Leasing capital spent for the quarter was approximately $5.40 per square foot per lease year, almost 10% less than our recent annual and quarterly averages. Sublease availability within our portfolio has stayed steady for the past several quarters and today sits at 4.3%.

Now, I'd like to highlight a few key accomplishments and announcements, which occurred in some of our operating markets this quarter. Atlanta, our largest market, captured the most completed transaction activity this quarter with 12 deals accounting for 127,000 square feet, of which 80% were new leases. Galleria on the Park in Northwest submarket was the main driver for this quarter, highlighted by the 77,000 square foot GE Vernova deal and its lease percentages now in the low-90s.

Over the past year, we pushed rental rates up 6%, while experiencing almost 250,000 square feet or over 1,100 basis points of net absorption across this 2.1 million square foot project, capitalizing in our ongoing and continuing redevelopment efforts.

In Midtown, our leasing team signed a well-known local full service coffee operator at a 999 999 Peachtree Tower, expanding our amenity offerings there. We're also experiencing new highs in rental rates at both of our midtown assets, approaching $60 per square foot. And lastly, in the central perimeter market where UPS, whose headquarters are near our assets, and houses several thousands of employees, recently announced its new return to office mandate for 5 days a week. Just another significant antidote supporting the growing trend for more in-office work.

In Minneapolis, where we renewed our largest customer, US Bank, our portfolio here has historically been very stable with lease percentage hovering in the mid-90s. However, we will face two large expirations over the next 2 quarters. As previously anticipated and announced, Cargo has vacated its 265,000 square foot lease as a sole full-building tenant at 9320 Excelsior. This asset is part of a well-planned three-building complex developed around a manicured park with a full range of onsite market competitive amenities and an easily accessible and highly visible from the highway.

As an aside, we have taken our Excelsior buildings offline the first quarter of 2024 to modestly reposition this asset for a multi-tenant lease of strategy as we are already touring smaller users designed to upgrade into this high-quality availability that's been vacated by a large user, providing a unique amenitized campus that historically not been available to small users.

Also vacating, but not until May, will be US Bank's 340,000 square foot suburban location at Meridian Crossings. This asset is also extremely well located at the intersection of two of the most travel highways in the city offering a plethora of uniquely visible signage opportunities. Our local team has taken this project through the redevelopment process that we've implemented successfully elsewhere, which includes modernizing common areas with the fusion of hospitality elements and delivering amenities that meet today's workforce.

Again, though it is early, we've had a few large tours there already. In terms of leasing accomplishments for the quarter, we've executed a total of five other transactions for 78,000 square feet of Minneapolis, and they were generally long-term extensions. The second largest renewal for the company also occurred at US Bank Center downtown, where Eide Bailly, a national public accounting firm renewed on all of its 40,000 square foot space for 13 years.

Consolidating two of its suburban locations into our tower, we were thrilled that the company supported our vision to elevate US Bank Center to ensure remains the preeminent office tower in downtown Minneapolis. And look, it's not just us saying that. US Bank Center has received the 2024 International TOBY Award for the best building in the 500,000 square feet or greater category. As one of the few well-capitalized national landlords in this market with the ability to create distinct environments that are well located properties, we're excited about the opportunity to convert our growing pipeline of prospects into leases.

Circling back to the broader portfolio, we remain positive on our market positioning, near-term leasing trends and overall operational performance. While there are known large tenant move outs occurring this year, the portfolio has maintained a general trend of modest space absorption post-pandemic. We expect this trend to continue, given a high quality of our properties, our best-in-class operations, and our flexible capital structure.

Our leasing pipeline today remains quite healthy with over 500,000 square feet in late-stage activity. Tour activity continues to be steady as we've seen for the past several quarters. Proposal activity is in line with our trailing 12 months coming in around 2 million square feet, though, with an uptick in larger users and the 20,000 to 100,000 square foot users.

And, now, I'll turn the call over to Chris Kollme, for his comment on investment activity. Chris?

Christopher Kollme - EVP of Investments, Piedmont Office Realty Trust, Inc.
Thank you, George. As has been the case throughout 2023, activity remains virtually non-

existent in our target markets. However, we are starting to see the ice thaw just a bit. We continue disposition discussions around a select number of non-core assets, but it is still too early to comment on any specifics. The buyers we are talking to are mostly local operators or owner-occupiers who are targeting our smaller assets, generally those less than 250,000 square feet.

As always, we will keep you informed of any material activity on this front, and we will continue to earmark any resulting sale proceeds towards the reduction of debt. While acquisitions are not under consideration at this time, we remain highly engaged across our operating markets with a strong bias towards our Sunbelt cities. With our significant scale, operational platform and deep local relationships, we believe opportunities may surface in the second half of this year and into 2025. With that mindset, we will continue to position the balance sheet and consider creative alternatives which might allow us to take advantage of the conditions if and when these opportunities do present themselves.

With that, I'll turn the call over to Bobby to review our financial results. Bobby?

Robert Bowers - Chief Financial and Administrative Officer & EVP, Piedmont Office Realty Trust, Inc.

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

Core FFO per diluted share for the fourth quarter of 2023 was $0.41 versus $0.50 per diluted share for the fourth quarter of 2022. With the current quarter reflecting approximately $0.065 per share of increased interest expense as compared to the fourth quarter of 2022, as well as the impact on property net operating income from the sale of our Cambridge, Massachusetts portfolio in December a year ago.

Examining our annual results, we experienced an almost $5 million increase, so $0.04 per share increase in property net operating income during 2023, however, that increase was more than offset by an approximately $35 million increase in interest expense during the year.

AFFO generated during the fourth quarter of 2023 was approximately $32 million or $128 million on an annualized basis, providing over 2 times coverage of the current dividend and providing strong funding for our foreseeable capital needs.

Turning to the balance sheet, we do have some updates to share regarding recent refinancing activity. As you may have seen in our December Form 8-K filings late in the fourth quarter, we were able to capitalize on the first downward trend in interest rates that we've seen in a while and an improving appetite for office paper among fixed income investors.

We issued an additional $200 million of our 2028 notes at a premium, resulting in effective yield at 8.75%. We used the proceeds from this offering to pay down our revolver and $100 million of $200 million of unsecured term loan that was scheduled to mature in 2024. This information is included in our year-end financials.

After year-end, on January 30th of this year, we also completed a new $200 million 3-year unsecured term loan with our key banking relationships. There were no significant changes in the terms of this loan relative to our previous bank term loans. We used the bulk of these proceeds to repay $190 million of a $215 million term loan that was scheduled to mature in January, extending out our remaining $25 million to a 2025 maturity.

In conjunction with that transaction, we also used the remaining proceeds and the line of credit that was paid down in December to repay the outstanding $100 billion balance of another bank term loan.

Now, I've got to admit, I know that's a lot to follow, but to look at it from a different angle, at this time last year, we had almost $1.4 billion of upcoming debt maturities in 2023, 2024, and 2025. With the refinancing activity executed since February of 2023, we have either repaid or extended all but $325 million of the $1.4 billion. We have no maturities remaining in 2024 other than approximately $50 million balance on our 2024 bonds that we will repay in March using either our line of credit or potential disposition proceeds that Chris alluded to.

And we have $275 million of bank term debt maturing in 2025 and no final debt maturities in 2026. We have provided in the supplemental financial information that was filed last night, I believe on Page 18, both the 2023 year-end debt maturity summary as well as a pro forma of the maturity schedule after the refinancing that took place in January subsequent to year-end. Now, over half of the debt that we paid off was related to 10-year bonds that we entered into in 2013 and 2014. Little did we anticipate the economic environment of 2023.

Balance sheet management is a constant process. However, as Brent said, our team has made significant strides improving our balance sheet liquidity and demonstrating our continued access to the capital markets. While importantly, continuing to preserve our large unencumbered asset pool and advantage many landlords and prospective tenants would attest to as critical in the current leasing environment. We believe a high quality place making owner that is well capitalized will continue to garner outsized demand.

Turning now, if you will, to our outlook for 2024. Despite some signs of an improving business environment, interest rates remain elevated and will continue to weigh on our earnings in 2024 as we experience a full year of higher interest rates and the related refinancing activity over the past 12 months.

Additionally, as George outlined, we have a few known move outs in the first half of 2024, including Excelsior and Meridian Crossings. We're getting some good traction on prospects to backfill these spaces, however, there will still be some downtime before new leases commence. Fortunately, we do have a healthy backlog of 1.1 million square feet of already executed leases that will begin to contribute to FFO and cash flow in 2024.

We expect the net impact of these expirations all set by new lease commencements in fiscal 2024 to lead to a modest decline in occupancy during the first half of the year. But we anticipate our lease percentage and property operating income to return to current levels during the second half of the year.

As a result, we're introducing the following guidance range for 2024, including the impacts of the refinancing activity completed after year-end, as well as this week's changes in the forward yield curve with fewer rate cuts now projected during the calendar year. Our 2024 core FFO per diluted share is expected to be between $1.46 and $1.56 per share. And the projected lease percentage for our in-service portfolio is anticipated to be between 87% and 88% at year-end 2024.

Same-store NOI on both a cash and accrual basis is estimated to be positive in the low-single-digit range. Interest expense is projected to increase to a total of $119 million to $121 million. And G&A costs are expected to remain flat between $29 million and $30 million. It is important to remember when you look at this guidance that we do not include speculative acquisitions, dispositions, or refinancing into this guidance. We will, of course, adjust guidance if and when such transactions occur during the year.

With that, I'll turn the call now back over to Brent, for closing comments.

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

Thank you, George, Chris, and Bobby. As we've talked about here today, our core business, that is leasing, was extremely robust throughout 2023. We addressed our largest tenants lease renewal and are pleased to see increasing tour activity in all of our markets. Other than the few known move outs, the remaining lease expirations in 2024 are very limited, equating to around 5% of ALR remaining to expire this year.

I would also note the majority of our vacancies reside in our Sunbelt markets, where we see a healthy pipeline of prospects. Our balance sheet is also well positioned, with a bulk of our near-term debt maturities addressed, and limited outstanding maturities remaining over the next 3 years.

As you can tell, it's been a busy year at Piedmont, and I'm thrilled with the strategic goals we were able to accomplish in despite the challenging economic backdrop in 2023. Thanks to the Piedmont team for their hard work, which made our success possible. It definitely has taken a talented and collaborating group of employees. So congratulations to all my colleagues on an outstanding year. I would also be remiss if I didn't also thank each of you, our analysts, equity and fixed income investors for your support of Piedmont this past year.

As we look ahead to 2024, we expect the full impact of the increased interest expense and known tenant vacates to result in an earnings and vacancy trough in the middle of this year. With the optimism, the company will return to quarterly FFO growth before year-end through consistent same-store NOI growth aided by the declining interest rate environment. As we've discussed here today, there are a lot of reasons to be optimistic about Piedmont's 2024 runway.

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

Operator
Certainly. Everyone at this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question is coming from Anthony Paolone from JPMorgan. Your line is live.

Q: Great. Thanks. Good morning. My first question, I just want to understand the occupancy and the guidance there a little bit better. So the 87% to 88% lease rate you gave, is that comparable to the 87.1% that you had closed out the year, because it sounds like you're taking a couple of those Minneapolis assets out of service just trying to get that straight?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
Hey, Tony, good morning. It's Brent. Thanks for joining us. As you point out, we have discussed in our prepared remarks, we will be putting in this quarter the Excelsior Crossings asset into the redevelopment pool. And then in the latter part of second quarter, the Meridian asset will also likely go into the redevelopment pool, and that's what we've anticipated in our guidance for the year. So the 87.1% that we have today would include those two assets, and they will be pulled out here throughout the year.

Q: Okay. And then maybe just thinking about occupancy in general, then if we take out those two assets going in to redevelopment, do you think you absorb vacancy in 2024? Or are there other sort of either known move outs or pressure points in the portfolio to think about over the course of the year? Just trying to understand what's in the guide and the thinking there?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
A great point, Tony. I think, overall, we feel very optimistic and excited about the 2024 leasing prospects given the pipeline that George alluded to. While we will be getting back some larger space there, I think the overall trend in the portfolios I alluded to in the prepared remarks has been modest absorption. And, I think we'll continue that trend, obviously, we'll put those assets we discussed into the redevelopment pool. So the in-service portfolio will continue to operate in that kind of high 80s% leased, 87% to 88% that we've targeted for the end of the year.

Q: Okay. And then just on the capital side, just two items, just thinking about capital sources and uses for the year. On the sources, I know you didn't want to identify too much on what you might sell, but just can you give us some senses to maybe order a magnitude of proceeds you're thinking about at this point for the year?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
Great question, Tony. And, I think on my last call, I kind of stated, and I think it's still fair to say, we anticipate selling somewhere in the neighborhood of about $100 million to $200 million over the next 18 to 24 months. I think as we look specifically at 2024 to be towards the lower end of that range, and that's probably the best guidance we can give you. We do continue to canvass the market or be canvassed in the marketplace by, as I mentioned, the smaller operators

and/or number of user owner occupiers who like the high quality assets that we have, particularly those that are smaller in scale, both from a purchase price standpoint, availability of debt standpoint, and frankly for their own operations fits better than obviously some of our larger assets. So we continue to have those discussions with the expectation that some of that will come to fruition through the year.

Q: Okay. Great. That's all I had. Thank you.

Operator
Thank you. Your next question is coming from Dylan Burzinski from Green Street. Your line is live.

Q: Hi, guys. Thanks for taking the question. I guess just sort of thinking about your comments on potential feature acquisitions. How should we think about sort of sources and uses there? Should we only expect you guys to look at assets? Should you sell any existing assets? Or I guess just how should we be thinking about that?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
Hey, Dylan, thanks for joining us this morning. I think in our prepared remarks, and even Chris noted this, any right now dispositions we have would go first to pay down debt. And as we continue to have disposition success, that would be our anticipated "use of proceeds". That said, we continue to be very much in the flow of our target markets, particularly those in the Sunbelt where we would consider growth. And that's really just staying in the flow and continuing to follow what many in the press read is the dislocation, and in some instances distress in the marketplace.

I would say that assets that we want to target are more experiencing the dislocation than the distress, just given their more high-quality in nature. And so we continue to build relationships with those owners that might be potentially either looking to sell or need creative capital infusions, whether they be preferred or mezz, however, you may want to classify or structure it. But that was what we continue to look at as means of continuing to tie-up assets maybe without a direct purchase or a credit play in that nature.

But I think at this point in time, again, focus on dispositions to pay down debt and staying in the flow with a mindset towards the opportunities to really start to present themselves towards the latter part of the end of this year into the beginning of next year. And so our goal would be to get the balance sheet in an optimum position to take advantage of those situations should they arise, again, probably more towards 2025.

Q: That's helpful. And then, obviously, a good year on the new leasing front for you guys, so congrats on that. But, I guess, as we think about the lease percentage guidance, it kind of came in below sort of our expectations. And so just curious if there's any other larger move outs other than Cargill and US Bank that may be sort of driving that lower. I know Amazon, you guys have called out, I think 70,000 square feet in D.C. this year. But, I guess, just as they look at their Dallas footprint, can we expect that space or at least some of it to be given back or?

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

Thanks, Dylan. Yeah. So I'm not quite sure where your lease guidance percentage number might have been for 2024. But, overall, I think that's what we find exciting about the Piedmont story is that there are the known move outs, the larger move outs. Once you take those out of our 2024 expires, you've only got 5% remaining to expire during the year and we consistently hit 70% retention ratios. So it feels pretty good about our runway from a leasing perspective.

You noted Amazon in D.C, and in fact, as we've discussed, they are known vacate closer to about 65,000 square feet or so, almost 60,000, Bobby noted to me, so a little bit less than what you had anticipated. And other than that, there are no significant move outs that we don't have backfills behind in terms of leasing in the portfolio. So it's really those two larger ones in suburban Minneapolis. And as I alluded to on my earnings call, we're seeing good success. It's a market that frankly there's not a lot of well-equipped, full of vertically integrated platforms that have access to capital and that can conduct leasing for regional headquarters locations or larger deals which those buildings are suited for, as well as that smaller tenant market which we're seeing good traction with.

So overall, again, we feel very good about leasing. In terms of looking to 2025, you noted Amazon in Dallas, it's still early stages and, again, we are very closely tight list under an NDA related to that tenant. But, overall, I think we feel very optimistic given a few factors. One, they have a very high utilization at that location now at pre-pandemic levels. Two, they are not in need of expanding space. And three, they continue to utilize all their existing space. So, I think, it's unlikely they'll be canvassing the market, particularly given the short duration between now and when that lease expires. And we feel pretty good about significant renewal on the majority of the space. That's probably our best indication we can give you at this point in time.

Other than that, in 2025, I think there's very limited large expirations for the remainder of that year. So, again, we feel like all the "bad news" is on the table. The trough is identified this year for investors, and it's just a matter of how fast we come out of that trough towards the end of this year.

Q: Great. I appreciate all that detail, guys. Thanks so much.

Operator

Thank you. [Operator Instructions]. Your next question is coming from Nick Thillman from Baird. Your line is live.

Q: Hey, good morning, guys. Maybe just a little bit more color on some of the leasing year-to-date and the late-stage pipeline. So can you break out the 260,000 square feet between new and renewal? Same for the late-stage pipeline on new and renewal. Then maybe what markets you are seeing in most of that activity?

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

Good morning, Nick. This is George Wells, here. Thank you for joining us. I'll tell you, we're really excited about the transaction like that we were seeing today. I'd say, overall, to answer your question, in terms of the 260 that's already been executed, about 50-50 is new, and the other 50% is renewal. I would also say that I mentioned about a 0.5 million square feet at the late-stage, legal stage, and again, the characteristics there are predominantly 50-50 as well.

Q: Anything specific on markets, or is it all kind of broad-based or still Sunbelt-focused?

George Wells - Chief Operating Officer & EVP, Piedmont Office Realty Trust, Inc.
Yeah, I'll tell you, it's pretty broad-based. Looking at all of our markets, we've been really fortunate to see activity from the last quarter to this quarter being broadly in all of our seven markets. Really excited about the depth and breadth of our overall leasing capacity and accomplishments at this point. In fact, one of the interesting things about our pipeline as I mentioned is over 2 million square feet. The interesting characterization there is, though it's a pretty high percentage for new activity, a lot of that is for large transactions – we're seeing larger transactions above 50,000 square feet or larger. I'd say about a dozen of those across our, let's say, four major markets.

Q: That's helpful. Then maybe for Bobby on just the maturities for 2025. Last year you were pretty proactive of getting that bond offering done earlier in the year, even though it was like pricing wasn't as favorable as it is today. Do you expect to be a little bit more patient on that upcoming maturity and seeing like testing the disposition market before deciding to do another deal? Or what are kind of your thoughts around that?

Robert Bowers - Chief Financial and Administrative Officer & EVP, Piedmont Office Realty Trust, Inc.
Your answer is, yes, be patient. We have $275 million bank term debt maturing in 2025 and not in 2026. And although it's not modeled in, as Brent alluded to, we hope to achieve around $100 million dispositions in 2024 that we hope that we can pay down or reduce our debt with that would maintain our ratio between 30% and 40% leveraged. That said, the pay down and refi strategy is going to become more clear, I think, in the middle of the year. We do have available capacity with our key bank partnerships and we've demonstrated our ability to access the public debt markets to refinance debt, which is a very strong long-term preference for us.

Q: That's helpful. And then the last one, on commenced occupancy or lease percentage, we're kind of assuming the bottom is going to be 2Q even, if we're just looking at the projection for 2024?

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
I would say it's probably more likely Q2 to Q3 would be the trough. It's tough to pinpoint that. They just give move outs and commencements. And as we continue to see construction taking a little bit longer than we have historically seen, I don't know exactly if that's just lack of availability of materials, increased demand on other asset classes, et cetera, but just taking a little bit longer than historically to build out some of the space. But, overall, I would say, yeah, your trend is correct, sometime in the middle to second half of this year.

Q: Thanks, guys.

Operator
Thank you. That concludes our Q&A session. I will now hand the conference back to CEO, Brent Smith, for closing remarks. Please go ahead.

Brent Smith - President, Chief Executive Officer & Director, Piedmont Office Realty Trust, Inc.
I appreciate everybody taking the time to join us here today. I do want to reiterate one statistic that was misreported in the analyst report. It had our same-store NOI growth at negative 2.2% for fiscal year 2023. I just want to reiterate the company achieved positive 2.2% same-store cash NOI growth for fiscal year 2023.

Overall, we're very excited and pleased with 2023's performance and what lays ahead for 2024. We'd love to have a chance to talk to investors further fixed income or equity in our Citi Conference that will be held on March 4 to 6 in South Florida. Please reach out to Bobby or Jennifer, if you'd like to sit down with management. And, again, thanks everyone for joining today. Have a good day.

Operator
Thank you, everyone. This concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.