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Mid-America Apartment Communities, Inc. (MAA) CEO Eric Bolton on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.672 beats by $0.11 | Revenue of $415.63M (4.66% Y/Y) beats by $4.46M

Earning Call Audio

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Mid-America Apartment Communities, Inc. (NYSE:MAA) Q3 2019 Earnings Conference Call October 31, 2019 10:00 AM ET

Company Participants

Tim Argo - Senior Vice President and Director of Finance

Eric Bolton - Chairman and Chief Executive Officer

Thomas Grimes - Executive Vice President and Chief Operating Officer

Albert Campbell - Executive Vice President and Chief Financial Officer

Bradley Hill - Executive Vice President and Director of Multifamily Investing

Conference Call Participants

Trent Trujillo - Scotiabank

Nick Joseph - Citigroup Investment Research

Austin Wurschmidt - KeyBanc Capital Markets, Inc.

Zachary Silverberg - Mizuho Securities USA, Inc.

John Kim - BMO Capital Markets

Wes Golladay - RBC Capital Markets

Drew Babin - Robert W. Baird & Co.

Richard Anderson - SMBC Group

John Guinee - Stifel, Nicolaus & Company, Inc.

Neil Malkin - Capital One Securities, Inc.

Rob Stevenson - Janney Montgomery Scott, LLC

John Pawlowski - Green Street Advisors, Inc.

Operator

Good morning, ladies and gentlemen. Welcome to the MAA Third Quarter 2019 Earnings Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, the companies will conduct a question-and-answer session. As a reminder, this conference is being recorded today October 31, 2019.

I will now turn the conference over to Tim Argo, Senior Vice President, Finance for MAA. Please go ahead.

Tim Argo

Good morning, everyone. This is Tim Argo, Senior Vice President of Finance for MAA. With me are Eric Bolton, our CEO; Al Campbell, our CFO; Rob DelPriore, our General Counsel; Tom Grimes, our COO; and Brad Hill, EVP and Head of Transactions.

Before we begin with our prepared comments this morning, I want to point out that as part of the discussions, company management will be making forward-looking statements. Actual results may differ materially from our projections. We encourage you to refer to the forward-looking statements section in yesterday's earnings release and our 34-Act filings with the SEC, which describe risk factors that may impact future results. These reports, along with a copy of today's prepared comments and an audio copy of this morning's call, will be available on our website.

During this call, we will also discuss certain non-GAAP financial measures. A presentation of the most directly comparable GAAP financial measures, as well as reconciliations of the differences between non-GAAP and comparable GAAP measures can be found in our earnings release and supplemental financial data, which are available on the For Investors page of our website at www.maac.com.

I'll now turn the call over to Eric.

Eric Bolton

Thanks, Tim, and I appreciate everyone participating in our call this morning. Performance during the important third quarter leasing season was strong with continued solid momentum in rent growth and high occupancy. Reflecting strong demand across our Sunbelt markets and the great work performed by our on-site associates, resident turnover remains at historically low levels despite lease renewal pricing that continues to run above 6%.

We believe that at this point in the cycle, our best strategy remains a focus on pushing rent growth. We're happy with the performance on rent trends and are encouraged with the momentum that we'll carry into next calendar year.

While we are currently in the process of compiling a detailed outlook surrounding the new supply pipeline in 2020 and the impact at each of our locations, at this point, we expect the elevated new supply levels will likely persist in 2020. There is simply too much capital available to developers at this point to expect any sort of meaningful pull back.

However, I also believe it is unlikely that we will see new supply levels meaningfully pick up from the current trends, as rising costs among other things will keep new development from accelerating. As we finalize our property budgeting process, I'm sure we'll have markets that will likely experience some increase in new supply next year and some markets that will experience a decline in new deliveries.

We will have more to report on our specific expectations for 2020 when releasing fourth quarter results, but at this point, we do not have any heightened concerns surrounding next year's leasing environment. And while new supply remains elevated, we continue to see strong demand fueled by job growth across our markets with growing population shifts and increased migration to the Sunbelt.

We closed on the disposition of a property located in the Little Rock, Arkansas market during October and expect to close on the sale of the four remaining properties in that market before year-end. Based on current contract pricing, we expect to capture a 5.4% cap rate on this portfolio of properties that has an average age of 21 years.

We're currently negotiating several one-off property acquisitions and are hopeful that we will close on one or more of these deals by year-end. As has been the case over the past few years, each of the opportunities we are underwriting are new properties in initial lease-up. The acquisition market remains very competitive, but we continue to see a high volume of lease-up transactions and expect that we will have some success with acquisitions over the next few months.

As noted in our supplemental schedules to the earning release, we now have six new development projects underway and expect to start an additional two projects, located in Orlando and Houston before year-end.

And finally, we continue to capture great performance out of our redevelopment pipeline. In addition to our very earnings accretive unit-interior upgrade program, we are planning to initiate in calendar year 2020 more extensive redevelopment efforts at several of the legacy Post property locations. We believe our expanding focus on redevelopment initiatives will generate very accretive returns on capital and further boost earnings growth from our existing asset base over the next few years.

I want to send a big thank you to our team of associates for their work and great results over the busy summer leasing season. We are building positive momentum across multiple fronts of our platform, and I appreciate all the hard work and great progress.

I'll turn it over to Tom now.

Thomas Grimes

Thank you, Eric, and good morning, everyone. Our operating performance for the third quarter was strong and exceeded our expectations. With the steady demand for apartments and our enhanced platform, we have continued momentum in rent growth, strong average daily occupancy and improving trends.

Same-store effective rent growth per unit was 3.9% for the quarter. This is the result – this is the sixth straight quarter of year-over-year improving ERU growth. As a result, our year-over-year same-store revenue growth was 4%, the highest it's been since 2016.

Revenue also increased 200 basis points sequentially. The acceleration in revenues was widespread across our markets. The year-over-year revenue growth rate for the third quarter exceeded the year-over-year growth rate in the second quarter in 16 of our 21 markets.

Revenue performance was led by steady momentum in blended new and renewal lease pricing, up 4.9% for the quarter, which is 190 basis points better than this time last year. The improvement in blended pricing seen in Atlanta, Austin, Nashville and Dallas was particularly impactful.

In addition to the great traction in blended lease over lease pricing, average daily occupancy during the quarter remained strong at 96.1%. Same-store operating expenses were in line with our guidance, but higher than they have been recently. As we have mentioned on prior calls, we have captured the benefits of the improved expense management platform on the Post portfolio, the comparisons are now more normalized and year-to-date expense growth is now 3%.

As a reminder, our annual operating expense growth since 2012 has been just 2.4%, well below the sector average. This is reflective of our long-term focus on driving efficiencies into our operation. The favorable same-store trends continued into October. As we have discussed, we feel that in this part of the cycle when demand is strong we should prioritize rent growth over higher occupancy.

Average daily occupancy for the month was strong at 95.6%, as compared to 96.1% in October of last year. October's blended lease over lease rents are up 4% month-to-date, which is well ahead of the 2.2% blended rent growth posted in October of last year and will support continued momentum in effective rent growth for the portfolio, which is important for steady and sustained revenue growth.

On the redevelopment front, in the third quarter, we completed 2,700 units, which keeps us on track to redevelop about 8,000 units for 2019. This is one of the best uses of capital. On average, year-to-date, we spent $5,700 per unit and achieved an additional 10% in rent, generating a year one cash on cash return in excess of 20%. Our total redevelopment pipeline now stands in the neighborhood of 14,000 to 15,000 units.

Our technology platform continues to expand. Our overhauled operating system and new website have aided our ability to attract, engage and create value for our residents. The results are evident in our blended pricing traction. Our test on smart homes are going well. The technology has been installed at 15 communities with minimum disruption and has been well received by our residents.

We are also exploring a range of AI, Chat, Customer Resource Management and prospect engagement tools. Our teams have handled the busy season very well and have us well positioned to move forward. We are pleased to have the integration work of 2017 and 2018 in the rear view mirror. We are encouraged with the momentum in rent growth and excited about the opportunities ahead. Al?

Albert Campbell

Thank you, Tom, and good morning, everyone. I'll provide some brief commentary on the company's third quarter earnings performance, balance sheet activity, and then finally on our updated guidance for the remainder of the year.

Reported FFO per share of $1.72 for the third quarter included a couple of significant non-core items outlined in the release, which added $0.16 per share of non-cash earnings to FFO. Excluding these items, FFO for the quarter was $1.56 per share, which was $0.01

per share above the mid-point of our guidance and analyst consensus. This outperformance was primarily the result of continued favorable pricing trends, as outlined by Tom, which produced the acceleration in total revenue growth for the quarter.

Overall, operating expenses also remained well under control with real estate taxes and repair and maintenance expense producing the primary areas of pressure for the quarter. These were partially offset by reductions in marketing and a moderation in personnel costs.

We expect real estate taxes to continue producing some expense pressure for the year, as aggressive final valuations received in certain markets will produce growth in the top end of our range outlined for the full-year. Repair and maintenance expenses for the third quarter were impacted by difficult prior year comparisons, but are projected to increase in range of 3.25% to 3.5% for the full-year.

We continued to make progress on our development and lease-up portfolio during the quarter, funding $31 million towards the completion of our current pipeline. This brings our year-to-date funding to $72 million, with $125 million to $150 million total funding projected for the full-year.

During the third quarter, we were fairly active on the financing front. We reopened the bond series initially issued in February to issue an additional $250 million of unsecured notes at an effective interest rate of 2.9% over the remaining term of about 10 years.

We used the proceeds to payoff a $150 million variable rate term loan, which was due early next year, utilizing this low rate environment to fix more and to extend the maturity of our debt portfolio, which is seven years on average. The remaining proceeds were used to pay down our line of credit at the end of the year – at the end of the quarter, excuse me.

Finally, we are increasing both our FFO and same-store guidance for the full-year to reflect the strong third quarter performance. We're now projecting FFO per share for the full-year to be in a range of $6.46 to $6.54 per share, or $6.50 at the midpoint, which includes the $0.16 of third quarter favorable non-core items and $0.02 per share related to the fourth quarter land sale gain mentioned in the release.

Our updated fourth quarter guidance assumes no further impact from the preferred share valuation or activity from the unconsolidated affiliate. We are now projecting our same-store revenues, expenses, and NOI to all grow in the range of 3% to 3.5% for the full-year, which produces a 25 basis points increase in our our same-store NOI expectations for the full-year at the mid-point. This adds about an additional $0.02 per share to the full-year FFO, Q3 and Q4 combined, which is partially offset by a $0.01 per share reduction for the year related to G&A and interest expense changes combined.

That's all we have in the way of prepared comments. So, Chris, we'll now turn the call back to you for questions.

Question-and-Answer Session

Operator

Certainly. [Operator Instructions] And our first question comes from Trent Trujillo from Scotiabank. Please go ahead.

Trent Trujillo

Hi, good morning. So just looking at your blended lease rate growth, it was 4.9% for the quarter, down a little bit from the intra-quarter update in August. So there was some seasonal slowdown in September. It sounds like you're continuing to focus on rate growth over occupancy, and it sounds like demand has held up well.

So do you – but do you expect some level of moderation for the rest of the quarter? And mainly asking, because you're starting to lap some of the improvements from the legacy Post portfolio. So it's a more difficult comps ahead. What kind of trajectory do you see from here?

Eric Bolton

Yes. Trent, I would expect it to moderate seasonally. But with October, we were 180 basis points better than last year. I would still expect us to run with a reasonable cushion over prior year's blended pricing, but you will see it moderate just as seasonal demand patterns come down.

Albert Campbell

And that's primarily on new lease right rents. On renewal pricing, it continues to hold up pretty strong about 6%, correct.

Trent Trujillo

Okay. Thank you. And then on the Arkansas disposition, I guess, on the transaction market, the Arkansas disposition you pointed to roughly a 5.5% cap last quarter, maybe 5.4% you just cited in the prepared remarks is within the realm of that. But are you seeing improved pricing for assets, such as those that you're seeking to sell? And does that at all inspire you to look at additional potential dispositions, if you can get good pricing on older assets that maybe need higher levels of CapEx?

Eric Bolton

Yes, Trent, this is Eric. I'll let Brad talk about cap rates a little bit. But I would tell you on your point about dispositions broadly. We believe very much in the importance of cycling out of some of our investments every year. And we had targeted earlier this year to pull the trigger on this Little Rock portfolio and that's what's happening. And I'm sure, as we go into next year, we'll have something similar that will tee up.

We don't have any significant need or desire to do anything bigger than that. It really is just part of a normal discipline to continue to look at our – the yield we're getting off our existing portfolio and always look to pull off the bottom, if you will, every year, a little bit of the capital that, that we have invested in assets are unlikely to create go-forward performance that is as compelling as alternatives. And so we'll just stick to that discipline as we head into next year, but nothing more significant than that. Brad do you want to?

Bradley Hill

Yes, yes. So, Trent, this is Brad. Just to give you a little bit of insight into, what we're seeing in the transaction market. Certainly Little Rock is a smaller market within our Sunbelt focus and it's certainly indicative of the demand for assets within our footprint. We had over 25 different buyers bid on those assets, which were all completely qualified buyers for those. So we were certainly excited about the participation that we had there.

Cap rates in our markets continue to be very strong. And I think, we're certainly seeing that in Little Rock, which is certainly a smaller market for us. But the demand for those assets is extremely strong, and we don't see anything changing that going forward.

Trent Trujillo

All right. Thank you.

Operator

And our next question comes from Nick Joseph from Citi. Please go ahead.

Nick Joseph

Thanks. Maybe just following up on Trent's first question. In terms of blended lease rate growth, is the guidance increase based only on better than expected third quarter results, or is there an improvement to the fourth quarter as well versus what you previously expected?

Albert Campbell

Nick, this is Al. We, as you look at the full-year, of course, our guidance is for 4.25% blended. Obviously, that's coming off of what we saw in the third quarter, so that's planned, but seasonally we do expect something different for the fourth quarter. To Tom's point earlier, we still expect a pretty healthy over the prior year in terms of quarter-over-quarter growth. So we seasonally will come down, but still have a strong position.

Thomas Grimes

I'll add one point to that, Nick. We've been running about 200 basis points better than last year. So far this year, we're forecasting closer to 100 basis point spread in Q4 just as those comps have gotten a little bit tougher as we start to see that pricing power late 2018.

Nick Joseph

Thanks. And then what was new and renewal lease rate growth for the third quarter?

Eric Bolton

Nick, for the third quarter, new and lease – new was 2.7%, renewal was 7%, which gives us 4.9%.

Nick Joseph

Thanks. And then just finally, I know they're smaller markets, but what's driving the strength in revenue growth in Birmingham and Huntsville?

Eric Bolton

Birmingham and Huntsville – in Huntsville running for two years has really been on a strong job growth trajectory, primarily driven by aerospace and tech. It is a quiet little pocket of Northwest – Northeast Alabama that is – that's just been doing very well. And if you look back through the quarters in the last two years, you'll see that strength has been there. And then Birmingham has just picked up a little bit with the job growth during the year, along with a little less supply. It's been a good spot for us as well.

Nick Joseph

Thanks.

Operator

And our next question comes from Austin Wurschmidt from KeyBanc Capital Markets. Please go ahead.

Austin Wurschmidt

Hi, good morning, everybody. I was wondering if you could provide a breakout of the year-to-date lease-over-lease pricing for the legacy MAA portfolio versus the Post portfolio?

Eric Bolton

I can give you a quarter-to-date real quickly. And that would be for the new lease – for blended, it's 3.8% for Post and 5.3% for Mid-America, significant improvement on the Post side.

Albert Campbell

Pretty similar year-to-date, 5.1% MAA and 3.8% Post, for blended.

Austin Wurschmidt

Thanks, guys. And then, so next year really is the first year that you'll have a full-year of Post renovations hitting that renewal period. I'm just wondering how you're thinking about the potential increases on those renovated units after the – that first, I guess, renewal versus a non-renovated asset?

Thomas Grimes

No. The renovate on a renewal basis, it really come in at very similar levels. There's almost no delta between that, because that's a new resident coming in. So it's not like the old resident got the renewal bump and then the improvement. So we've seen real consistency on the renewal front. That's held up quite well this year across the portfolio in both A, B, as well as Post and MAA…

Austin Wurschmidt

Got it.

Eric Bolton

…in renovated and non renovated.

Austin Wurschmidt

Yes, understood. And then just last one, can you remind us of the increases that you're targeting on the smart home investments? And what you expect that contribution to be the same-store revenue as you roll into 2020 versus the contribution in 2019?

Thomas Grimes

So we're in the process of planning that at this point. I mean, we've got early test that give us hope the by market we'll be able to get a good bump on the revenue enhancement side, but really haven't nailed that down as it comes to implementation and forecast for

2020 and then there are also some expense savings to consider in that equation.

Albert Campbell

And this – Austin, this is Al, I'll just add. We certainly would expect that to grow towards the back of the year. So certainly, very minimal impact in the first-half of the year with a little bit more in the back-half, as we roll this out, as Tom mentioned.

Thomas Grimes

Right.

Austin Wurschmidt

Got it. Thank you.

Operator

Our next question comes from Haendel St. Juste with Mizuho. Please go ahead.

Zachary Silverberg

Hi, it's Zachary Silverberg here for Haendel. You guys have delevered from five times to four, seven over the past year. Where do you see your optimal leverage level at this point in the cycle? And what is your view on using more leverage to acquire assets, given the low cap rate environment?

Albert Campbell

Well, I'll start with that, and we feel pretty good about where our leverage is. We worked very hard over the last year several years to bring it down. Right now, we're about 32% debt to gross assets, as you said, high 4s and debt to EBITDA is a very good place to be, particularly given the low risk or lower competitive risk of our strategy. So we don't seem to need to do anything significantly different in that.

As we look at our plans over the next year or so, we also don't see a huge need for marginal capital we have. And when you look at our acquisition plans or development funding and asset sales that we expect to do combine with the internal free cash flow that we do, it's a pretty leverage neutral plan at this point.

So we like where our leverage is, no need to do anything significant really, either way the other, but we are very happy to your point, we have a lot of capacity, we have a billion-dollar credit facility. If things do change and there are opportunities to jump out, we certainly – that's one option that we could use to fund that. And so feel very good about that and we could put significant amount of assets on our balance sheet pretty quickly and not do harm to our revenue.

Eric Bolton

And I also point out one of the other things that's worth noting is, while the leverage has dome down, the cost has come down, the duration has moved out and our duration on our debt portfolio now is longer than it is out beyond anything we've ever had in our 25 years. So it's approaching as around seven years, little over seven years. So we're pretty pleased with where that's gotten to.

Zachary Silverberg

And on the development front, just seen two development starts this quarter was the projected yield or IRR. And how do you guys – are you guys inclined to ramp up development to a more significant level? And do you see any potential opportunities in the market?

Eric Bolton

Well, right now, I mean, the two new deals will start between now and year-end in addition to what we already have listed in supplemental. These are going to be stabilized yields north of 6% – 6% to 6.5% is where we still believe we're going to end out in terms of stabilized NOI yields.

We're – we believe that, we're pretty comfortable carrying 3% to 4% of enterprise value in terms of the development pipeline, which puts our number somewhere kind of the $500 million to $700 million range. That's about as far as we think we'll take it at any point in time. But we're pretty comfortable with what we have right now. And obviously, if those kind of yields, it's still pretty attractive.

Zachary Silverberg

Thanks, guys.

Operator

And our next question comes from John Kim from BMO Capital Markets. Please go ahead.

John Kim

Thank you. Eric, in your prepared remarks, you mentioned a more extensive redevelopment program next year. Can you elaborate on that at all? Will the unit – number of units you're redeveloping increase versus what you've done historically? And also, what the dollar amount, will that change versus 2019?

Eric Bolton

Well, I'll start and then Tom can add any details. I mean, we will continue with the redevelopment. When I make reference to that, I'm really referring to the kitchen and bath upgrade initiative unit interiors, if you will. And that program will continue next years, as we've been doing for the past number of years.

What's going to be different is, we are stepping up more extensive repositioning efforts at some of the legacy Post locations. We have portfolio of about 10 properties that we've initially identified that we believe offer superior location value. And given all the new supply that's come in around some of these locations at much, much higher rent levels, we see a real opportunity to go in and do a more extensive amenity upgrades and some other repositioning CapEx spend that we think really elevates the property to a completely different price point.

And the market certainly offers that, that opportunity. We think based on what we see happening around these locations. And so in aggregate, that's about – we think it will be roughly about $20 million spend next year that will – we will work on that over the course of next year and really begin to harvest the opportunity from that in terms of rent growth and revenues in 2021 and beyond.

But that was one of the real aspects of this merger with Post that we were very drawn to was great real estate in great locations that has only gotten better as a consequence a lot of this new supply that's coming to the market.

John Kim

For those 10 properties be taken offline or would they remain in the same-store pool?

Thomas Grimes

No. John, we – we've done these kind of repositions in – on assets before. And what we found is the level of disruption for the exterior work is really minor and it allows us to do the work around the resident. We're not forcing turnover in this case and most of these were already underway on the kitchen and bath. So it stays in the same-store.

John Kim

Okay. It sounds like you're not that concerned about supply next year, but I'm wondering what you may be concerned about on the demand side. It looks like the homeownership rates ticked up in the third quarter nationally and obviously, we have more attractive mortgage rates. So can you comment on what you've seen as far as move-outs to homeownership? And anything else on the demand side that you think maybe?

Eric Bolton

Well, we haven't really seen any changes of note on the demand side. It continues to be quite strong. Our move-outs due to home buying, move-outs to home renting have been very consistent now for the past two or three years and we haven't really seen any change in behavior. We continue to not be worried about single family either as a for-sale or for a for-rent product. I think that we're just in a completely sort of different mindset now as it relates to how people approach the housing.

Having said that, the – you're right. We're not particularly nervous about supply picture next year. To me, the thing I'm more nervous about long-term is to what degree is this job growth or their broader economy begin to slowdown due to various factors that we all read about. And I think that, obviously, with employment levels being as robust as they are right now, there's more risk to job growth moderating than there is accelerating from where we are right now.

So, it's something we're going to continue to watch and monitor. I will say this – that on a – from a regional perspective, we continue to believe if you want to begin to dial in expectations regarding a recession or expectations regarding a slowdown in the broader employment markets, we continue to believe that these Sunbelt markets will hold up better than most other regions of the country and for all the reasons that you know regarding affordability and just the favorable employment picture that we think continues to fuel growth in the Southeast will – in a recession, we all sort of suffer a little bit. But in a recession, I would tell you that, our regions in the country, we believe, on the demand side of the equation holds up a lot better than other regions of the country.

John Kim

Great. Thank you.

Operator

And our next question comes from Wes Golladay from RBC capital markets. Please go ahead.

Wes Golladay

Hey, good morning, guys. If we were to make the assumption that job growth will be at least comparable to this year, when we look to next year, would you assume the strategy would be to remain push rate over occupancy?

Eric Bolton

Yes, we do. We think at this point in the cycle that, that's the thing to do. I think the thing you have to appreciate at least the way we look at it is the variables that really drives revenue over time better or more so than any other variable is rent growth. And we think when you can get rent growth, you better get it. And even if that comes at the expense of a little short-term pressure regarding higher vacancy from a year-over-year perspective, we think that's the right trade-off to make. And so at this point in the cycle, that's exactly what we're doing.

Wes Golladay

Okay. And then looking at developments, it looks like you started one in Orlando this quarter, you're going to start one next quarter in Orlando. Is that more of a high-conviction call on Orlando, or is that just where the opportunities are falling right now?

Eric Bolton

It just happens to be two opportunities that fell our way. One is, we're self developing in Downtown Orlando, which is the one that is noted in the supplemental. And then the other opportunity is in – more in a suburban location. It's with a developer, we've got, it's really a pre-purchase of something that's not – that the developer is going to build for us, if you will, and we're structuring it initially as a JV. They'll build it out. And then upon stabilization, we'll take them out. So it just happen to be, I mean, we like Orlando a lot and continue to feel very good about the prospects of that market long-term, but just happens to be – with these two opportunities popped up.

Wes Golladay

Got it. Thank you.

Operator

[Operator Instructions] Our next question comes from Drew Babin from Baird. Please go ahead.

Drew Babin

Hey, good morning.

Eric Bolton

Good morning, Drew.

Drew Babin

A quick question. It was good to see revenue growth kind of accelerate sequentially in Charlotte. And I guess, going to the other kind of Post Legacy heavy markets, Atlanta and Dallas, I think, you mentioned the leasing spreads were pretty strong in the third quarter, both of those. Are we at the point where we might really see those markets take a sharper acceleration into next year? And I guess, how should we think about how some of the CapEx plans you're talking about, how do they kind of fit in and might they kind of throw some fuel on that fire in the next year?

Thomas Grimes

Yes. The – I mean, really what I hit on through is sort of the current momentum. And I would expect to see Atlanta, Austin and Nashville continue to improve based on what we've done thus far. And then Dallas is a place that is improving, but it'll run a little bit weaker than its peers right now. The additional redevelopment that we touched on earlier, the repositioning of the – amenity packages in the exterior of the building, that benefit will really come in 2020 – excuse me, 2021.

Drew Babin

And those exterior renovations, you're mentioning that in the context of Dallas?

Thomas Grimes

Yes. Three are – those – the 10 properties we're looking at. There are a couple in Dallas.

Drew Babin

Okay.

Thomas Grimes

And they spread across the footprint, though. But primarily, as Eric mentioned in the Post portfolio.

Drew Babin

Okay, thanks for that. And then the retail acquisition made in the quarter at one of your existing properties, what was the size of that? I didn't see an amount in there. Is it relatively nominal in terms of the the amount spent?

Thomas Grimes

Yes. It was pretty small. It was 14,000 feet. So acquisition there. It's really ground floor retail of an asset that we currently own that we just feel that it's better to own and control the retail of assets it's on the ground floor. So yes, it's pretty small.

Drew Babin

Okay. And the last one for me. Al, on the balance sheet, I know this was asked in a different way earlier. The leverage ratio where it is, is it where it is, because that's exactly where you want it to be, or is it where it is, because it's become very difficult to acquire properties in your market? And there's obviously still going to be assets like Little Rock that make sense for disposition.

Do you – might we see that leverage ratio tick up at the margin a little bit next year with redevelopment, development type needs? Is that something that you're okay with?

Albert Campbell

Well, honestly, first of all, we hope we have the opportunity to invest in very high-quality investments that do need additional capital and leverage. We certainly comfortable with that if we need to. I would say, we're comfortable where it is. We feel like we have good access to capital in all pieces of capital driven. So we will look to protect.

So we're in that range, but know that we have the flexibility to add to that leverage early sizable amount if necessary and available to have good use for it. So we built that flexibility to have it for our business plans. We're not – we have protected, but use it when necessary.

Drew Babin

Great. I appreciate the detail. That's all for me.

Operator

And our next question comes from Rich Anderson with SMBC. Please go ahead.

Richard Anderson

Thanks. Good morning, everyone.

Eric Bolton

Hi, Rich.

Albert Campbell

Good morning.

Richard Anderson

So I appreciate the pushing rent at the expense of occupancy sort of mindset in the current environment. And obviously, you've determined that the economics of that strategy are the best way to go. But at what point – and do you have a occupancy level in mind, where you have to kind of flip the switch back the other direction? I know you lost a little bit occupancy relative to year ago in the third quarter. Just wondering what that number is, where you say, oh, perhaps this isn't working as well as and we have to kind of reassess?

Eric Bolton

Well, at the end of the day, Rich, it's all about trying to manage revenue performance and optimize revenue results. And we're trying to optimize revenue results, both near-term and long-term. And I think that if we find ourselves in a scenario where the overall revenue results are trending to a point that at lower than what we would like. And we see evidence that we are creating more turnover as a consequence of being too aggressive with our rent practices, particularly on renewals. Then it's an easy call to make at that point to back off a little bit on the prioritization of rent growth and call back some of the occupancy in – again, in order to protect an overall revenue result that we're after.

But I would tell you that, again, as I've mentioned earlier, I think that the variable that drives revenue results and value over the long haul is rent growth. And it's very easy to get consumed by the sugar high of year-over-year gain in occupancy to boost revenues. And while you're enjoying that short-term phenomenon, you are giving up long-term performance opportunity.

And so I think it's a trade-off that you have to be very thoughtful about. And right now, we think the right thing to do is protect longer-term revenue performance through gaining as much rent growth as we can and tolerate a little give up on current opportunity on revenues through higher vacancy.

Richard Anderson

Okay, great. And speaking of the renewal 7%, I think you said in October. I might have missed that, but I think it's in the range. That's kind of way above the average relative to your peers by perhaps a significant amount. Is that achievable in the future? Where is that coming from? Is it tied in with the Post merger, or where – is that – or is that a natural level of renewal activity that you think is something you can repeat for the foreseeable future?

Eric Bolton

Rich, I'll tell you, 6% to 6.5% has been pretty natural and steady win. Thank you. When we did the first set of renewals on Post, we got a bump. But we're a long over with our pricing system on platform in place on that property. And so that is a fairly consistent number across the property in 6%, 6.5%. We're excited with 7% or 7.2% in October, certainly won't promise that to you going forward.

But we're at a point, where people appreciate where they're living, where our resident or where our teams are taking very good care of the residents. There is hesitancy to move and it's a pain to move. And as long as we create value for folks, housing markets are getting more expensive everywhere. We're able to put through a fare increase and we've been able to do that pretty consistently.

Richard Anderson

Yes, I just moved too, it is a pain. And then the last question, perhaps, Eric, your cost of capital today is at a level you haven't seen before, probably in the history of your company, both on an absolute and relative basis premium to NAV and a cash flow multiple that is very much comparable to your peers, which hasn't always been the case in history.

How is that changing your approach to external growth? I know you said you think you will have some opportunities to acquire some lease-up assets in the near-term. But is your narrative changing from an external growth standpoint, or are you kind of applying the same process and just considering this cost of capital decline is icing on the cake?

Eric Bolton

No, I mean I think that to a large degree, it – our approach and our thoughts about deploying capital remain consistent with what we've always done. I mean, clearly, we think about our cost to capital as a key component to deciding can we put capital out. I will say that we like where the balance sheet is at the moment. As Al was talking about earlier, we like our leverage, we like where our capacity is on the balance sheet.

And having said that, if we find strong evidence going forward that we're going to be able to put some more money to work than what we've assumed, then we will think about other forms of capital other than debt in an effort to keep the balance sheet strong We're not going to materially weaken the balance sheet in an effort to capture growth.

So we all understand that at some point, equity has to factor into the equation. And if we feel like that we can with a high degree of certainty to put that capital to work, then we wouldn't hesitate to move in that direction. But I'm not going to go ask for capital and hope that we can put it to work. I've got to be very, very confident that we can put it to work.

Richard Anderson

Hey, great color. Thanks, Eric. Thanks, everyone.

Eric Bolton

You bet.

Operator

And our next question comes from John Guinee from Stifel. Please go ahead.

John Guinee

Great. Thank you. Two questions. Your peers are spending a lot of time and effort in dollars aggressively dealing with rent control. Is the rent control show up anywhere in your markets, maybe a DC or Austin?

And then the second question is, it looks like you're building your last two most recent announced developments at about 270,000 a unit. What do you – what kind of products are you building there? Is it a wrap product or a podium or what are you building in Denver and Orlando?

Eric Bolton

Well, I'll take the first part of the question, Brad, you can take the second. What I would tell you, John, no, we have not really seen any real evidence of rent control per se certainly nothing like what we've heard coming out of California and New York across our footprint.

I mean, I think that the – more often than not what we see some of the local folks doing in Austin and Nashville and some places like that is talking about requiring more – being more aggressive about requiring affordability component to every new development that gets approved. So a certain percentage of the units have to be limited in terms of the rent levels relative to median income in the area and so forth.

So I think that that's where we see and the only thing that we really see suggesting efforts by local officials to keep a housing costs from getting out of hand, but no real rent control narrative that we're aware of. Brad?

Bradley Hill

Yes, this is Brad, John. So the deal that we're doing in Denver right now is a four-storey walk-up product. Austin, Denver, certainly are elevated from what we've seen in the last couple of years. But that's a four-storey walk-up product surface park, elevator service. And then the project we were doing in Downtown Orlando, that's a 11 storey kind of high-rise deal that we're doing with a structured parking component.

John Guinee

You can build a 11-storey concrete with structured parking for 270,000 a unit?

Bradley Hill

Yes. So that deal we're using kind of a different construction technique by FINFROCK, which is a design-build firm. They may have done this a number of times throughout the Florida market. And it's really a proprietary system that those guys use and they're able to build part of the product offsite and really bring it onsite and erect it. And it keeps the construction time period a little bit more concise, reduces the timeframe there, interest cost, things like that and then they also guaranteed the cost of it. So it's a slightly different technique. They've really perfected it – keeps the cost down on that deal.

John Guinee

Interesting. Thank you.

Operator

And our next question comes from Neil Malkin from Capital One Securities. Please go ahead.

Neil Malkin

Good morning, guys.

Eric Bolton

Good morning.

Neil Malkin

I'm not sure if you mentioned it, but the increase in total overhead. What – was that due to, I guess, performance better than expected, or planned accruals for that or what's that related to?

Albert Campbell

Hey Neil, this is Al. Yes, we had a slight increase for our guidance for the year there. It's really two things. And part of it was what you mentioned, we had very good performance this year, so some of it was our incentive plans and many of our regional operating Post well deserved. And also we had some additional technology investments that we're making this year. Certainly, both are good investments or good spends. So you saw our vision, our guidance and we feel good about that number for the full-year.

Neil Malkin

All right, great. Makes sense. Next, the demand is obviously very strong on the Sunbelt markets. But just in terms of forward demand or estimating that, do you guys track development – office development in your markets, the preleasing things like that, or do you monitor sort of relocation headquarters, relocation and things like that in order to kind of forecast what incremental demand will look like?

Eric Bolton

Yes. I mean, it's – we certainly monitor and track corporate relocations and some of the bigger announcements to take place in some of these markets that over the next several years are going to drive demand. And it's – that that's a notoriously hard thing to forecast with any real certainty in terms of the job growth scenario.

We really step back and look at the macro factors. And then when we look at the macro factors at a market level, whether it'd be some of the good things happening in Nashville, Austin, Raleigh and Charlotte. And so it's – we bring together a lot of different inputs in an effort to get confident that given market is likely to see good job growth and good wage growth, both of which are important.

The thing that's really difficult to really wrap your head around is exactly when is the broader U.S. economy going to materially slowdown and moderate, i.e., predicting a recession, if you will, that becomes a little bit more of a challenge. And – but again, from our perspective, what we take a lot of comfort in is that, where we to face a broader overall U.S. economy slowdown, we continue to believe that our story focus on the

Sunbelt markets, particularly diversified very well in both sort of A and B product and a more affordable product, in general, puts us in a good position for any sort of a material slowdown.

And if you go back and you look at the recession or more material slowdown periods, historically, over the last 25 years, you'll find that our store tends to hold it better and we still think that will be the case the next time it happens.

Neil Malkin

Fair enough. Last one for me. Given the – your move to push rent, does it make sense to more aggressively pursue acquisitions, particularly given the strong performance of your stock year-to-date?

Eric Bolton

Well, as I mentioned, we are looking at – actively looking at a couple of deals right now. One that we expect to have hopefully in the contract this week, we'll see if it gets the due diligence and actually gets done. But we're pushing. We're pushing as hard as we feel like we should.

I think that at the end of the day, it – I mean, we're clearly thinking about the spread in terms of our cost to capital and the kind of the yield that we would get. But we're also making sure that as we deploy capital that we're really strengthening the earnings profile of the company going forward. So we want to be sure that we're going to get to a point, where whatever stabilized yield we're going to get out of whatever the new investment would be is going to be better, if you will, than the go-forward yield out of the existing portfolio.

And so it's all about just making sure that we're adding investments that create a more robust earnings profile going forward versus the existing asset base. And we think that, given what we see happening now with just continued high levels of new lease-ups coming to market that we're going to see a more opportunity over the coming year.

Neil Malkin

Thanks for the color.

Operator

And our next question comes from Rob Stevenson from Janney. Please go ahead.

Rob Stevenson

Hi, good morning, Tom, on the same-store relative weakness in Dallas and Orlando, anything more than just a supply issue there?

Thomas Grimes

On – no, I mean, frankly, job growth is great in both places, both are leading markets. In Dallas, as I mentioned, we like the traction and the improvement and we've gotten on blended rents there. And on our revenue growth, which has gone from negative 2 in first quarter, negative 0.2 in the first quarter to 0.9 to 1.5 on Dallas. And then on Orlando, what we're really seeing is the B asset class holding up quite well and a little bit of pressure on the A's with new supply, but both have extraordinary job growth stories.

Rob Stevenson

What about Dallas? I mean, are you seeing any major bifurcation in terms of A's versus B's in that market?

Thomas Grimes

With Dallas, there is a split there with the product and it's also an urban – suburban split a little bit. Uptown is a little bit tougher than the portfolio. But places like Frisco and Plano, our A product is feeling some pressure, but the B holding up reasonably well in Dallas.

Rob Stevenson

Okay. And in 2020, I mean, you've talked a little bit about this. But in 2020, are any of your markets by your data sources or estimations likely to be seeing peak deliveries in 2020, or are we basically, has the pig mostly gone to the python in most of your markets now?

Thomas Grimes

I think early to tell on that. But, as Eric mentioned in his remarks, it's unlikely that we see them come down materially, and it's unlikely that we'll see a huge ramp up. But market by market, we're still going by the asset by asset build up of where supply is hitting scrubbing that numbers, comparing with third-party, running it through Brad's team, too, and we'll have more to say on that in our fourth quarter release.

Rob Stevenson

Okay. Al, how significant are fees in your overall revenue number? I mean, you guys are top line $1.2 billion and change year-to-date. How much of that is fees versus just straight out rent?

Albert Campbell

Rent is about 93% of our revenue on that. And so both reimbursements and fees make up the restaurant. So fees are about half of that, so 3%, 3.5% fees. So fairly meaningful, but certainly it's about rents.

Rob Stevenson

Okay. I mean, from from you guys' perspective, I mean, are there still more fees that you guys can grow and add to the system or is it just inflationary growth in the existing fees? In other words, are you guys in suburban location is going to start charging for parking and other sorts of stuff to continue to drive the fees at above the average rent rate, or are we sort of settled down in terms of the fee growth in the overall composition?

Albert Campbell

Let me say something, and Tom certainly can add to this.

Thomas Grimes

Yes, I'm sure.

Albert Campbell

I think what you've seen in the last year or so as you're seeing our fees, it's kind of blocky. We have programs that are going in, have significant increase and they stay stable for a couple of years as we get to new programs to roll out. So what we're seeing the last couple of years, Rob, is so fees have sort of grown less than rents. I would say, as we move into 2020 and 2021, Tom has got a couple of programs, assure you will talk about As we build out in 2020 and more productive in 2021, we'll have that line of growing more in line with rents what we expect.

Thomas Grimes

Yes. I think there are a few things to do, Rob. But I mean, as Al sometimes saying is keeping the main thing, the main thing, rent is the deal and that's going to be what drives us forward. We'll have some opportunities on the technology front going forward, but the rents will be the driver of our business going forward in the focus.

Rob Stevenson

Okay. And then just one housekeeping item. I'm not sure I saw somewhere. What was the price for the Ridge at Chenal disposition? And then what type of sales price does the 4 – the 5.4% cap rate indicate for the remaining Little Rock portfolio?

Albert Campbell

The Ridge at Chenal deal, that's about $45 million, $46 million. And as talked about, the cap rate was pretty similar to overall for the whole portfolio. All the assets together are 5.4%. I think, they're all pretty tight on their bandwidth.

Rob Stevenson

What is the gross sales price for all of the Little Rock portfolio?

Albert Campbell

About $150 million somewhere in that range.

Rob Stevenson

Excuse me, sorry about that.

Albert Campbell

$150 million.

Rob Stevenson

Okay, perfect. Thanks guys. Have a good one.

Eric Bolton

Thanks, Rob.

Operator

And our next question comes from John Pawlowski from Green Street Advisors. Please go ahead.

John Pawlowski

Thanks. Tom, I wanted to go back to your renewal remarks – renewal growth remarks, just so I understand it. So in a normal course of business for this year, you would have been in the 6% to 6.5% renewal range and then the legacy Post portfolio drove you a bit higher. Is that an accurate interpretation?

Thomas Grimes

No. Sorry, John, if I give you that impression, that's not. We just had sort of a better group. We push the renewals out at different rates for different people based on where they are in the market and what the sub-market is doing. And basically, we just had a higher accept rate at the higher price point. Post was right in there with Mid America, but just slightly lower. It is not Post driving us to 7%, it was more the accept mix during the quarter we got some of our higher asks.

John Pawlowski

Okay. Maybe then if you could give some color theories of what's going on in the ground to lead that higher acceptance of the higher rate. So if you gave me a job and supply forecast or the actual – what actually happened in 2019 a year ago, I probably would have predicted a lower renewal rate and I did. So I'm just curious, what on the ground on the demand side is leading to that incremental lift and renewals, do you think?

Thomas Grimes

Yes. John, I can take a stab at that. My guess would have been like yours, a little bit lower than 7%. But I think, as I touched on earlier, we are – platform has substantially improved. Our teams are doing an awfully fine job of taking care of our residents. They are renewing at a higher rate. And I think part of that is because of us, but I think part of that is just because of secular changes in society today, where people are staying single longer, they're deferring marriage, they're deferring childbirth and thus, they're – and our move-outs to home buying continues to drop and did again this quarter. So I think it is primarily those changes that are making the difference.

Eric Bolton

Yes. I would also add to that. John. This is Eric. That – one of the things I think you have to realize is that a lot of the supply that's coming into our market, as you know, is pretty high-priced product, I mean, really high-priced products. And even though, there may be some temporary lease-up concessions other things done, we are competing in this new – with this new supply, I guess, a much higher price point product than we ever have in the past when we've seen supply pick up in years past.

In prior cycles when supply picked up, it tended to be more of a balanced price point product, whereas now given all the things you know about relating to development cost and so forth, everything is just so much more higher price right now, which I think is really also fueling an ability for us to be a little bit more aggressive on renewals and still hanging onto a lot of people, because you've got the hassle moving.

But I mean, if you're going to incur the hassle moving, you got to really go to something that is compelling, either just a far superior product at a comparable price or even at a lower price. And that – I think that a lot of the new product doesn't really offer that same dynamic as we've seen in past cycles.

John Pawlowski

Okay. And the, Brad, one quick one for you. Curious of what you saw earlier in the year when Fannie and Freddie spreads gapped out, and I know they came back down pretty quickly. But within that time period, was there any interesting bifurcation across your markets in terms of the strength of the bit intense?

Bradley Hill

No, we've really not seen much bifurcation, as you mentioned there at all within our markets. I think there is just so much demand out there for assets in our region. Once again, the reasons that were talked about. I think for the most part, the buyers are moving past a lot of that stuff. And we're not seeing any type of the demand being impacted by what Fannie and Freddie are doing. It seems like there is – folks have alternative sources of capital lined up in the sense that, it's not impacting at all.

John Pawlowski

Yep. Great. Thank you.

Eric Bolton

Thanks, John.

Operator

And it does appear there are no further questions over the phone at this time. I'd like to turn it back to the speakers for any closing remarks.

Tim Argo

We appreciate everyone being on the call this morning, and we'll see many of you at NAREIT in a couple of weeks. So thank you.

Operator

This does conclude today's program. Thank you for your participation. You may disconnect at any time.