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Apartment Investment and Management Company (AIV) CEO Terry Considine on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.01 misses by $-0.06 | Revenue of $229.83M (-3.87% Y/Y) beats by $5.1M

Earning Call Audio

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Apartment Investment and Management Company (NYSE:AIV) Q3 2019 Results Conference Call November 1, 2019 1:00 PM ET

Company Participants

Lisa Cohn - Executive Vice President and General Counsel

Terry Considine - Chairman and CEO

Keith Kimmel - Executive Vice President, Property Operations

Wes Powell - Executive Vice President, Redevelopment

Paul Beldin - Chief Financial Officer

Conference Call Participants

John Kim - BMO Capital Markets

Shirley Wu - Bank of America Merrill Lynch

Trent Trujillo - Scotiabank

Nick Joseph - Citi

Austin Wurschmidt - KeyBanc Capital Markets

Rob Stevenson - Janney

Drew Babin - Baird

Hardik Goel - Zelman and Associates

Richard Anderson - SMBC

Haendel St. Juste - Mizuho

John Pawlowski - Green Street Advisors

Buck Horne - Raymond James

Operator

Good day, and welcome to the Aimco Third Quarter 2019 Earnings Conference Call and Webcast All participants will be in listen-only mode [Operator Instructions]. Please note today's event is being recorded.

I would now like to turn the conference over to Ms. Lisa Cohn, Executive Vice President and General Counsel. Please go ahead ma'am.

Lisa Cohn

Thank you, and good day. During this conference call, the forward-looking statements we make are based on management's judgment, including projections related to 2019 results and 2020 expectations. These statements are subject to certain risks and uncertainties, a description of which can be found in our SEC filings. Actual results may differ materially from what may be discussed today.

We will also discuss certain non-GAAP financial measures such as AFFO and FFO. These are defined and are reconciled to the most comparable GAAP measures in the supplemental information that is part of the full earnings release published on Aimco's Web site.

Prepared remarks today come from Terry Considine, our Chairman and CEO; Keith Kimmel, our Executive Vice President, in charge of Property Operations; Wes Powell, our Executive Vice President, in charge of Redevelopment; and Paul Beldin, our Chief Financial Officer. Other members of management are also present, and will be available during our Q&A session, which will follow our prepared remarks.

I will now turn the call to Terry Considine. Terry?

Terry Considine

Thank you, Lisa. And good morning to all of you on this call. Thank you for your interest in Aimco. Third quarter was another strong quarter for Aimco across all our business metrics, including adjusted funds from operation, which exceeded the midpoint of guidance by $0.02 per share.

In operations, Keith and his team are having an excellent 2019. So far this year, they lead all peers in same-store revenue growth, same-store expense growth, same-store net operating income growth, same-store net operating income margin and perhaps most important, customer retention, driven by consistently improving levels of customer satisfaction and improved customer selection. One impressive measure of their productivity, the compounded annual growth rate in controllable operating expenses has been negative for the past 12 years.

In redevelopment, Wes and his team are on track, creating value across the portfolio. For example, at Parc Mosaic in Boulder, they welcomed our first residents with rates and at a least pace ahead of underwritten expectations. On the balance sheet, Patty and Paul took advantage of low interest rates and placed $670 million of long-dated property loans at 3.34%. In the past few quarters, they've reduced the cost of our leverage and in the next few they will reduce its absolute amount. Debt to EBITDA temporarily elevated as planned, will be a half turn less by the end of this year and a full turn less by the end of next year.

With this year's leasing mostly complete, our focus naturally turns to next year. We have already provided our preliminary outlook for 2020. We see another good year with solid growth; with same-store net operating income up 3.7% to 4.1%; with AFFO per share up 6% to 8%; and economic income per share up 8% to 11%, to a year-end net asset value of about $63 per share.

We expect to achieve these results, notwithstanding our continued investment in growth through redevelopment. As Schedule 10 shows, we've made a substantial investment in assets, which are non-earning or reduced earning while the properties are being redeveloped. We accept short-term pain for long-term gain, because over the next four years these six redevelopments will be completed, the apartments will be leased and the properties will be stabilized.

After consideration of moving parts including capitalized costs and the cost of capital to complete construction, the six properties are expected to increase the run rate of the 2020 base case by adding another $27 million to NOI and $0.18 per share to bottom line. So we expect 2020 to be another good year. We are upbeat about the future. We're also prepared for a possible downturn in the economy.

By comparison to the general population of apartment renters, Aimco customers on average are older and more stable with higher incomes and better credit. We have a limited cost to complete our redevelopments now under way. We have only nominal maturing debt. We have abundant liquidity in our largely unused $800 million bank line and then ready access to more through our $2.4 billion of unlevered properties.

We like our balance of growth and safety. These results and prospects are the work of a great team. For all that they've done and for the bright prospects of tomorrow, I offer my Aimco teammates many and sincere thanks. I'm proud of what we've accomplished together.

And now for more detail, I'd like to turn the call over to Keith Kimmel, Head of Property Operations. Keith?

Keith Kimmel

Thanks, Terry. I'm pleased to report that we had a strong third quarter in operations, delivering sector-leading margin for the ninth straight quarter, we set new highs in occupancy, a solid rate growth and a decrease in controllable operating expenses.

Our consistent performance has resulted in sector-leading revenue, expense, and NOI year-to-date. We begin with a relentless focus on customer selection and exceptional customer service. This playbook leads to lower turnover, higher occupancy, avoiding costs and better margin. Based on more than 20,000 surveys in the third quarter, customer satisfaction was over 4.25 out of 5 stars. This marks the 11th consecutive quarter at this world class level.

Third quarter turnover was 44.8%, a 40-basis point improvement year-over-year. As a result, our average daily occupancy was a third quarter record at 96.8%. We accelerated throughout the quarter from 96.6% in July to 97% in September. Our strong occupancy translated to solid top line growth with revenues up 3.8% for the quarter. Our top markets with growth over 4.5% were Philadelphia, Washington DC, Boston and Atlanta. We have strong performances of growth over 3.5% in Denver and Los Angeles. Solid markets with growth over 2% were the Bay Area, San Diego, Miami and Chicago. Finally, markets with growth over 1% were New York and Seattle.

Now turning to expenses, as demonstrated by our decade of cost leadership, innovation and productivity are core to Aimco. Controllable operating expenses were down 80 basis points in the third quarter with the decreases in marketing and term costs resulting from high retention. This was offset by increases in property taxes, leading into expense growth of 3.1%. As a result, net operating income grew 4.1% and margins expanded to 73.1%, an improvement of 20 basis points over last year.

Looking at leases which transacted in the quarter. New lease rates were up 2.5%, renewal rates were up 4.6%, and same-store blended lease rates were up 3.6%. Our strongest new lease rate growth was in Boston, Seattle, and Denver, and with the most pressure on new lease rates in Chicago and Atlanta. Finally, as we look at our preliminary October results, we are continuing our occupancy acceleration and tracking toward a strong start to our 2020 plan.

Blended lease rates were up 3.1%, 30 basis points better than last year. New leases were up 1%, renewals were up 5.1%, all while achieving an average daily occupancy of 97.1%, some 30 basis points better than 2018. And with great thanks to our teams in the field and here in Denver for your commitment Aimco's success, I'll turn the call over to Wes Powell, our Executive Vice President of Redevelopment. Wes?

Wes Powell

Thank you, Keith. Aimco's redevelopment activities remain on track and details have been provided within our release. Today, I'll touch on our investments and portfolio management strategy and also provide some color on recent activities.

As ever, Aimco looks to make investments where we can earn outsized returns but on risk-adjusted basis. Broadly, we're looking for anomalies. Most often, our investments are covered land plays where we expect the appreciation of land to more than offset the depreciation of our buildings. This provides the opportunity for value creating redevelopment. We have, and adhere to strict policies favoring the portfolio diversified by price point and geography, customers with strong credit ,limited exposure to entitlement, lease-up and completion risks, modest near-term debt maturities, and abundant liquidity, including cash and a pool of unencumbered properties.

We are cautious about exposure to ground-up development. When appropriate, we employ others to take on those efforts, for example, Alexandria in Kendall Square, Trammell Crow on the Anschutz Medical Campus, and absent an outright sale, this will be the case when we monetize the land value of our Brickell Bay Drive waterfront properties in Miami. We do not shy away from complicated deal structures believing that some complexity can reduce risk and/or lead to higher returns.

Now moving on to portfolio management and recent activity. While Aimco benefits from a geographically diversified portfolio, our markets are not fixed forever. Year-to-date, we have sold four properties located in Chicago's Western suburbs cutting in half our exposure there. We invested the proceeds in the previously announced acquisitions, redevelopment and development projects in South Florida, Colorado's FrontRange and Cambridge, Mass, where we find markets with greater economic and population growth, friendlier tax environments and superior fiscal policies.

And with thanks to all of my teammates for their continued hard work in constant pursuit of value-creating opportunities, I would now like to turn the call over to Paul Beldin, our Chief Financial Officer. Paul?

Paul Beldin

Thank you, Wes. Today, I'm going to start with 2019 results and guidance, then discuss Aimco's balance sheet and finish with the 2020 outlook that we published one month ago. First, third quarter AFFO was $0.02 ahead of the midpoint of guidance. As a result of our third quarter outperformance and our expectations for the fourth quarter, we are increasing our AFFO guidance for a second time this year.

We now expect AFFO per share of $2.20 at the midpoint, an increase of $0.03 from our beginning of year expectations. The strong operating results delivered by Keith contributed to our increase in guidance and increased asset values, also increase in asset values or the value-creating redevelopments delivered by Wes. Taken together, and with the accretive effects of our portfolio management activities, we expect 2019 year-end net asset value of $59 per share.

Next, Aimco's balance sheet has abundant liquidity with $800 million credit facility that is fully available and a pool of assets unencumbered by debt valued at $2.4 billion. Aimco leverage to EBITDA, consistent with plan, is currently above target. We expect to reduce leverage by half a turn to 7 times before our next earnings call as we execute our remaining $300 million of planned property sales.

Now turning to our 2020 preliminary outlook. We published the preliminary outlook one month ago to find an early view into the expected growth beyond the fourth quarter. We preliminarily expect 2020 AFFO to increase year-over-year by $0.13 to $0.18 per share or 6% to 8%. We expect this AFFO increase to be driven almost entirely by NOI from our 2020 same-store communities.

Diving a little further, we expect same-store revenue growth between 3.2% and 3.6%, same-store expense growth between 1.8% and 2.2%, same-store NOI growth between 3.7% and 4.1%, and leverage EBITDA to decline to 6.6 times driven by EBITDA growth and $100 million reduction in net debt. Organic growth, disciplined value creation by redevelopment and development, and a cohesive team are expected to produce 2020 year-end net asset value per share between $62 and $64 resulting in an economic income growth of approximately 8% to 11%.

As Terry mentioned, we are mindful of possible changes to the economy and are well prepared,. Please refer to pages 6 and 7 of our 2020 outlook for Aimco-specific factors and policies, which are intended to minimize the impact of an economic downturn across all aspects of our business. Lastly, based on clean our annual plan, and as we complete the budget process, we will issue overall guidance with the fourth quarter earnings release in late January.

With that, we will now open up the call for questions. Please limit your questions to two per time in the queue. Rocco, I'll turn it over to you for the first question.

Question-and-Answer Session

Operator

Thank you, sir [Operator Instructions]. Today's first question comes from John Kim of BMO Capital Markets. Please go ahead.

John Kim

On your 2020 outlook, you basically have same-store revenue decelerating a little bit. Can you just talk about that dynamic and then your leasing spreads are up on a year-over-year basis?

Paul Beldin

So the primary decline in the rate of revenue growth from where we expect the midpoint of 2019 guidance to be at 3.7%, and our range that we issued for next year is really driven by the rate of growth and occupancy. Keith and the team have done a wonderful job picking up about 60 basis points year-to-date of occupancy. And while we see the opportunities to do better next year, it's not going to be at that same rate of growth. And so that explains the change.

John Kim

And just sticking to the outlook and the $59 NAV you have for the fourth quarter estimated. I guess it's like a 5% increase over the last six months. Can you just walk through the components of the change? I mean, it looks like maybe half of that was same-store NOI growth, cap rate compression, and NAV redevelopment upside to that NAV that you created?

Terry Considine

John, I think you've nailed it, those are the three components. What I'd tell you is that as part of our meeting at NAREIT in a couple of weeks, we'll issue a third quarter NAV and we'll have all the detailed particulars there and we can crawl through the specifics at that time.

John Kim

Maybe specifically you mentioned you assumed unchanged market pricing. But I was just wondering if you had actually put in or factored in lower cap rates over the last six months. And if so, how much?

Paul Beldin

So the unchanged market price is really more of a perspective look, as we are forecasting out expectations for our year-end 2020 NAV. The 2019 number is based upon current cap rates.

Operator

Our next question today comes from Shirley Wu of Bank of America. Please go ahead.

Shirley Wu

So similarly on the '20 preliminary outlook your expense guidance of 1.80 to 2, could you walk us through some of the major buckets and your expectations for some of the line items like taxes, insurance, utilities and controllables?

Paul Beldin

Yes, Shirley, we'll get into all the detailed particulars when we set formal guidance on the fourth quarter call, but just to light your appetite, I would tell you that embedded within that range of growth, we have an expectation that our controllable operating expenses will continue to be well under peer average. Keith mentioned that we were negative on a year-to-date basis. We expect for the full year to be up about 50 basis points in '19 and we expect similar or better results in 2020.

Shirley Wu

So we'll leave at that. And going to your 1001 Brickell acquisition, could you talk to the lease-up on that office asset and your optionalities for redevelopment and the potential structure of that deal potentially?

Wes Powell

Shirley, it's Wes. I'll take that, and thanks for the question. First, on the existing office building, it's early days, but it's right on plan. In fact, maybe a little bit ahead of plan. So we feel very good about that. The bigger picture, I think it's important to note that our plan to monetize that investment is going to be based on the value of the underlying land.

We feel like we increase that value day one, when we combined the site with our neighboring Yacht Club property. And that land value is going to be based likely all a mixed use development today as of right, you can build over 3 million square feet on the site, and basically we're going to wait and see what happens over time and we're going to make that decision and be able to monetize that investment without taking on the risk of ground-up development.

And so there is a question of whether we participate in that, if perhaps there is an apartment component to it, that would be a logical place, but that's a choice for the future. And right now, we feel like we have a great position to earn a current return while we see what happens over the coming years.

Operator

Our next question today comes from Trent Trujillo of Scotiabank. Please go ahead.

Trent Trujillo

So Paul, and maybe Lisa or others, on your leverage plans, you said that that will be accomplished once you complete your paired trades, so where does that stand since you didn't sell anything in the third quarter versus what you previously guided at $100 million for the quarter? Is that just a timing issue? And I guess related, I'm asking because if I look at the disposition list on your website, I see that the Lodge at Chattahoochee, Chimneys at Cradlerock, and Timbers of Long Reach are no longer on that list.

Paul Beldin

Yes, I'll start and then I'll maybe turn it over to Lisa if there's any additional information that maybe I neglected to cover. The expectation of $100 million of sales in the third quarter was based upon our call in the last January. As we went through and scheduled out our sales for the year, those have subsequently been planned to move back I guess it was not something that we may be explicitly communicated, so sorry for the misunderstanding there. But from about the second quarter on, our plan was to sell the remaining $300 million in the fourth quarter. Those sales are proceeding on track. Pricing is good, interest is good, and Lisa if anything else you could add?

Lisa Cohn

You hit all of that and only thing I'd add, the reason those are no longer on the website, it comes right now they're under contract. So you're up to date.

Trent Trujillo

Terry, maybe a bigger picture question. On a call earlier this year, I asked about how you're thinking about your exposure to California, roughly 40% of your capital or portfolio, and you mentioned you may consider joint venture structures on your existing assets. So with rent regulation initiatives, some markets seeing softness, other submarkets seeing higher supply in the coming year, has there been any further consideration to that? And maybe under what circumstances would you view that as an attractive thing to do both financially and from a market diversification perspective?

Terry Considine

It's an important issue in front of Aimco, and my views today are the same as they were when you asked earlier in the year. We like our allocation to California. It's a tremendous market, it's a very large economy, very dynamic. But we like it at about 40%, which is where we are today, and I think that we would like to take some of our capital in California and redeploy it perhaps in California where we can earn higher return perhaps in Wess' redevelopment activities and the most cost-effective way to do that I think will be to sell a fractional interest which maintains the protection against property tax increases under Prop 13. So that's -- you have the game plan and we're looking at that every day.

Operator

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

Nick Joseph

Terry, maybe following up on California. I just want to get your thoughts on AB 1482 and then potentially Prop 10 back on the ballot. And then specific to 1482, if that had been in place at beginning of the year, what would have been the impact on same-store revenue growth in California this year?

Terry Considine

Nick, I hate to say I'm sufficiently out of date. Is 1482 the rent control bill that was signed by the governor?

Nick Joseph

Correct.

Terry Considine

Okay. Then I think that our feeling is that it will have a benign effect on our leasing activity during the time that it's in effect. One of the other bills, perhaps that bill also includes some provisions about fair eviction and fair termination of leases and so there'll be a compliance issue, there is a nuance around mark-to-market rent increases for, but we have a very limited amount of that. So there are some consequences. But it doesn't change our overall view of the attractiveness of California as a place to invest.

Nick Joseph

And maybe specific to the financial impact if it had been in place at the beginning of the year in terms of the renewals that you're achieving?

Paul Beldin

Nick, this is Paul. The financial impact would be inconsequential.

Nick Joseph

And then just quickly on dispositions you've been selling out of Illinois. Is that a complete market access or do you expect to keep exposure about where it is today?

Terry Considine

if you're asking me or asking Lisa, but in general, we think that Illinois has some very difficult headwinds and we would expect to reduce our exposure there, provided we get reasonable pricing. And so, it's always subject to a price. There are properties there that we like better and some that we like less as you would expect and we are as always selling off the bottom.

Operator

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

Austin Wurschmidt

Just what does the preliminary guidance assume in terms of supply across your markets in 2020 versus 2019?

in 2020 versus 2019?

Terry Considine

So thinking about supply for next year, as we sit here in October, really our thoughts are very similar year-over-year. As we entered 2019, we expected the majority of the impact from competitive new supply to be centered in two submarkets. The first was in the Center City, University City areas in Philadelphia and that supply has been delivered on time on schedule throughout the course of 2019. 2019 I think was the fourth year in a row of elevated levels of new supply and we expect that high level supply to continue next year. The good news is the pace of deliveries is slowing and so while we are in excess of 4% and 5% for the past four years, it's forecasted to be closer to 3% looking forward in 2020.

The second sub-market that we had some concern about entering 2019 was Mid-Wilshire area of Los Angeles. And we had expected completions as a percent of new stock to be just over 2%, as everybody on the call I think knows deliveries have been slowed a little bit in Mid-Wilshire this year. And so what that has done is just shifted some deliveries that were expected to occur late in 2019 into 2020. And so that's going to tip us likely up above that 2% threshold that we use as a critical factor for 2020 in Mid-Wilshire.

Those are the two submarkets, I guess, there are our two particular assets. I would call everybody's attention to that we are monitoring closely in 2020. One is One Canal which is in the Bulfinch Triangle neighborhood of Boston, a couple of blocks from the Garden, and next year, there is a forecast of about 2,600 new units within that sub-market. So One Canal is going to have a little bit of a slide next year. And then the other community is our Calhoun Beach Club community in Minneapolis, where there is about 1,600 new units that are expected to be delivered in 2020. But largely, we're in a very similar spot year-over-year.

Austin Wurschmidt

With respect to the Bay Area, I mean there's been some commentary around supply across several of the submarkets within that region, anything in that region that's worth flagging as well?

Terry Considine

In that region, I'd say the one submarket that we're watching is the South San Mateo submarket, and so there are some new deliveries that are coming online there. Timing is very dependent, and it's kind of back-end weighted. So we'll wait and see. But as we execute our plan, which is the timing of the delivery of the new supply, we don't think it's going to be particularly impactful.

Austin Wurschmidt

I appreciate the comments there. And then, next question. I was wondering if you could walk us through the different components that gets, you referenced a full turn lower leverage I believe by year-end '20. Given the prior comments that I think you plan to potentially ramp redevelopment in 2020. So can you just give us some moving pieces there that get you to a full turn lower?

Paul Beldin

So half of that is coming in the next couple of months as we complete our asset sales and then the other reductions driven by about $100 million reduction in net debt next year as we just execute the plan that we've outlined in the preliminary outlook and then the remainder comes from EBITDA growth and so embedded in that is our expectation that our redevelopment spend next year will likely be in the $250 million to $300 million range. That's all contemplated.

Operator

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

Rob Stevenson

Keith, when you look at your A, B and C-plus bucket, how significant are the gaps between year-to-date blended lease growth between those buckets?

Keith Kimmel

Rob, we really measure it looking at new leases as the best barometer. And so when we look at it, there has been about a 50 basis point spread between As and Bs, Bs slightly outperforming. But of course, it always comes down to some of those markets and outperforming. But of course, it always comes down to some of those markets and geographies across the country. So it really isn't necessarily strictly that it's a B product or an A product, it can come down to an A that's in Miami, could be outperforming one of our Bs or vice versa to another part of the country. So, about a 50 basis points spread is really one to look at.

Rob Stevenson

And that's on new leases, are you seeing any type of difference in terms of renewal rate and/or ability to absorb rental rate increases on renewals?

Keith Kimmel

No, we're not actually. And we continue to see that we have upside with the ability of our focus on customer selection and their ability to pay their credit worthiness and we have not seen any change in the way that they're able to absorb or take on increases.

Rob Stevenson

And then secondly, have you guys plateaued in terms of the various fees that you charge residents? Are there other opportunities on the fee front in front of you over the next 12 months to 18 months?

Terry Considine

Rob, I'll take that. What I'd say is, is that there is a couple of ways to think about the fees. First and foremost, when we think about fees that are associated with leasing activity when we run at higher occupancies, we see less of those and that's a good thing as far as we're concerned. Also with higher occupancies, we are able to get more parking fees, more pet fees, more storage fees and things like that.

Really what I think it comes down to is how we're able to promote those and create unique living experiences within our communities in which people take advantage of them. So I would say, well, I don't. I wouldn't say that's where we put, majority of our focus. In fact, it's a small portion of our revenues. It's an area in which we continue to focus on and we see in the future still opportunity.

Rob Stevenson

Rob Stevenson

And how are you seeing the sort of smart home type of stuff. About half of your peers view it as a revenue opportunity. And then, half of them basically view it as an expense savings and not really a revenue opportunity. How are you guys viewing that?

Terry Considine

Rob, let me walk you through how we think about that just sort of holistically. We don't implement technology just for technology sake or some sort of whizz-bang. At the end of the day, we really have a couple of things. The first one is, is there a different customer experience in which if we apply, something that people will stay with us longer and they like living in our communities more. The next piece is how we can impact our team members and therefore having better jobs that are more rewarding or easier to do and ultimately being more efficient and more effective in how we do this.

And so when we think it's smart rent using that as the example, over the last year, we put 30,000 units in, we were out in front of the market and what we've seen is that our residents have a smoother experience, our service team members are cutting less keys, and at the end of the day, it really comes down to residents staying with us longer, team members wanting to have a more rewarding job and it's a holistic look at all of those things combined.

Operator

Our next question today comes from Drew Babin with Baird. Please go ahead.

Drew Babin

I wanted to touch on Los Angeles, the delay in new deliveries in Mid-Wilshire that you mentioned. Should we take that is evidence that your fundamentals are holding up pretty well in LA. I know revenue growth on the books for 3Q would pretty consistent with 2Q and just curious whether anything sort of changes toward the end of the quarter, as many of your peers have reported?

Keith Kimmel

Drew, it's Keith, I'll walk you through how we're feeling about LA. I mean, I think first and foremost, we're feeling like we're having really solid year there. We've been in the top one or two positions over the past several quarters, this quarter similar. When we look at our occupancies, we're running in the high 96s and while we know that there are potential supplies, it has not affected us yet. And so what we're focused on is, how do we have residents that stay with us longer that we have a unique product offering in ultimately that we will have an advantage even if there is new product that comes online. But that being said, we're very keen to what's happening around us and we'll keep you posted as it goes.

Drew Babin

I appreciate the color and one more from me with blended leasing spreads, 3.5% year-to-date and presuming, there's not a lot of activity in the fourth quarter. But probably negatively impact that number before the year ends. How should we think about the amount of occupancy growth sort of built into the 2020 revenue growth number, which also implies some deceleration in new leasing activity toward the end of the year? Is there anything that I'm missing in terms of other income growth or on the occupancy front that sort of gets you more solidly into that 3.2% to 3.6% range?

Keith Kimmel

Drew, I'll start and then if Paul wants to add to it. What I think is most important to know is we solved the total revenue, and there is multiple levers that come into that that being rate and occupancy. And we don't solve any of those. What we're really focused on is how we have avoided turns, less vacancy loss, and residents saying with us longer. And so as you think about the 2020 plan, what the pieces are and exactly how we'll do it is something that I wouldn't specify right at this moment. Paul, anything you want to add to that?

Paul Beldin

I think that's exactly right, Keith. We'll provide a little bit of additional detail when we do issue formal guidance in January, but it is a lever and so it's a balancing act and what our goal is to not to maximize rate or not to maximize occupancy, but to maximize revenue and in turn NOI.

Operator

And our next question today comes from Hardik Goel of Zelman and Associates. Please go ahead.

Hardik Goel

Just a quick one on guidance here, and I look at your guidance, it appears that you guys have set up to maybe comment a little bit above what you put out there at least at the midpoint. And then it looks like that'll set you up to maybe increase your 2020 outlook as well. Any reason why that would not be the case? I know you addressed some similar earlier, but just wanted to bring you back on that.

Paul Beldin

This is Paul. As far as it relates to 2019, entering the earnings release season, we already had a pretty narrow range around revenue for the full year. And we were very comfortable within the midpoint to the higher end of that range. And then as we look out to 2020, we feel good about what we published and we'll provide more details in January.

Hardik Goel

Maybe I can sneak in another one and ask in a different way. If you look to the high end of your 2020 guidance and the low end of your 2020 guidance, what would you say the probabilities are for those?

Paul Beldin

Hardik, I guess I have two reactions. One, I'd cautious -- caution you against accounting guidance, that wasn't outlook and when we issue guidance, we'll have more than likely they're not a range, a little bit wider than we published in the outlook. So that will provide both upside opportunities we see in the business, also allow for some downside risk if the business environment is different in 2020 than what we currently anticipate.

Operator

Our next question today comes from Richard Anderson of SMBC. Please go ahead.

Richard Anderson

Maybe following up on that last question, if you were to, assuming that this business is all about expectations and performing relative to those expectations. Beating guidance is good thing for a stock market perspective. I'm curious like when you look at all the different elements of the 2020 preliminary outlook, where you see the best potential of outperformance? Is it on the revenue line, the expense line perhaps not because it's pretty tight number or on the leverage line? Just curious, assuming you've kind of done your homework and then perhaps stepped back a little bit to introduce some conservatism into the perspective, where that upside potential might be?

Paul Beldin

Rich, I'll start and we'll see if anyone has anything to add. What I would say is that we are in the midst of our planning process, we always see a number of opportunities as we go through that, those are opportunities that we as a team will do our best to execute upon and we are also cognizant that sometimes there is unknown risks. So we want to build that into the range of expectations as well. So I guess my short answer is, if we saw specific opportunities that we are confident, that'd be in our numbers, but stay tuned.

Richard Anderson

And then at the beginning of the call, Terry, you said balancing growth and safety, which I think we can all appreciate, but on the safety side, besides older residents, what is particularly safer about Aimco relative to your peers? I know you'll probably say a balance sheet that doesn't expose the enterprise to risk, but you start bleeding assets because of leverage that's not going to be good for the stock also. So I'm just curious what you think of, that's the stand-out from a safety perspective, when you consider Aimco relative to your peers?

Terry Considine

I think the first place, I'd start Rich, is with our market allocation. And if you go back and I think this is in the 2020 report, and just take our portfolio today, and look at the impacts during the global fiscal crisis, we have the lowest exposure, the lowest adverse effect, so just picking the right markets. I think the second most important thing is as Keith emphasizes again and again, picking the right customers.

We have very stringent credit and personnel requirements and we have more stable people and they have higher incomes, and they're just less likely to be adversely affected in a downturn. I'd say a third category that would get a lot of attention by Lisa and Wes and the people that are involved in redevelopment and capital enhancements and so forth is that the properties are well maintained. We have a high rate of capital spending keeping them in competitive conditions.

I think that once you have those factors in mind, and of course the just fantastic success that Keith and his team have in cost control, you have a revenue stream or income stream that is more stable, more durable. And on the balance sheet side, what we would emphasize most is the long duration and limited refinancing or re-pricing risk and on the need for more capital that we rarely start something without having the money in hand to complete it.

Richard Anderson

Okay, great. Well, hopefully, we're focused more on growth and safety next year. But I appreciate the comments. Thanks.

Terry Considine

Rich, let me just go back to it. We do talk about safety regularly at Aimco, which is built into our DNA. If you think about it from an allocation to B assets to geographic diversification, we're highly focused on safety. But that said we also are interested in growth. In our forecast for 2020, as just what Paul said, we are pretty upbeat about it.

Operator

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

Haendel St. Juste

I want to go back to the plan to lower the leverage here a bit of I guess a nice surprise. Terry, I've followed the story for a long time. And historically, you've been willing to carry higher leverage versus your peers. In fact, it's one of the long-running differentiators and plays, well, it's long-term fixed rate non-recourse self amortizing. So I guess, I'm curious why the change in thinking here and then perhaps, would you go even lower than mid 6 maybe the low 5s like where some of your peers are?

Terry Considine

You know our views on debt very well, you recited them exactly right. We think and both credit agencies and some analysts and in fact reduced they give us a 10% benefit, if you will, reflecting those features. So first of all, we would say on analysis of the actual burden of the debt, just a nominal comparison overstates the risks to the business. Secondly, there hasn't been any change at all.

What Paul has talked about is returning to our policy target, we had a moment when we came out of policy, a combination of redevelopment spending and also taking advantage of interest rates at a time when loans were opened. And so we're a little bit higher than we want to be today, but we'll be down by half a turn at year-end and we'll be right in mid 6s at the end of next year and that's a place where we're comfortable being.

Haendel St. Juste

And then just going back to the business overall, you've done quite a bit here over the last few years, you've sold your asset management, your tax credit business, I guess you're going to be lowering your leverage here, I guess, what else is on your mind, are there any other key initiatives that you are perhaps at the border considering as you think about Aimco today versus Aimco where you want to be, say over the next three years to five years?

Terry Considine

I think there is a lot of things that are on mind always and we did just have a Board meeting where we talked about different strategic opportunities and issues, but they will come back to the same focus on the multi-family business and the same focus that the road to success is through satisfying the customer. And whether not we increase this in one way or emphasize it in different way, that's the heart of what we do.

Operator

[Operator Instructions] Today's next question comes from John Pawlowski of Green Street Advisors. Please go ahead.

John Pawlowski

Wes, thanks for the comments on Yacht Club in Brickell Bay Drive and the thoughts there. I just want to make sure I understand the most likely playbook for both properties right now. Am I interpreting it correctly that right now as you see it today the most likely scenario is that you sell both the Yacht Club and then 1001 Brickell Bay Drive?

Wes Powell

I think that's exactly right. I think at the right price that is surely the best risk-adjusted return for us, and that's an execution we would do. And it's important to note that we like our optionality there and that we can run these assets over the next year or a few years until that pricing materializes.

John Pawlowski

And under that most likely scenario, what would Aimco's financial commitment would be? Is it zero with an outright sale? Or are you a partner in that most likely scenario?

Wes Powell

At an outright sale, it would be zero, we have cash coming in. But again, the option for us to participate in some future development would be based on what the plan is going to be and that's uncertain. And I think it's important to underscore that I don't see any circumstance where we participate in the development process itself.

John Pawlowski

And then maybe last one, maybe a bit of color on, if you put yourself in the buyers' shoes of that mixed use development, maybe stepping into, call it $170 million office building. So what is the mix of condos, hotels, apartments from your land? I'm sure you've done the math because that's your exit. What does the mix of units have to look like for a buyer's cost basis to pencil because it is an extensive rehab? A little bit color there would be awesome.

Wes Powell

What I think, well, first off, again we added value by putting two pieces together. So it's not just the kind of one site at the Yacht Club site, and then what I would say is, it all depends and I have no idea what the future holds, other than is there is going to be a mix of use, I don't know what the balance would be. I have no idea how condos will price in the future versus offices or apartments. But we think long-term waterfront property in Brickell is going to be worth more than it is today.

John Pawlowski

I guess the one question is you caught a $160 million check, you need to do some even if it's back of the envelope math to make sure an exit under today's pricing pencils. So I'm just trying to understand what the math is going to look like for a potential buyer of the site?

Wes Powell

John, I'd be happy to give you some numbers, but again, we guess this at this point and we have done the math. And again, you could assume that $1,000 condo prices, you can assume $3.75 or $4 rents, you could assume $60 office leases and all of those would put the value of the land at very close if not above what we bought the building for. But again, I think it's premature to try and pin down a number today.

Operator

And our next question is from Buck Horne of Raymond James. Please go ahead.

Buck Horne

Just going back some operational stuff, could you just put a little color on the 10% year-over-year bump in property taxes -- in the same-store property taxes this quarter. And just what your outlook is for any tax issues for next quarter or 2020?

Paul Beldin

This is Paul. As you know, real estate taxes can be very volatile, particularly when you're looking at year-over-year changes in particular quarter because that year-over-year change is highly dependent upon timing of appeals being resolved, timing of assessments being received. So I'd really encourage you to look at a full-year trend in for '19 and we do expect property taxes to be a little bit higher than what our long-term trend has been and probably in the mid-6s and the reason for that is a couple-fold, one, you have some jurisdictions such as Colorado where they increase bi-annually, every other year on the odd year.

And then in other jurisdictions, we've had a very good fortune of having our values of our properties, JVs increased quite rapidly and in some instances, the assessors have been a little bit slow to recognize that increase in value. So we were aware that there is a potential that a catch-up could occur. And so, the fact of it has come through in the third quarter is not unexpected and built in within the construct of our guidance for the year. As we look out into 2020, we expect the a more normalized tax rate and probably if I were to put a number on it at this point be in the 4% to 4.5% to 5% range.

Buck Horne

Real quick on Flamingo Point with the retail and amenity delivering later this year. Is there any material income or any income that would start to flow through from that being finished up this year going into next year?

Wes Powell

It's Wes, I'll take that one. I would say no material impact on this year, but we expect to start to see a little bit of lift next year in 2020.

Buck Horne

Any rough idea of what kind of number that would be or immaterial?

Wes Powell

I think in the grand scheme of things and the overall project immaterial, but offline happy to give you some more color on it.

Paul Beldin

Buck, this is Paul. The gross incremental contribution is about $600,000 and it will partially earn in next year.

Buck Horne

And just one real last quick one, in California, any assets that'd be impacted operationally from the active wildfires going on, there's another one just popped up as well. So just anything any properties being impacted at all?

Keith Kimmel

Buck, it's Keith. I'll take that one in. We've had a couple of situations where it has been impactful. A week-and-a-half ago in Northern California, we had three communities which had lost power and this is where when we talk about our customer service we just think is really valuable. We had generators on hand immediately, common area lighting back on, and really how we can impact our residents to be there for them in a time of uncertainty that has occurred with those fires.

This past week, we had another building in Simi Valley, which is in Los Angeles. It lost power for a couple of days, exact same game plan, we had generators on site ready to help our residents. And we think, while this is an unfortunate thing and a challenge that has been in California for some time with fires and different things, our ability to insert ourselves is someone that has a unique living experience, how we can help our residents is powerful. I also just want to thank our teams in the field who were working day and night to make sure that our residents have the smoothest situations under a trying time.

Operator

And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Terry Considine for any final remarks.

Terry Considine

Rocco, thank you for your help one more time, and thank all of you on the call for your interest in Aimco. Paul and I look forward to seeing you in Los Angeles in 10 days or so. And wish you a happy weekend. Thank you.

Operator

And thank you sir. Today's conference has now concluded. Thank you all for attending today's presentation. You may now disconnect.