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Boston Properties, Inc. (BXP) CEO Owen Thomas on Q3 2019 - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.8771 beats by $0.13 | Revenue of $743.55M (8.34% Y/Y) beats by $12.82M

Earning Call Audio

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Boston Properties, Inc. (NYSE:BXP) Q3 2019 Earnings Conference Call October 30, 2019 10:00 AM ET

Corporate Participants

Sara Buda - Vice President, Investor Relations

Owen Thomas - Chief Executive Officer

Doug Linde - President

Mike LaBelle - Chief Financial Officer

Bryan Koop - Senior Vice President- Regional Manager

Ray Ritchey - Senior Executive Vice President

John Powers - EVP New York Region

Conference Call Participants

Nick Yulico - Scotiabank

Emmanuel Korchman - Citi

John Kim - BMO Capital Markets

Craig Mailman - KeyBanc Capital Markets

Jamie Feldman - Bank of America Merrill Lynch

Steve Sakwa - Evercore ISI

Rich Anderson - SMBC

John Guinee - Stifel

Alexander Goldfarb - Sandler O'Neill

Tayo Okusanya - Mizuho

Operator

Good morning and welcome to Boston Properties' Third Quarter 2019 Earnings Call. This call is being recorded. All audience lines are currently in a listen-only mode. Our speakers will address your questions after the formal remarks during the question-and-answer session.

At this time, I would like to turn the conference over to Ms. Sara Buda, VP, Investor Relations for Boston Properties. Please go ahead.

Sara Buda

Thank you. Good morning and welcome to Boston Properties third quarter 2019 earnings conference call. The press release and supplemental package were distributed last night, as well as furnished on Form 8-K. In the supplemental package, the company has reconciled all non-GAAP financial measures to the most directly comparable GAAP measure in accordance with Reg G requirements. If you did not receive a copy, these documents are available on the Investor Relations section of our Web site at bxp.com. An audio webcast of this call will be available for 12 months in the Investor Relations section of our Web site.

At this time, we'd like to inform you that certain statements made during this conference call which are not historical, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Although, Boston Properties believes the expectations reflected in any forward-looking statements are based on reasonable assumptions that can give no assurances that the expectations will be attained. Factors and risks that could cause actual results to differ materially from those expressed or implied by forward-looking statements were detailed in yesterday's press release and from time to time in the company's filings with the SEC.

The company does not undertake a duty to update any forward-looking statements. I'd like to welcome Owen Thomas, Chief Executive Officer; Douglas Linde, President; and Mike LaBelle Chief Financial Officer. During the question-and-answer portion of our call, Ray Ritchey, Senior Executive Vice President and our regional management teams will be available to address questions.

And now I'd like to turn the call over to Owen Thomas for his formal remarks.

Owen Thomas

Thank you, Sara, and good morning everyone.

Q3 marked another strong quarter results for Boston Properties. Macro market trends of job growth, urbanization, and office usage remain favorable. Demand in our major markets continues to be strong and we continue to execute successfully on our revenue and earnings growth strategy.

In terms of our key financial highlights for the quarter, we continue to outperform our sector with strong FFO growth in 2019. For the third quarter, our FFO per share was $0.04 above our guidance at the mid-term when adjusting for the refinancing transaction completed in the quarter and was $0.02 above market consensus.

We also raised our full year 2019 FFO per share guidance by $0.10 at the midpoint net of the refinancing transaction. We are now projecting 11% FFO growth year-over-year in 2019 even after accounting for the refinancing which is one of our strongest FFO growth years in recent history.

Looking ahead to 2020, we are demonstrating the sustainability of our positive growth momentum with initial guidance of 8% FFO per share growth at the midpoint again likely well above the peer average.

In terms of operational highlights, we had a busy and productive third quarter. We completed 2 million feet of leasing which is well above our long-term quarterly average for the period bringing our total leasing to 5.9 million square feet year-to-date.

We once again recognized for sustainability performance and leadership by earning an 8th consecutive Green Star recognition from the GRESB assessment and ranking among the top 4% of almost 1000 worldwide participants. We acquired 880 and 890 Winter Street two office buildings in suburban Waltham.

We entered into a joint venture agreement with Canada Pension Plan Investment Board for 45% interest in our Platform 16 development in San Jose. And we completed 700 million and 10-year unsecured refinancing on attractive terms.

Now moving to business conditions, our leasing activity remains healthy and evidenced by the well above average leasing volumes we have been reporting throughout 2019. that being said, most of the reported economic data we followed such as U.S. GDP growth, job creation and unemployment indicate healthy but moderating condition.

Economic growth outside the U.S. looks less favorable with China reporting its weakest numbers in three decades and Germany possibly already in recession. While geopolitical issues such as the U.S.-China trade war do not directly impact our business these risks are clearly not constructive for the broader economy.

As a result the U.S. Federal Reserve and most central banks in the developed world have an accommodative posture. The significant drop in yield on long-term rates has held in the U.S. this past quarter and long-term rates actually remain negative and many developed economies such as Japan and Germany.

In terms of impacts on Boston Properties, we do not anticipate a recession near term. The recession risks continue to rise despite slower economic growth, lower interest rates provide a tailwind for financing costs and real estate valuations. We maintain a hedged capital allocation posture in that we continue to invest in new projects driven by tech and life science demand. But at the same time, we are protecting the downside by keeping leverage low pre-leasing most of our developments and keeping our buildings full with credit worthy tenants and increasingly long-term leases. The private real estate capital market for assets in our core markets remains healthy. Those significant office transaction volume in the U.S. ended the third quarter down 18% from last quarter and down 7% from a year ago. We are still seeing reasonably strong investment demand in most of our markets.

The private capital market for office product is becoming more discerning with a preference for tech oriented market locations and minimal lease exposure for assets located in other markets. Yet again, there were numerous significant asset transactions in our markets this past quarter. Starting in Boston, 100 Summer Street in the Financial District sold for $806 million, $722 a foot and a 4.2% cap rate. This 1.1 million square foot office property is 87% leased and sold to a real estate advisory firm.

In West LA 5900, Wilshire Boulevard is under agreement to sell for $315 million nearly $700 a square foot and a 4.3% cap rate. This 450,000 square foot office building is 86% leased and will be sold to a real estate advisory firm.

In San Francisco, a 50% interest in 525 Market Street in the Financial District is under agreement to sell at a gross valuation of $1.2 billion or nearly $1200 a square foot and a 3.5% cap rate. This 1 million square foot office building is 97% leased and will be sold to a real estate investment manager. And finally, in Washington DC, 625 High Street in the Northwest Quarter sold for $259, $640 a square foot and a 3.5% cap rate. This 405,000 square foot building is 65% leased and sold to a real estate advisory firm.

So to summarize, our completed and expected capital activities for 2019, we sold in whole or part five assets for $398 million in gross proceeds versus our goal of $300 million in sales. Several small transactions remained under agreement and could close by year end.

We completed three acquisitions so far for $336 million. We launched three new developments comprising a million square feet that are 65% pre-leased with an expected cost of $822 million and projected initial cash yields upon delivery of approximately 7.7%. And we have delivered or expect to deliver into service by year end two projects comprising 675,000 feet costing $508 million at forecast deals.

Development continues to be our primary strategy for creating value for shareholders and our pipeline of current and future developments remains robust. This quarter we commenced our 2100 Pennsylvania Avenue development property in Washington DC. This office building located near our 2200 Pennsylvania Avenue asset will comprise 480,000 square feet, 61% pre-leased to Wilmer Hale and has an expected total investment of $356 million.

We also commenced our 200 West Street redevelopment in Waltham, Mass. We are converting 126,000 square feet of this suburban office property to life science laboratory space and anticipate investing 48 million into the redevelopment project at double-digit incremental cash yield.

With these additions, our current development pipeline stands at 14 office and residential developments and redevelopment comprising 6.3 million aggregate square feet and $3.6 billion of total investment for our share.

The commercial component of this portfolio is 78% pre-leased and aggregate projected cash yields are approximately 7%. Most of the development pipeline is well underway and we have 1.6 billion of equity capital remaining to fund. Given selective asset sales, the scheduled delivery of our current development pipeline and forecast NOI growth from our in-service portfolio, we anticipate being able to fund the current development pipeline without either accessing the public equity markets or exceeding our leverage targets.

As we pursue and add additional new investment opportunities to the pipeline, we will be increasingly accessing private equity partners to extend the use of our equity capital and enhance our returns. To that end, this quarter we entered into a joint venture agreement with CPPIB to sell a 45% interest in our Platform 16 future development project. This anticipated 1.1 million square foot Class A urban office campus in downtown San Jose is adjacent to Google's planned 8 million square foot transit village and the Diridon station transit hub.

With this joint venture we were able to extend the use of our equity capital diversify our risk and enhance our return to shareholders through property level fees and a carried interest arrangement. We are very pleased and honored to enter into this second significant joint venture with CPPIB a leading global institutional investor.

Lastly, this quarter, Boston Properties acquired 880 and 890 Winter Street in Waltham for $106 million or $270 a square foot. This two building 392,000 square foot office campus which is currently 82% leased is located adjacent to our 1 million square foot Bay Colony property. With this acquisition, we increased our presence in Waltham to around 4 million square feet further increasing our position as the largest owner and manager of Class A office space in this vibrant market.

We plan to invest approximately 20 million of capital to refresh the building and upon lease up and rolling existing rents to market expect to receive in excess of a 7% unleveraged cash return within five years. This is a good example of our acquisition strategy where we use our market presence and knowledge and real estate skills to create value.

Before I conclude as a major office market participant, I wanted to provide Boston Properties perspective on WeWork and Co-Working given the intense media attention on the situation. We believe the shared workspace business which provides flexible term turnkey space at a premium price is an innovation that has aggregated user demand has been a positive for the office market and will remain an important procurement option for certain occupier requirements.

To put all this in perspective, shared workspace represents only 1.6% of office space in the U.S. and as high as 3.6% in New York and San Francisco. Its share of gross leasing activity and net absorption has been materially higher. Though we believe the shared workspace market has growth potential, we anticipate a pause given recent capital raising challenges in the industry. WeWork has built an important market position in the industry and has the potential for further growth assuming it executes well with the proceeds from its recent recapitalization.

Regarding the potential impact Boston Properties, the revenue we received from WeWork from five leases in Boston Properties whole and partially owned assets is about 1% of our total revenue. And all WeWork facilities in our portfolio that have been open for more than a year are substantially full.

And lastly, we also have relationships with other shared workspace operators and our own offering called FLEX by BXP.

So, to summarize BXPs performance in the third quarter, a year ago we told you, we were at the inflection point of strong and sustainable growth. We've delivered on that commitment and are on track to exceed the growth targets we outlined for 2019 a year ago. We're also delighted with our forecast trajectory for 2020 with estimated FFO per share growth of 8% at the midpoint.

Once again we are delivering that growth through a balance of solid same property growth pre-lease development coming into service and smart allocation of capital and expense control. We continue to outperform our sector along most key metrics greatest scale, strongest credit rating, strongest FFO per share growth, greater geographic diversity across both West Coast and East Coast markets, a newer and higher quality portfolio of assets that we've either recently developed or modernized and an unwavering focus on customer satisfaction making BXP the developer and landlord of choice.

Let me turn the call over to Doug for more details.

Doug Linde

Thanks Owen. Good morning everybody.

So, this is the time of the year that we introduced our perspective annual guidance which you all saw in our press release last night. My market commentary this morning is going to focus on the opportunities in our portfolio as they relate to that guidance. Mike's going to provide you with a range for our same-store growth in 2020 and you should think about my remarks as the backdrop for the upper and lower edges of that band. We have completed a significant amount of forward leasing over the past few years which has had the effect of creating an extremely durable revenue stream and provided good clarity on the range of expected outcome going forward especially for 2020.

So, I'll start in the Bay Area. San Francisco has a vacancy rate in the low single digits and an availability rate in the mid single digits, 2019 leasing activity has slowed simply to the lack of available space. It's anyone's guess when the first and mission projects, the only speculative building under construction will actually deliver. But it's surely not before 2023.

CBRE put out a report a few days ago that indicated that large available blocks over 30,000 square feet even if they're at the base of buildings have asking rents on average over $100 gross. In October, the Prop M received its annual allocation 875,000 square feet bringing the total available availability of Prop M to about 900,000 square feet. We're scheduled to go before the Planning Commission in December to receive our LPA and a Prop M allocation for 505,000 square feet a partial allocation for 4th and Harrison.

Our current plan allows for a phased development of the 505,000 square foot building and a 255,000 square foot building. We believe we could start the project as early as the fourth quarter of 2020 and deliver occupied space at the end of 2022. So still a pretty long way out.

Our San Francisco CBD portfolio ended the quarter at 96.8% occupied and 98.7% committed. To-date in 2019, we've completed 490,000 square feet of space leasing with an average gross rent increase of about 34%. In 2020, we have 5 full floor expirations in our entire 5.6 million square foot CBD portfolio. We have a lease out on one floor. We are taking one floor for our own office growth and we are dedicating one floor to small enterprise users. This leaves a single build out floor at 535 Mission where the asking rent is over $80 triple net compared to an expiring end of about $60 triple net. And a single floor at easy 3. We have one multi-floor expiration prior to the end of 2021 in the entire portfolio in the CBD. And that tenant has requested our renewal proposal. Last year at this time, we had seven available full floors.

In the Silicon Valley, we have a large portfolio of development opportunities. This market continues to experience strong growth led by Google, who recently purchased the former Yahoo campus from Verizon almost 1 million square feet. Verizon in turn has leased

650,000 square feet in close proximity to the Caltrans station in Santa Clara. Uber this quarter has taken another 300,000 square feet in Sunnyvale in close proximity to a Caltrans and we are aware of other San Francisco headquartered companies that are looking in the valley for large blocks of space as well as valley companies that continue to grow.

At Platform 16 in San Jose, we are enabling the site and making presentations to tenants that are looking for large blocks of space. It's next to Caltrans. In our existing Mountain View portfolio, we continue to release or renew space that rents in excess of 55 triple net that's single storey product. In 2020, our most significant opportunity in the Bay Area is in this Mountain View portfolio where we will soon have 150,000 square feet of availability.

Turning to the East Coast. These are our views on Manhattan now the market conditions have changed. Demand in Manhattan remains robust. Uber announced their deal, Google completed their transaction and at this moment there are technology tenants in active discussions on 300,000 square feet to 1.5 million square feet requirements that represents significant growth. There are a dozen other tenants law firm, banks, media companies, insurance companies and more technology companies with requirements in excess of 300,000 that are seriously considering a relocation to either new construction or renovated project. There will still be significant existing supply from known relocations much of it in older assets that will need substantial capital. So while we are optimistic about the shrinking availability of newly constructed space, we continue to have a cautious view on transaction economics over the next few years. This quarter, we completed a 20-year renewal at 599 Lex with our Anchor law firm starting in 2022 for a minimum of 338,000 square feet.

Let's pause here for a minute. We have now extended every major lease expiration in our portfolio above 140,000 feet that was due to expire through 2024. We started that back in 2014. And we relet the City space at 399 Park Avenue and 601 Lex in its entirety. As a note, the transaction costs disclosed in our supplemental are elevated this quarter due to the 340,000 square foot early renewal we completed in 2014 with [indiscernible] at the General Motors building that commenced this quarter. Excluding that lease transaction costs would drop the $43 in total or $5.33 a year. There was no free rent in that transaction but in lieu we provided a higher TI concession.

Our portfolio focused in New York remains the four floors 97,000 square foot block at 399 Park Avenue in the General Motors building. We are in lease negotiations today for three of the four floors at 399 Park Avenue and are in discussions with an existing tenant that is interested in expanding into the final floor.

We expect this currently vacant space will provide revenue during the fourth quarter of 2020. At the General Motors building since the completion of the plaza work and the opening of the Apple Cube last month, we have commenced lease negotiations for a full floor vacancy at the top, reached agreement to extend two additional four floors that are expiring in 2020 and have activity on a number of the smaller spaces in the building.

Activity is meaningfully up though revenue on shelf spaces won't commence until the end of 2020. We still have some work to do with three full floors that will be available during the second quarter of 2020. But we have great progress.

I also want to note that at 159 East 53rd Street, we will begin collecting cash rent in two days on the entire 195,000 square feet. However, our incoming tenant has yet to begin their improvement construction which means this will push out our GAAP recognition of revenue into late 2020.

Dock 72 opened in September for WeWork and we expect to open the amended space later this quarter. Along with the [Rudin] [ph] organization, we are doing everything we can to market the project to the real estate and tenant community. Two weeks ago, we hosted a two day CRE tech conference and had over 1700 real estate tech participants experience the project. Wegmans opened last week adding another amended to the Navy Yard. We continue to have tenant discussions but there is no imminent lease signing in our sites and hence no expectation for additional revenue contribution in 2020.

Moving on to DC, Northern Virginia where almost 10% of the company NOI originates has the largest opportunity for improved occupancy in 2020. The tech tenants that have identified the DC Metro employment base as a fertile area for workforce expansion are continuing to grow and that growth is going to be in Northern Virginia.

In addition, the contractors that serviced the defense and Homeland Security businesses are also expanding. Last week, the Pentagon awarded the $10 billion JEDI cloud computing contract a pretty big deal. We expect this initiative will create significant office demand in Northern Virginia. There is still vacancy in Northern Virginia. But the Urban Core of Reston continues to outperform the market with a vacancy rate under 9% and starting rents in the high 40s to low 50s. This quarter we completed a 15-year renewal with the GSA for 492,000 square feet and our Dominion project in 90,000 square feet of renewals in the Reston Urban Core. And two weeks ago, we executed the 75,000 square foot lease with Facebook on three available floors and the Reston Urban Core.

We are in active lease negotiations with two large tenants totaling 450,000 square feet. We still will have 500,000 square feet of known availability in 2020, but there are a number of active requirements a few in excess of 100,000 square feet and we expect to make some of these deals, Ray probably expects to make all of them. As we sit here in late 2019, this space is expected to be vacant during portions of 2020.

Finally, let's touch on the Boston market where current conditions are as good as we have seen them in our company's history. While similar to San Francisco to the extent there is very little available space in large blocks in the Boston CBD, there are some buildings under construction which will deliver in late 2022 and 2023 with current availability. And there are active plans for new construction which will create supply in 2023 and beyond. Currently, however, there are more than 20 active requirements in the market between 50,000 and 250,000 square feet.

Our CBD portfolio is 99% occupied today and we continue to complete forward leasing transactions. During the quarter, we completed almost 200,000 square feet of early renewals and expansions with an average increase in rents of about 30% in the CBD. Much of that expansion is leased to other tenants so we won't realize that revenue until the existing leases expire. In 2020, we have one full floor expiring in the entire Boston CBD portfolio and we have a lease out on that space for delivery upon expiration of the existing lease.

We leased an additional 112,000 square feet at our 100 Causeway Street Tower bringing that building under development to 87% leased. In Cambridge, we have no availability but our new development 145 Broadway, 485,000 square feet building leased entirely to Akamai is opening this week on Friday. There continues to be significant demand in the Waltham Lexington submarket which is where we have our greatest availability in the region approximately 5000,000 square feet including 75,000 square feet at the recently acquired 880, 890 assets.

Owen described our plans for 200 West Street. So, we have expanded our potential tenant universe in Waltham to now include lab requirements, 195 West Street is an adjacent 63,000 square foot building that became vacant during the third quarter. It may also be converted to life sciences, but we're holding off until we have better leasing visibility at 200 West Street. The 880, 809 buildings were added to the Waltham inventory at the end of August. Our ownership along with the knowledge that we intend to invest in the buildings as we have at Bay Colony has already paid off with signed leases or active negotiations on half of the vacant space at rents in the low to mid 40s. New construction offers rent in this market are in the mid 50s for office and lab rents are pushing $60 triple net.

To conclude tenant demand for high quality workspace remains strong and the fight for talent continues to be a primary focus for our customers. We are seeing very strong mark-to-markets in San Francisco and the Boston CBD assets and have opportunities for incremental occupancy related revenue pickup in our Mountain View and Waltham suburban submarkets.

Our activity at 399 Park Avenue should deliver some late 2020 revenue improvements and we are having good success with our high-end product at the General Motors building. Finally in Reston, we have good lease negotiations on some near-term expirations and we still need to bring in some new requirements to absorb the 2020 vacancy, but Jake Stroman and Ray Ritchie in the team in Washington is going to deliver that.

Michael now translate this operating activity into our 2020 earnings guidance.

Mike LaBelle

Great. Thanks Doug. Hello everybody.

So last night we released our 2019 and 2020 FFO guidance. We expect 2019 FFO growth of 11% and our initial guidance for 2020 FFO growth is 8% at the midpoint of our range. Our growth is being driven by a combination of strong fundamental operating performance in our portfolio and delivering accretive new developments.

Before I jump into the details, I want to touch on our recent financing activities because we were quite busy this quarter. First, we closed a $400 million construction loan to fund the remaining costs to complete our 100 Causeway Office Tower at the Hub on Causeway development in Boston. The financing is attractively priced at LIBOR plus a 150 basis points pointing to the strength of the project that is now 87% pre-leased and will start to be delivered in the second quarter of 2021.

Second we issued $700 million of new 10-year unsecured bonds at a 2.9% coupon. We use the proceeds to early redeem a $700 million existing bond that had a 5.6%, which was due to expire in November of 2020. As a result of this, we incurred a charge on debt extinguishment of $28 million which is the redemption premium to prepay the old bonds. The charge totaling $0.16 per share is reflected in our FFO results for the third quarter and our guidance for the full year 2019.

Although we don't expect interest rates to increase in the near-term credit spreads are potentially more volatile and are also near all time lows. We view this as an opportunistic trade and it significantly reduced our borrowing costs on $700 million by 270 basis points. The impact on our interest expense going forward is a reduction of approximately $18 million per year or $0.11 per share.

Turning to our earnings results, we had a strong third quarter with our revenues up 8% and our FFO up 10% over last year after adjusting for the debt extinguishment charge. We had strong same property performance as well with our share of same property NOI up 7.1% and our share of same property NOI on a cash basis up 5.2% over last year.

As we've described on prior calls, our same property NOI growth is moderating in the back half of 2019 as we track against higher comps. We expect our cash same property performance will be flat to slightly negative in the fourth quarter of 2019. This is due to the recently executed 20-year lease extension with a large tenant in New York City that included free rent at the end of 2019.

We expect our cash same property performance to turn back to positive in the first quarter of 2020 and for all of 2020. For the third quarter, we reported funds from operations of $1.64 per share that was $0.04 per share or approximately $7 million higher than the midpoint of our updated guidance. The increases from $0.02 per share up higher than projected portfolio NOI and $0.02 per share better than projected management and service fee income. The outperformance in the portfolio came primarily from earlier than projected leasing at higher rents and lower operating expenses that we expect will hit in the fourth quarter.

For fee income we earned leasing commissions on the new leasing this quarter at our Hub on Causeway developments and higher service fee income. For the full year 2019, we're updating our FFO guidance range to $6.98 to $7 per share. This equates to an increase of $0.10 per share at the midpoint versus our recent guidance. The increases from growth in our same property in NOI that exceeded our assumptions by 25 basis points adding $0.02 per share; improvement and the contribution of our non-same properties including the acquisition of 880 and 890 Winter Street in Waltham of $0.02 per share; higher fee income of $0.02 per share. We also project lower net interest expense of $0.04 per share primarily from the benefit of our lower borrowing rates.

We provided detailed initial guidance for 2020 FFO last night in our supplemental report that's on our Web site. As we look ahead to 2020, we expect to continue our strong FFO growth trend. Our growth will be driven by higher NOI from our same property portfolio for both occupancy gains and higher rents as well as the delivery of new developments. In the in-service portfolio, we anticipate ending this year at an occupancy rate of 92.5%.

For 2020, we expect to increase occupancy 100 basis points ending the year around 93.5%. In the Boston market, our urban portfolio in Boston and Cambridge is highly occupied so our focus is on early renewals where we expect a role in place rents up to significantly higher market rents. In the suburban Boston portfolio, we lost 170,000 square feet of occupancy from expiring leases this quarter. As Doug described the activity in Waltham is robust and we anticipate gaining occupancy back in 2020.

In New York City, we have approximately 570,000 square feet of vacant space at the GM Building 399 Park Avenue in Times Square Tower, 360,000 square feet of this or more than 60% has signed leases that will commence by mid-2020. We have good leasing activity on the remaining space and expect that a portion will be leased with revenue recognition by the end of 2020. Overall, we expect occupancy to be higher next year in the New York City portfolio.

In Los Angeles, we're currently 97% leased with below market rents. We have the opportunity to increase our revenue through completing renewals at higher rents on most of the approximately 750,000 square feet of leases that expire at the end of 2020 through 2021. As Doug detailed, we're also highly occupied in San Francisco though we continue to have the opportunity to gain revenue on our rollover that has a strong positive mark-to-market in both the City and in Mountain View.

Next year's earnings will also benefit from the full year of stabilized income at Salesforce Tower that reached 99% occupancy this quarter. Doug also described in detail the rollover exposure that we have in Reston where we will have temporary downtime impacting both our occupancy and our revenues in 2020. In the district, the majority of our rollover exposure is behind us having occurred in 2019 and our 2020 exposure is limited.

Our guidance assumes strong growth in same property NOI and cash same property NOI of 3% to 4.75% in 2020 led by revenue growth in Boston and San Francisco. We are assuming non-cash rents to be $100 million to $130 million with the vast majority being free rent that will convert to cash rent. Fair value rent now contribute only $9 million of non-cash rent that's a decrease from approximately $10 million from 2019. So our 2020 same property NOI growth would have been 50 basis points higher, if you exclude the negative impact of the burn-off of this non-cash fair value rent.

We will also see growth in 2020 from the delivery of several key development properties and the acquisition this quarter of 880, 890 Winter Street. Our assumption of incremental growth in NOI from development and acquisitions is $60 million to $70 million in 2020. The most significant of these is our 475,000 square foot 145 Broadway development in

Cambridge and other key development deliveries contributing to our growth includes 1750 President Street in Reston, 20 City Point in Waltham and the Podium Office and retail phases as well as the 440 unit residential phase of the Hon Causeway in Boston.

Our 2019 and early 2020 deliveries totaled 2.3 million square feet and $1.1 billion of new investment. We expect termination income in 2020 to decline by approximately $10 million or $0.06 per share from 2019. This primarily relates to several lease terminations in 2019 instigated by us to accommodate new or relocating clients that we assume will not recur. We also expect our management and services fee income to decline in 2020.

We're completing several large fee development projects. These include Dock 72, the first two phases of the Hub on Causeway and the development of the TSA Headquarters project in Springfield, Virginia that we are managing for a third-party. Our assumption for 2020 fee income is $25 million to $32 million and represents a decline of $10 million or $0.06 per share at the midpoint from 2019.

Our assumption for net interest expenses in 2020 is $410 million to $430 million. In addition, we expect $9 million of incremental interest expense associated with our unconsolidated joint ventures that is contained in the income from joint ventures line of our income statement.

In aggregate, this equates to a modest $3 million increase in interest expense for 2020 at the midpoint. The interest expense savings we've created by reducing our borrowing costs with our recent debt refinancing is offset by incremental interest expense from our $850 million June 2019 notes offering, higher expected line of credit usage from funding development costs and the cessation of capitalized interest from delivering developments.

So to summarize, we are initiating our 2020 FFO guidance with a range of $7.45 to $7.65 per share. At the midpoint, this represents an increase of $0.56 per share over the midpoint of our 2019 guidance. The increase is comprised of $0.38 per share of NOI growth in our same property portfolio and $0.37 per share from development deliveries and acquisitions. That is partially offset by a $0.12 per share decline in termination and management service fee income, $0.02 per share of higher net interest expense, a $0.03 per share increase in G&A expense and $0.02 per share of lost income from asset sales.

So in 2019, we're anticipating a sector leading 11% FFO growth and we're following it up with guidance for 8% FFO growth in 2020 using the midpoint of our range another strong growth year. We continue to demonstrate terrific growth both internally through increased pricing and occupancy in our same property portfolio and externally by delivering substantial new development investments that are primarily pre-leased and generating very attractive investment returns.

And looking further ahead, we have another $2.4 billion of development scheduled to come online between late 2020 and 2022. The commercial space in these projects is 83% pre-leased to a roster of high quality companies. They include the new Marriott headquarters in Bethesda, a new building in Cambridge leased to Google, 100 Causeway in Boston leased to Verizon, 159 East 53rd Street in New York City leased to NYU, Reston Gateway leased to Fannie Mae and 2100 Pennsylvania Avenue anchored by Wilmer Hale. These developments and others that we are working to add to the pipeline will contribute meaningfully to our continuing growth over the next several years.

That completes our formal remarks. Operator, can you open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Nick Yulico with Scotiabank.

Nick Yulico

Thanks. I guess first off, Mike, in terms of the guidance for next year, can you quantify what is the negative impact to same-store NOI growth next year from GM Reston any other kind of known move outs? And then, what are some of the other major move ins that are benefiting next year?

Mike LaBelle

So, we talked on our last call about the rest and move outs, which I think was $17 million approximately and GM was about the same. We were recovering a little bit of the GM because we've actually been successful in renewing a couple of tenants. So, as Doug pointed out so eloquently we've had good activity in GM and we've done better there than we expected. Other than that, we're seeing strong activity in Boston, we have a lot of early renewals that we're doing at 200 Clarendon Street and at the Prudential Center; at 100 Fed, we'll get a full year of the renewal that we did with the Bank of America; and Cambridge continues to be an opportunity although there's no vacancy. The little bit of rollover we have is going to have a big roll up and we'll continue to work on some early renewal activity.

Embarcadero Center is significant. We've been building that for a couple of years. We had a big four floor tenant expiring in the middle of 2020, all of that lease, all of that space is basically leased. And we'll commence with big roll ups when it comes available to us. And in New York City, we're also growing year-over-year. So, our NOI from that portfolio will grow and the GM building is growing all of the retail we expect to be leased and generating revenue in 2020 and as Doug described we've had some success in the office network.

Doug Linde

I just sort of say the following which is that so the low end of our range assumes everything that we've got going that and all the things we've already done in the high-end of our range assumes that we have a little bit more success with some of the opportunities in front of us in the portfolio vacancy that I described.

Nick Yulico

Okay. That's helpful thanks. And then, just second question is on Platform 16. Can you give us a feel for when that project may start and how should we think about the cost expected yield. And I'm assuming you're not going to go spec, but there's not that much spec construction in that market right now feel that there's a lot of demand. And we heard from brokers in the market, you're targeting something like $65, $70 dollar net rent. So, I mean how should we just think about the opportunity here and when it's going to begin? Thanks.

Owen Thomas

So, it's Owen. Just to talk a little bit about the marketplace, I think you're right, we are ahead of the other projects that are seeking entitlement and finalizing development plans. Google just made some progress on their entitlement for the project that they're building next to the Diridon Station which is a positive. Much of the development that goes on in this area is not pre-leased. We are actively speaking with potential customers now and hope to acquire an anchor tenant for this project. We are incrementally investing in it today. We are clearing the site, preparing drawings, I would anticipate that this project would commence next year and we will leg into it based on the physical requirements of the site and market conditions.

The forecast yields for the project based on our expected costs and the expected rents are in excess of 7%.

Doug Linde

This is Doug. You should think about this is a phase project right. So, there are three buildings to be built here. This is just under 500,000 square feet. And so, if we were to do something, we do something with one of the buildings not all three of the buildings at the same time.

Nick Yulico

All right. Thanks everyone.

Operator

Your next question comes from the line of Emmanuel Korchman with Citi.

Emmanuel Korchman

Hey. Good morning everyone. You talked about bringing in additional private equity sources especially in your JV developments. Can you just share with us your thoughts on developing within the JV is rather than selling stabilized assets especially in one -- in more stabilized rather than growth markets, instead of giving up maybe some of the development upside.

Owen Thomas

So, Manny, its Owen. It's a balance, as I mentioned, we are bringing in joint venture partners because of the robust pipeline of opportunities that we have in front of us. We are not intending to issue equity at our current share price. And we certainly don't want to exceed our leverage target. So that's the governor. We look perspectively what our leverage levels are, and the capital needs from our development pipeline, then we make a decision as to whether we want to, or need to bring in a JV partner on a specific deal.

I would say also in the case of Platform 16, it's also a REIT mitigation decision as well because it's a site and it's not pre-leased. And there are -- definitely rewards from the investment, but there are also risks and so we are diversifying our risks as well.

In terms of asset sales, we continue to sell assets, I described nearly 400 million of sales that we conducted this year that is material. We will keep doing that. But, as I described before selling major assets for us is inefficient way of raising capital for the developments because most of our major assets have a significant embedded gain. And with the sale comes a requirement to make a special dividend, so we can't retain that capital to invest in that development and it brings down our forecast FFO growth.

So that's how we think it. Mike or Doug, anything you guys want to add?

Emmanuel Korchman

Doug, you had talked about the wildcard show lease that sort of [throws off stats] [ph]. Is there anyway that you guys could or have mapped for us sort of any of those big chunky leases that have happened in the past or starting to roll into numbers now that are either impacting earnings or other stats?

Doug Linde

We can certainly try and think of a way to provide -- give some information. I think that, our hesitation is that unappropriate for us to describe the economics of a particular tenant and because they're so lumpy in terms of when they occur giving you explicit information would be -- would I think not be appropriate. I mean, I can tell you that there was a significant roll up in the gross rent with that tenant and we provided them with TI allowance. That was -- that includes the value of free rent in the form of capital, which skewed the capital numbers, but they didn't get any free rent.

So those are the kinds of things that are happening in these transactions, which by the way make it a little bit more challenging to describe the "capital intensity" of leases across an office portfolio because so much of this stuff is a part of a negotiation. And it is true that we are in capital intensive businesses from a transaction cost perspective. But we -- sometimes we trade free rent and increase revenue in the short-term for additional capital.

So I'm not sure we can think about it and come back to you and if you ask specific questions, we're more than happy to try and give you as much clarity as we can.

Emmanuel Korchman

Great. And I don't want Mike to feel left out, so I've got one for him too. You talked about the same store declined in 4Q '19. Can you quantify how much of a lift that then provides in 2020, if you were just to isolate that event?

Mike LaBelle

Well, I think what I can tell you is that I think the first quarter of 2020 should be a strong quarter of same store growth. And then, in the second and third quarter of 2020, we're going to experience a rollout in Reston. So, the second and third quarter we'll be dampened because of those rollouts and then -- towards the end of the year it should increase again. I think that's the best way to respond to your question.

Emmanuel Korchman

Thanks everyone.

Operator

Your next question comes from the line of John Kim with BMO Capital Markets.

John Kim

Thank you. I just wanted to follow-up Mike on that fourth quarter swing into negative territory. You mentioned that was partially driven by free rent on a major lease in New York. When does that free rent period burn off next year?

Mike LaBelle

It will be burned off before next year. December of 2019 was the free rent period.

John Kim

Got it. Okay. Doug, a couple of questions on New York, in your prepared remarks, you mentioned strong demand for new build product. How would you characterize the leasing market for older assets like the GM building? And also you mentioned that you're cautious on transaction economics in New York. And I was wondering if that was commentary on cap rates.

Doug Linde

So, I'll answer the first two questions and I'll let Owen answer the third question. So, the leasing activity in New York City on buildings that have recapitalized or repositioned themselves is very strong. And there is significant amounts of demand for buildings both on Sixth Avenue or on Park Avenue or in the Plaza District that are not "new construction" that have taken the thought and energy of how to recapitalize and reposition those assets. And for us that's both 399 Park Avenue, 601 Lexington Avenue, and the General Motors Building. With specifically with regards to the GM building, I think I was pretty explicit that we've got a lot of activity going on. That's six months ago did not exist. So the activity in that building, which while you may describe it as an older building in terms of when it was built has had a dramatic amount of new capital put into it.

And so, and if you go there, it's a pretty spectacular entry experience now after a really tough sell for the last two or three years because of the construction. And we have a full floor lease out on the top of the building and we have two tenants that are going to renew -- two other floors that are renewing in 2020. And we have other good activity in the building. So, we feel on a relative basis a lot better today than we did six months ago.

Owen Thomas

And then to answer your question on the capital market for New York, I think it's bifurcated. I think the market has softened up a little bit in New York for specific classes of assets. So, let me explain. So, we just sold 540 Madison in Midtown last quarter and had great execution on that in terms of cap rate. That as I mentioned last quarter was a smaller asset. It was just over $300 million. So I think for what I'd call bite size single assets in New York, I think there's still a very strong market as we demonstrated last quarter.

I think the market is also a very robust for buildings that are in tech-oriented areas of New York and for newer buildings. And I think the market has softened up a bit for more commodity like buildings and certainly buildings -- including buildings that have some significant near term rollover.

John Kim

And last question, if I may. On South San Francisco, it's a very tight market. There's increased spillover over of tech tenants moving into that submarket. Is there anything that you can do with 601 and 611 gateway to capture some of this demand?

Owen Thomas

The answer is yes. We think there are things that we can do. We are thinking real hard about how in fact those buildings might be repositioned, so that they can accommodate some of that non-traditional office based a.k.a. lab use. And, I think we'll have -- we're in the process of thinking about that and we'll have more to discuss in coming quarters.

John Kim

Thank you.

Operator

Your next question comes from the line of Craig Mailman with KeyBanc Capital Markets.

Craig Mailman

Hey guys. Doug, you mentioned that things are getting a lot better at GM and I appreciate your previous commentary. Is there anything you can isolate that was an inflection that all of a sudden there are more showings or you get [indiscernible] renew that you thought maybe at flight risk? Anything specifically?

Doug Linde

So, John Power, why don't you try to answer that question because you're closer to it than I am.

John Powers

Well, certainly opening the fabulous new Apple stores, the number one, as Doug mentioned, we've been three plus years without a front door, and having our tenants and the showings go around to the Lexington app side or to the Apple store or all kinds of configurations. So, I would say that is one huge difference. And if you haven't been there, you should go because it's pretty spectacular.

Secondly, I think some of this is just timing in the market where tenants are now active and looking and we have space that matches up with needs in the marketplace. We had a number of showings before, but there was somewhat of mismatch between the sizes people were looking for and what we had available.

Craig Mailman

That's helpful. Then, Owen, going back to your earlier comments on WeWork and the Co-Working space. I know you guys now have the FLEX offering, but I'm just curious, the one thing that seems like we were proved out was that enterprise tenants were willing to pay up for flexibility. So, I'm just curious what you guys see may over the next, one to three years of maybe changing mindset from landlords and how kind of office space could be or should be leased to potentially capture the premium recipe with the pay for flexibility?

Owen Thomas

Yes. That' a good question. Look, I think that what we are seeing in the market is that major corporate users continue to want to have their own headquarters and controlled spaces that are unique and it provides them ability to express their brand and compete for talent. And these facilities are going to be secured on a very long-term basis because that's how they want them.

And if you look at our development pipeline, we're building a number of these corporate, -- either a corporate headquarters or regional headquarters for these companies. That all being said, the needs of a company for its square footage, the personnel needs of a company often are more volatile than the timeframe required to procure space on a long-term basis. So, we do think that there are many companies out there that large users that if they could procure some of their space on the margin. And again, it's hard to say exactly what that percentage is, is it 5% is it 10%, who knows? But there's clearly a value to those corporate customers to be able to procure some space on the margin, on a flexible basis.

And we work the other operators and now ourselves with FLEX by BXP are tapping into that. I think one thing that is being figured out in the marketplace today is how should that space be priced? Because you are leasing it on a short-term basis and how as the owner of the building, should you be rewarded for that? And what should the rental premium be? Obviously, on a short-term basis, you're taking more vacancy risk. And if you own the space, like we do with FLEX, our TI costs are higher. So that's how the market is evolving.

And I would just talk to the following, which is for the most part and I've used this word, in previous conversations about this topic this is shock absorber space. Meaning typically companies are trying to do something either internally with their particular "platform," a.k.a. I'll give you an example. We have a tenant that's agreed to take a piece of the space that we're building in Boston for nine months because they're going to do a major renovation of their own place and they need some place to send their people while the space is being renovated because they don't have swing space in the building.

So that's -- I consider that shock absorber space or tenants that are growing in a significant way and the building that they may have -- under construction for themselves may not be done yet, but they still need to hire people or they are thinking about a new business opportunity and they're not sure if it's going to be permanent or not. I mean there are lots of those types of situations that we have seen across the portfolio where we see these types of tenants trying to take that kind of space. And then, "FLEX" by BXP space is primarily driven towards small enterprise users. So we're building out floors, not hundreds of floors but a floor or two here and there. And we are looking to try and subdivide it into what we think are appropriate segments of space, meaning 3000, 5,000, 7,000, 10,000 square feet and putting it in a particular place in the building in a type of configuration where it can be easily change for the particular needs of a tenant without much in the way of additional costs. And for that we are charging a significant premium.

Bryan Koop

This is Bryan Koop. What we're finding evidenced out as Doug said, is that it's a perfect compliment for our existing client base and especially on these larger projects like the Prudential Center of the hub. We're finding that predominantly the FLEX user is our existing customers for their short-term needs. And it continues to be something that they have strong interest in and we're having daily dialogue with our primary customers on. So it's not as much they'll call it the freelance market. Although we do have those customers in FLEX, it's been predominantly our existing enterprise users.

Craig Mailman

That's helpful. And one quick one for Mike, do you have anything in guidance related to maybe going forward the 2021 unsecured given kind of the cost account, just got the 700 million?

Mike LaBelle

We don't -- so in 2021 mid year, we have, I think its $800 million at 4.5% roughly that is coming due. I mean, we're obviously looking and thinking about it, but there's nothing in guidance for pulling those forward and paying them up early.

Craig Mailman

Great. Thank you.

Operator

Your next question comes from the line of Jamie Feldman with Bank of America Merrill Lynch.

Jamie Feldman

Great. Thank you. I was hoping Ray or team can talk more about the comments on the JEDI project and what you think that might mean for office demand in Northern Virginia. And actually office end data center and maybe if you could talk about land availability and given how that's been gobbled up by the data center sector?

Ray Ritchey

Hey Jamie, it's Ray. Obviously, JEDI is a great news for the entire DC region, most specifically toward Virginia. The vast majority of cloud talent is in the Dulles corridor. And with the exposure of both data centers and the headquarters for major cyber focus government agencies invest in Herndon's, all the three letter agencies and 80% of the internet traffic going through Loudon County. Clearly JEDI will be focusing on Northern Virginia. And as the dominant landlord in that corridor, we expect to get a lot of demand and owning the best office product. We expect to be the recipient of a lot of that demand. But, we're not in a position to make any comments on specific deals or requests for space at this point in time.

I can just say the general demand from the tech community in the Dulles corridor and specifically Reston town center has never been stronger. And we talk about the vacancy in Reston. It's important to note that the large sector that vacancy is a relocation of Leidos out of one building, doubling in size to the new building in 1750. So, the biggest issue there is not bad news is great news that we're meeting the demand of our existing tenants. But, I guess the JEDI to DC is almost important as the match natural wind tonight. So, we'll be equally hopeful in both.

Jamie Feldman

Is there any thought on how long it takes to actually translate into real demand?

Ray Ritchey

I think the demand is going to be almost immediate.

Jamie Feldman

Okay. And then, switching gears to Silicon Valley, I mean, we saw the Stripe announcement, they're moving from CBD San Francisco to South San Francisco. Can you just talk generally about some of the headquarters or not even headquarters, but some of the moves either from the city down the peninsula or to Silicon Valley. And just kind of how people should be thinking about or how you're thinking about the submarkets that are going to matter most and the types of product that are going to matter most, will we see a shift?

Doug Linde

So, this is Doug. So, couple of things. First of all, there is no available big block space in San Francisco. So anybody who is looking to grow significantly in the city is going to have a really hard time between now and 2020 something when a new building gets built and you saw Pinterest and Salesforce commit to -- at the time on unentitled sites and one of them is still unentitled. The workforce is also important. And so, to the extent that it becomes more and more challenging to move around the Silicon Valley. Some of the large Silicon Valley headquartered CBD -- headquartered CBD companies are looking at the Silicon Valley as a fertile place for them to put a location so that it can absorb some additional talent that is not necessarily in the city. And so I assume that is why Uber, for example, went down there and there are two or three others that we're aware of they're looking for additional space right now in the Silicon Valley. Being close to public transit is critical. And so the closer you get to the Caltran and more importantly to the bullets stops on the Caltran, the better off you are going to be.

With regards to South San Francisco the move from Stripe, there are a number of companies that are in the payments business Square moved to Oakland. Visa has -- I think made it clear that they're not going to grow in the city of San Francisco. There's a gross receipts tax that is not hospitable to companies that are in the payment transaction business. And so my assumption is that those types of companies will be less likely to grow in the city and more likely to grow outside of the city.

But again, the fact of the matter is, is that there are so few opportunities in the district -- in the city itself to make a large splash and grow. It's naturally causing tenants to look elsewhere. And they are most importantly looking for places that are in close proximity to public transportation.

Jamie Feldman

Okay, thanks. And then last, are there any developments starts or funding development starts included in the '20 guidance?

Mike LaBelle

Nothing new, I mean, again, we're continuing to do some work to prepare Platform 16 to start, but we're not including the cost of starting that development nor is 4th and Harrison assumed in there. And anything that we start those costs obviously will be capitalized. So, the interest cost associated with funding those costs, which would come off of our line of credit or otherwise would be capitalized.

Jamie Feldman

Okay. All right. Thank you.

Operator

Your next question comes from the line of Steve Sakwa with Evercore ISI.

Steve Sakwa

Thanks. Good morning. I guess I wonder, Doug, could you maybe just talk about the sort of divergence we're seeing kind of in financial services, the announcements of JPMorgan recently potentially moving kind of jobs out versus kind of big tech coming into the city and how you sort of think that dynamic kind of plays out over the next couple of years and its impact on overall net absorption.

Doug Linde

So, I'll make a general comment and I'll let Owen describe what's going on in the city from the phase respective. So in general, Steve there has not been a lot of what you would refer to as job growth in the financial services sector for quite some time. There has been job growth in the financial services technology business. So, the Marcus that the new bank's that Goldman Sachs is operating is being created. Presumably there are a lot of tech jobs because it's an online bank. I mean we've seen JPMorgan and others taking what we would refer to as tech kind of space for their technology oriented businesses. But by and large, there has not been a lot of "growth" in the general online or in-person consumer oriented or investment banking oriented personnel associated with the financial services businesses.

And there has been relatively little in the way of new hedge fund growth. There's been a lot of private equity growth and there's been a lot of alternative asset management growth on -- numerically those are not a lot of bodies. And you've seen tremendous amounts of technology businesses growing in these cities because the labor forces are there. And we've said this all repeatedly further glass four or five years, is that we clearly are in the business of trying to put ourselves in a position to take advantage of the growing customers that are in our marketplaces. And those happen to be technology and in the case of Boston and a place like South San Francisco life science companies.

And so it's very natural for us to see a continuation of that. And we're seeing, the same group of kinds of customers that are -- they're growing in San Francisco and now in LA and now in Boston and now in New York, having similar name associated with them, which is, those are the -- I guess the effectively the largest tech titans in the country these days. And they have significant plans for expansion.

Owen Thomas

Steve, my own view of it is that we read what you read. We're not experts on JPMorgan strategy with respect to its personnel. However, I would say the following, JPMorgan as well as all the major banks in New York always are outsourcing some of their workforce to other cities around the country. And so, I don't think there's any 'new news' in that. I would just say it's probably the 2019, 2020 version of that trend that's been going on for years. So, I still think that the banks are concluding that New York is the place they need to be headquartered for a variety of talent and client reasons.

In terms of the broader picture, what we believe is going on is that many traditional businesses like banking are using technologies and are able to grow their businesses with fewer people. And most of the job growth that we're seeing in the U.S. today is being -- is in the whole technology areas because these companies are creating all of the innovations that are making some of the traditional industries more efficient.

And so, if you look at the job growth figures for the United States, this cycle, tech and life science has been very large and a lot of the legacy industries like financial services has been pretty flat. And therefore, if you take that into office demand though, no one prints these figures. I've said before on this call and certainly publicly that I think most of, if not all of net absorption, this cycle in the office business has come from technology, life science and shared workspace operators.

Steve Sakwa

Okay. Thanks. And I guess just kind of going back to some of the questions on guidance and maybe for Mike or for Doug, just in terms of what's sort of peeling that onion back on the same store. I'm just trying to get a better sense for, I guess it sounded like Doug, there was a little bit of speculative maybe leasing or things to come at the high end of the range. And I'm just trying to sort of figure out roughly how much or what the wiggle room is, to either get to the low end or the high end. I realized you gave a lot of detail on different markets and different tenants, but how much sort of speculative stuff needs to occur to get to the high end.

Doug Linde

So I don't know how you define speculative, Steve, so if it's not signed, I guess it's speculative, right? So we have a high degree of comfort with the rains that we provided. And the low-end of the range is the stuff that we have much more clarity on and the high end of the range has stuff that we don't have quite as much clarity on. And there's a little bit of expectation on -- as Ray and his team in Washington DC moved towards completing the transaction they're working on. But more importantly, getting some of the available space absorbed. And similarly we have other transactions like that as I described in Mountain View and in Waltham, which are clearly more speculative. And I think I did a pretty good job of describing where those square footage is on a relative basis are grounded. And you can put a rent number to those square footages and come up with a percentage of what you think is going to get done in the year and you can sort of get to the top end of our range, which is how we got there ourselves.

Mike LaBelle

And Steve, there's always speculative components of our guidance. I mean we always have to make these assumptions every year and every quarter when we give guidance about what might get done, what could get done and how we build that. So, I wouldn't say that the process or the analytics that we've done through this time is any different from what we do. Obviously, the set of opportunities we have is different every quarter and every year. But the process we go through to come up with that is similar.

Steve Sakwa

Yes. I wasn't trying to imply that there was something sort of inaccurate or guesswork on the guidance. Just trying to get a sense for how much is already kind of baked in. And then, how much is sort of on the comm., but we can circle back. I guess just lastly, is the rates to kind of 3 Hudson Boulevard and maybe for Ray, just 2100 Pennsylvania, I know 2100 Pennsylvania is well leased, but the prospects for the balance of that space and then just sort of the discussions on 3 Hudson Boulevard.

Ray Ritchey

At 2100 Penn, we don't deliver it for another two and a half years and we have more requests for proposals for the space than we have space. And we haven't even taken to the market yet. The demand for first-class brand new space in the best locations in the city is as strong as I've ever seen it, is the kind of device the overall image -- version of the market. But at 2100 Penn, we just wished we had three or four more of them.

Owen Thomas

John Powers, why don't I turn it to you for 3 Hudson Boulevard?

John Powers

Yes. 3 Hudson Boulevard, we're still underway with their foundations. We had a couple of delays with that, but we expect to have that done sometime probably early in the second quarter. We're about 95% CDs now. We have lobby finishes and whatever, they're not finally selected, but the actual building is pretty much designed. I don't know, a dozen, probably presentations, to uses all over 300,000 feet. Buildings have been very, very well received. We're very, very proud of it, very excited about it, later than some of the developments that's there now. We're probably a year and a half to two years behind other developments. If we went forward, which we have not committed to do. But, we're optimistic enough at this point that we're probably putting a steel order in for the first nine floors to give us a little quicker time to market. When we do go.

Owen Thomas

Let me just add a little bit. So, the amount of speculative new construction that was in the New York City sort of vocabulary a year ago is dramatically reduced. So, their first deal was hit at the next building at Brookfield's project. There is strong view that much of 50 Hudson Boulevard is going to be committed. There are additional deals in lease negotiation at the Spire building. So, the opportunity set is much more constricted today than it was a year ago, which I think gives us a lot more comfort that there is going to be somebody who is going to be legitimately serious about taking a slug of space from three Hudson Boulevard. Whether that's in 2020 or 2021, I don't know, in terms of when they make their commitment, but we feel a lot better about the opportunity set in front of us to get the next large requirement that is out there.

Now there are some other buildings that we're going to be competing with. We think that we have a unique kind of product that, John has described before. But, we're clearly waiting for that anchor tenant before we make any kind of commitment to move forward.

Ray Ritchey

Yes. And I would just add to that, in addition to the supply side, which Doug talked about. John mentioned all the pitches that we've already made. We also see a strong pipeline of perspective new customers that are going to be coming into the market over the next couple of years. So timing is uncertain, but we're certainly confident in the project.

Steve Sakwa

Got it. Thanks. That's it for me.

Operator

Your next question comes from the line of Rich Anderson with SMBC.

Rich Anderson

Hey, thanks. Good morning. If we could just, I know you touched on Docks 72 and everything that's going on there with Wegmans and all that. But, it's been sitting at the, WeWork 33% pre-leased forever. And I'm wondering your level of concern there in terms of attracting new tenancy in the face of WeWork problems. Is there an indirect issue to be concerned about? Is there a direct issue about WeWork sort of backing away to some degree. Would you be willing to bring in FLEX by Boston Properties to supplement some of that? Just any kind of moving part type of commentary would be interesting. Thanks.

Doug Linde

So, on a Dock 72 clearly the lease up of this property has been slower than we expected. That being said is an incredibly high quality offering and building. And we haven't fully completed it yet. The buildings open, WeWork is taking occupancy, but all the amenities in the project are not even completed yet. So it's a great show. It had great views. It's got every amenity you can imagine. It's got a fairy at the end of the dock. And I think it's an emerging office location. So Doug talked about the Wegmans opening, the Navy Yard people have done a wonderful job on all of their place making. And we're confident in this project for the longer term.

In terms of WeWork they have opened their facility and they started to sell desks and they're off to a good start. And then I talk to them more specifically about WeWork in my comments.

Rich Anderson

Yes, okay. Mike, [indiscernible] debt to EBITDA number that's -- I know it's your comfort zone, but it is a turn or two higher than the REIT average. Is that sort of designed to go lower as developments go operational and the denominator goes up or are you comfortable in that six-ish kind of range for the long-term?

Mike LaBelle

I think we are comfortable for the long-term with the range we're in right now. I also think that and we've talked about this before, if we were to not do any new investment and we just let everything get built and leased and stabilized our debt to EBITDA would be below six. So we look at prospective, we look at an existing net debt to EBITDA and prospective net debt to EBITDA, when we kind of think about our balance sheet capacity. And we believe that because of the quality of our asset, the length of our cash flows that the company can support a leverage ratio between 6x and 7x. We're very, very comfortable with our credit ratings with our leverage in those ranges. So I would not anticipate us longer term necessarily operating in a different zone.

Doug Linde

And Rick, just to be clear about what Owen said before, that the reason we're doing these joint ventures on some of our new developments and some of our new asset acquisitions is explicitly because we're thoughtful and we want to be prudent about what our overall leverage ratio is on a long-term going forward basis. And so we just -- we feel like it's the prudent thing for us to be doing is to be managing those levels.

Rich Anderson

Fair enough. And then, last for me, if we're looking at 8% FFO growth next year what would that translate to at the AFFO line? Would it be -- and maybe you could just answer higher or lower than 8%?

Mike LaBelle

I mean, I think I can get into it a little bit more than that. We're three quarters of the way through 2019 and so we've got pretty good visibility, where 2019 is as, we look at the fourth quarter and we think about what the leasing costs are going to be and what the capital is. So I would suggest at the end, for 2019 we're going to be somewhere in the 450 to 460 a share range for AFFO.

And then, if you think about what we told you about -- in 2019 just to digress, we gained about 130 basis points of occupancy during the year, which is a pretty significant occupancy game. So, the leasing transaction costs that we incurred to both keep the portfolio at its same place, deal with the rollover and increased that occupancy was more significant than it might normally be because of that occupancy game.

In 2020 I've told you that our occupancy gain is expected to be 100 basis points, so slightly less. So I would anticipate that the leasing costs in 2020 could be less than 2019, moderately less. As we think about CapEx, our CapEx this year compared to our CapEx next year, I think they will be similar honestly, it's somewhere around a $100 million, maybe $110 million for CapEx.

And then, if you think about non-cash rents, I've given you guidance for that. So, year-to-year non-cash rents are basically flat. They're pretty similar. So, if you kind of think about those three things and then you think about our FFO growth, basically all dropped to AFFO. So, our FFO growth at $0.56, I think it was at the midpoint -- is almost a $100 million. And so my anticipation is that, we would get most of that to drop into our AFFO line. And so if you compute that, we could be at $5 maybe a little bit higher than $5 next year on an FFO basis.

Rich Anderson

Great. Great color. Thanks very much.

Mike LaBelle

No problem.

Operator

Your next question comes from the line of John Guinee with Stifel.

John Guinee

Great. Hey Doug, you mentioned something interesting about TI dollars and free rent dollars. So, if you look at big picture and you say what it costs to move a Class A tenant into a building. You add TI, [FF&E] [ph], architectural engineering fees, technology costs. And I don't know if that's a $200 a foot, $300 a foot, but you can tell us.

And then how much of that cost is covered by either the TI allowance or the free rent. And what I'm curious about is whether the tenants coming out of pocket for when it's all said and done, 0% of the costs or 50% of the overall cost to get them relocated.

Doug Linde

So John, you ask a complicated question, it will be hard for me to answer it in a queer blurb. So, let me just give you the following thoughts. So, number one is that, every one of these markets is different and the markets that are stronger have a very different tenant improvement allowance and free rent construct in the markets that are less strong. So, as an example, in Boston CBD today for an existing building with vacancy we might only be giving $5 to $7 a square foot of TI for a 10-year term. And we're giving no free rent. And depending upon when the lease expires, we may be giving some amount of build out time for that period of time. So, if it's costing 200 plus dollars a square foot and we're giving 70 bucks and we're simply giving you the time to build out your space, the tenant is paying for a significant portion of that, okay?

Juxtaposing that to the weakest market from a transaction cost perspective, which is Washington DC, where in the CBD for a tenant going into a piece of space, they're getting an allowance of $120 to $140 a square foot, and they're also getting free rent of 12 to 15 months on top of their build out time. So, in that marketplace, a significant portion. So if the rent on a new building is call it, $70 on a gross basis and we're giving them a 140, then it's 210 bucks a square foot and they're probably covering a significant portion for a 15-year term in a building in Washington DC, which is just sort of the norm.

So, I think it varies significantly, but by and large in San Francisco and in New York City and in Boston, both CBD and suburban free rent is not really part of the equation for those transactions in terms of "covering the costs," in Washington DC it's more of a market phenomenon.

John Guinee

Great answer. Thank you.

Operator

Your next question comes from the line of Alexander Goldfarb with Sandler O'Neill.

Alexander Goldfarb

Okay. Good morning. Just a quick -- a few quick questions here. One, I think you touched on it earlier, some of your general thoughts on continuing the LA investments, but to the extent that you would look at developments out there, do you think that you would have projects that would be sort of the typical Boston size, call it over 500,000 square feet, or the stuff that you're seeing would be more of a boutique nature, smaller building sizes, you'd look to expand your presence in that market.

Owen Thomas

Hey Alex. It's Owen. We'd certainly like to do the larger projects as possible is not easy. We would look at something smaller if we felt like it would lead us into a broader program, whether associated with the property or the groups that we're working with. So, we would consider both.

Ray Ritchey

And we've taken a hard run at both larger scale projects and one off boutique type projects as well.

Alexander Goldfarb

Okay. And then Ray, while I have you there, your comments on DC or obviously, you guys always do well there on leasing, for new building and certainly at Reston town center, but just thinking about the overall market, it always seems like musical chairs. Are you seeing in DC similar to like New York where TIs and the landlord concessions that they're offering to retain tenants are increasing? Or is it just that as tenants come up, leave Reston town center aside, they just want new construction and therefore no matter what an existing landlord is going to offer those tenants will seek to go to new construction?

Ray Ritchey

I think, it's a very bifurcated market. And even our own portfolio, I think it's important to note that, we have six buildings that we own 100% of that is 98% leased and these are newer or recently renovated first-class buildings. And those buildings are doing exceedingly well.

We also have in our portfolio three buildings that we own in joint ventures with others that are struggling. So, even with our own portfolio, we have the best in class leases at the highest rents and maintain the highest level of occupancy and the more commodity plays we're struggling. And I think it's clearly a tale of two cities on both the new construction and the existing there is a need and demand for higher tenant improvements. But, we tend to get the rates for them when we give those higher concessions on the base rent. So again, two markets, the commodity space little more challenged. The top tier space is doing exceedingly well.

Alexander Goldfarb

Thank you.

Operator

Your next question comes from the line of Tayo Okusanya with Mizuho.

Tayo Okusanya

Hi. Good morning everyone. I just wanted to talk about kind of the outlook beyond 2020. I mean great details in regards to guidance for 2020, but specifically on the development side, when I look at deliveries in '21, '22, I think the development disclosure is pretty good than a lot of those assets are filled up. But how do we kind of start thinking about potential new developments spend in 2020 that's the result in additional deliveries in kind of like 2022 just kind of given the strong demand you've seen in most of your markets.

Doug Linde

So, Tayo, this is Doug. So, Owen described the new assets that I think went into our supplemental disclosure this quarter and we provide dates for those. We have a pretty healthy pipeline of other opportunities that we are looking at across all of our portfolios. And we have a number of "land positions" that we hope to translate into development. I think most of that stuff, if we started it in 2020 would have a 2022 to 2023 delivery, but I'll give you some examples.

So the 4th and Harrison site, which would be 500,000 square feet in San Francisco, the Platform 16 site in San Jose, which would be somewhere just under 500,000 square feet. The Back Bay station site that we currently -- we're working on permitting in Boston is a almost 700,000 square foot piece of space. The next phase of development in Reston would probably be residential, but there's a 500,000 square foot potential building to build, 3 Hudson Boulevard is a 2 million square foot piece of space. So, that would be a 2024, kind of a delivery.

So, there is a lot of stuff and that's in land that we currently control. You would not be surprised to hear me say that there are other things that the organization is working on in all of our submarkets to get additional pieces of development potential that we could get going, either, sooner or later. And they are -- there are millions of square feet of space that are currently being discussed internally in Northern Virginia, in greater Waltham, in the San Francisco submarket, in New York City, that are all important components to even more growth. Clearly, none of it would come online before 2022 or 2023 at the earliest.

Tayo Okusanya

Great. Thank you.

Owen Thomas

Okay. I think that concludes all the questions and certainly concludes management's remarks. Thank you all for your attention and your interest in Boston Properties. Thank you.

Operator

This concludes today's conference call. You may now disconnect and thank you for attending.