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Aug 20, 2020

Mack-Cali Realty Corp. (CLI)

$12.58 (As of 08/19/20)

Price Target (6-12 Months): **$13.50**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/07/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: F	Momentum: B

Summary

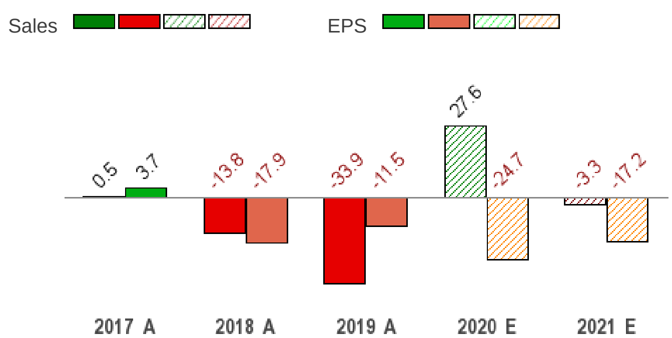
Mack-Cali's dismal performance in the second quarter mirrors a decline in leasing activity at the company's office and multi-family portfolios. Nonetheless, a diversified tenant base is driving steady rent collections, while avoiding shortcomings of any particular sector. Also, Mack-Cali is repositioning its portfolio. This entails the sale of non-core suburban assets and focus on leasing office space at Waterfront portfolio. Earlier, the company transformed itself by focusing on waterfront and transit-based office holdings, and luxury multi-family assets. However, the earnings dilution resulting from such moves cannot be avoided. Moreover, amid the pandemic, office space demand is likely to remain limited in the upcoming period, affecting leasing volumes. Shares of the company have also underperformed its industry in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$23.89 - $12.37**
20 Day Average Volume (sh)	**711,845**
Market Cap	**$1.1 B**
YTD Price Change	**-45.6%**
Beta	**1.14**
Dividend / Div Yld	**$0.80 / 6.4%**
Industry	**REIT and Equity Trust - Other**
Zacks Industry Rank	**Bottom 16% (212 out of 252)**
Last EPS Surprise	**-9.7%**
Last Sales Surprise	**-38.8%**
EPS F1 Est- 4 week change	**-0.8%**
Expected Report Date	**11/04/2020**
Earnings ESP	**0.8%**
P/E TTM	**8.8**
P/E F1	**10.3**
PEG F1	**4.4**
P/S TTM	**3.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					433 E
2020	82 A	73 A	120 E	121 E	448 E
2019	134 A	130 A	132 A	87 A	351 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.21 E	$0.24 E	$0.25 E	$0.25 E	$1.01 E
2020	$0.33 A	$0.28 A	$0.32 E	$0.29 E	$1.22 E
2019	$0.40 A	$0.40 A	$0.38 A	$0.44 A	$1.62 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/19/2020. The reports text is as of 08/20/2020.

Overview

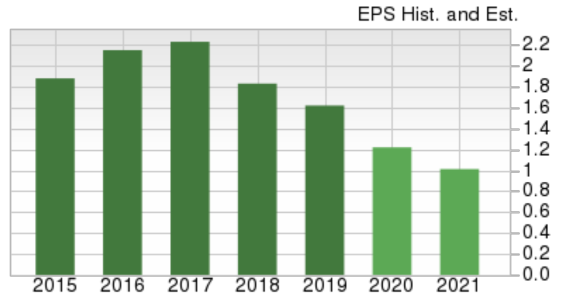
The Jersey City, NJ-based real estate investment trust (REIT) — Mack-Cali Realty Corporation — is engaged in providing management, leasing, development and other tenant-related services for office and multi-family real estate assets. Specifically, the company has dual platform operations of waterfront and transit-based office as well as luxury multi-family properties.

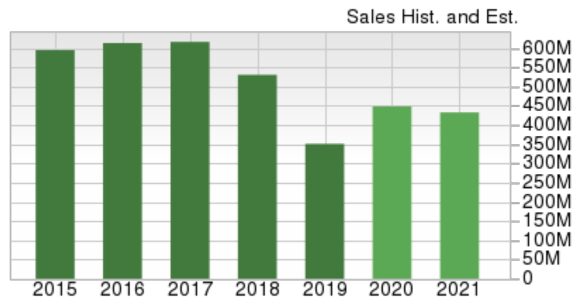
Operating in the Northeast United States for more than 60 years, Mack-Cali owned or had interests in 71 properties as of Jun 30, 2020. These properties include 41 office properties spanning 10.5 million square feet of space. The properties are leased to around 325 commercial tenants.

The company also has 22 multi-family assets, including 6,850 apartment units, four parking/retail properties, together with three hotels and a land parcel leased to a third party. These properties are located in four states in the Northeast, and the District of Columbia.

Notably, the company operates multi-family residential real estate operations through its subsidiary Roseland Residential Trust.

As of Jun 30, 2020, Mack-Cali's consolidated core office properties were 80.3% leased. Further, the Class A suburban portfolio was leased 89.5%, while Suburban and Waterfront portfolios were leased 77.4% and 78.6%, respectively, as of the same date.





Note: *All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*

Reasons To Buy:

Strong presence in high barrier-to-entry markets, focus on waterfront and transit-oriented office properties and diversification into the apartment sector continue to drive the company's growth.

- Mack-Cali, with around 325 commercial tenants from diverse industries, enjoys a dominant presence in high barrier-to-entry markets in the United States, especially in the Northeast region. A diversified tenant base helps the company enjoy a steady revenue stream and avoid shortcomings related to any particular sector.

- Mack-Cali has made concerted efforts in recent years to transform from a sub-urban office REIT to a residential and geographically-focused office REIT. The company completed a three-year strategic initiative started in September 2015, aimed at transforming itself into a more concentrated owner of New Jersey Hudson River waterfront and transit-oriented office properties as well as a regional owner of luxury multi-family residential properties. The company's portfolio-repositioning strategy is focused on capturing the attention of people who prefer to live, work and play in the same area — a trend that drove development in several other cities in the United States. This group also gives much importance to transit options, and hence focusing on such areas remains a strategic choice for the company. Moreover, several Fortune 500 companies have their headquarters in New Jersey, while others have a significant presence in the region. Armed with a skilled workforce and a well-established transit network, the region remains a top choice for the company to expand its business.

- Much of the leasing proportion shifted from new to renewal-oriented deals due to the pandemic. In fact, the company anticipates renewing 20,000 square feet of 2020 lease expiration in its suburban portfolio in the upcoming quarters. Going forward, the next cycle of office-space demand will likely be driven by de-densification to allow higher square footage per office worker and the need for better-amenitized office properties to focus on health & wellness amid social-distancing requirements. Moreover, tenant downsizing is less likely and this will improve tenant retention. Hence, with significant presence in the high barrier-to-entry Hudson River waterfront region, Mack-Cali is well-positioned to benefit from the emerging trend.

- The company's focus on multi-family assets is a strategic fit. This asset class is comparatively stable and is likely to contribute more towards the company's cash flows in the upcoming period. Although new leasing activity is likely to remain choppy amid the current environment, high renewal activities are likely to support the performance of this asset category in the meantime.

- Mack-Cali enjoys debt-free ownership for the bulk of its portfolio. As of Jun 30, 2020, the company had 36 unencumbered properties, with a carrying value of $1.1 billion. This denoted 70.6% of the company's total consolidated property count.

Reasons To Sell:

A disrupted rent-collection environment, high financial leverage and apprehensions associated with closing of planned dispositions on expected terms or timelines are pressing concerns for Mack-Cali.

- The coronavirus pandemic and measures to curb its spread are leading to uncertainties and risk to the company. The adverse impact on financial condition of tenants is likely to affect rent collections in the near term. Moreover, demand for office space is likely to remain limited in the upcoming period, affecting leasing volumes. Also, costs associated with construction and delivery delays at the company's development and redevelopment projects amid this environment add to its woes.

- In addition, as part of its long-term strategy, Mack-Cali continues to pursue multi-family residential investments. While this strategy is encouraging from the long-term perspective, it involves significant capital investments. Hence, the move limits the company's growth momentum in the near term. Also, the company has a concentration of assets in the Northeastern market. This raises its risks because any adverse economic and geo-political situations in the region can produce a significant negative impact on its operations and financial condition.

- As part of a strategic shift in its operations, in December 2019, the company announced its plan to sell the entire suburban New Jersey office portfolio, spanning 6.6 million square feet. It intends to use sales proceeds to repay corporate-level, unsecured debt. Through Jun 30, 2020, Mack-Cali disposed three of such suburban office properties, aggregating 697,000 square feet, for net sales proceeds of $87.2 million. As of the second-quarter end, the company has 34 office properties remaining in the Suburban Office Portfolio, totaling 5.9 million square feet. In July, it sold another property for gross proceeds of $7.9 million. The sale of its remaining Suburban Office Portfolio properties is expected to close in the ongoing year and early 2021. Although such non-core asset dispositions are a strategic fit in the long run, the dilutive impact on earnings in the near term cannot be bypassed.

- Mack-Cali has a high financial leverage. Particularly, net debt to adjusted EBITDA for second-quarter 2020 was 13X, up from 9.5X for the prior-year quarter. Further, total debt/total market capitalization ratio and interest coverage ratio have been deteriorating over the past three quarters. Additionally, in the past years, the company's senior unsecured debt current ratings have been downgraded to the current Ba2 and BB- by Moody's and S&P, respectively. Such downgrades increase the interest rate on outstanding borrowings under its current $600-million unsecured revolving credit facility. In fact, as of Jul 29, 2020, Mack-Cali had $365 million of outstanding borrowings under its unsecured revolving credit facility. Moreover, amid the challenging macroeconomic and capital market environment in light of the coronavirus pandemic and investors' cautious approach, there are apprehensions regarding the company's ability to complete planned dispositions of assets on expected terms or timelines.

- Shares of the company have plunged 40.2% compared with the industry's decline of 7.2% over the past year. Also, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as it has been revised 2.4% downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the near term.

Last Earnings Report

Mack-Cali Q2 FFO, Revenues Miss Estimates

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	-38.83%
EPS Surprise	-9.68%
Quarterly EPS	0.28
Annual EPS (TTM)	1.43

Mack-Cali's second-quarter 2020 core FFO per share of 28 cents missed the Zacks Consensus Estimate of 31 cents. Moreover, the figure compares unfavorably with the year-ago quarter's reported number of 40 cents.

Leasing activity declined in the company's office and multi-family portfolios. Moreover, same-store net operating income (NOI) decreased year over year in its multi-family portfolio.

Quarterly revenues of $72.7 million missed the Zacks Consensus Estimate of $118.8 million. The revenue figure also comes in 16.1% lower than the prior-year quarter's $86.6 million.

In the second quarter, the company collected average office rents of 96% and average residential rents of 98%. Moreover, the company has collected about 98% of its total rent from office tenants and about 99% of its total rent from residential tenants for July.

The company did not issue the ongoing-year outlook due to the pandemic-related uncertainties.

Quarter in Detail

As of Jun 30, 2020, Mack-Cali's consolidated core office properties were 80.3% leased, reflecting a decrease from 81.1% as of Mar 31, 2020. Notably, the Class A suburban portfolio was leased 89.5%, while Suburban and Waterfront portfolios were leased 77.4% and 78.6%, respectively, as of the same date.

Same-store cash revenues for the office portfolio climbed 4.3% and the same-store cash NOI was up 13.4%, year over year.

During the reported quarter, Mack-Cali executed eight lease deals, spanning 155,054 square feet, in the company's core office portfolio. This comprised 6.8% for new leases, and 93.2% for lease renewals and other tenant-retention transactions.

In addition, for the core portfolio, rental rate roll up for second-quarter 2020 transactions was 3.4% on a cash basis.

Further, Roseland, its subsidiary engaged in multi-family residential operations, reported that its stabilized operating portfolio was 92.6% leased at the end of the quarter, contracting 310 basis points (bps) from the prior quarter's end. The multi-family portfolio's same-store NOI decreased 10.2% for the June-end quarter.

Portfolio Activity

During the second quarter, Mack- Cali contracted to sell 111 River Street, an office building for $244.5 million and this is subject to due diligence.

Balance Sheet Position

The company exited second-quarter 2020 with $26.3 million in cash, up from $25.6 million as of Dec 31, 2019.

Mack-Cali's net debt to adjusted EBITDA was 13.0X for the reported quarter compared with the prior-year quarter's 9.5X.

Recent News

Dividend Update

On Jul 1, Mack-Cali announced second-quarter cash dividend of 20 cents per share on its common stock. This was paid on Jul 24, to shareholders of record as of Jul 31, 2020.

Valuation

Mack-Cali's shares have been down 40.2% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance have declined 7.2% and 7% in the past year, respectively.

The S&P 500 Index is up 16.1% in the past year.

The stock is currently trading at 11.56X forward 12-month FFO, which compares to 19.94X for the Zacks sub-industry, 16.50X for the Zacks sector and 22.78X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.46X and as low as 7.95X, with a 5-year median of 11.76X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $13.50 price target reflects 12.41X FFO.

The table below shows summary valuation data for CLI.

Valuation Multiples - CLI

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.64	18.52	16.38	22.83
	5-Year High	17.46	18.52	16.38	22.83
	5-Year Low	7.95	14.32	11.59	15.25
	5-Year Median	11.69	16.08	14.16	17.52
P/S F12M	Current	2.95	7.94	6.04	3.58
	5-Year High	4.49	8.21	6.66	3.58
	5-Year Low	2.65	5.97	4.96	2.53
	5-Year Median	3.61	6.97	6.06	3.02
P/B TTM	Current	0.79	2.34	2.37	4.41
	5-Year High	1.54	3.03	2.91	4.56
	5-Year Low	0.75	1.81	1.72	2.83
	5-Year Median	1.13	2.51	2.53	3.71

As of 07/20/2020

Industry Analysis **Zacks Industry Rank:** Bottom 16% (212 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Brandywine Realty Trust **(BDN)**	Neutral	3
Douglas Emmett, Inc. **(DEI)**	Neutral	4
Highwoods Properties, Inc. **(HIW)**	Neutral	3
Kilroy Realty Corporation **(KRC)**	Neutral	3
Piedmont Office Realty Trust, Inc. **(PDM)**	Neutral	3
SL Green Realty Corporation **(SLG)**	Neutral	3
Boston Properties, Inc. **(BXP)**	Underperform	5
Hudson Pacific Properties, Inc. **(HPP)**	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Other

	CLI	X Industry	S&P 500	BXP	HIW	SLG
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	D	B	B
Market Cap	1.14 B	1.96 B	23.61 B	13.10 B	3.87 B	3.36 B
# of Analysts	4	4	14	9	8	8
Dividend Yield	6.36%	3.80%	1.65%	4.66%	5.16%	7.71%
Value Score	B	-	-	D	B	B
Cash/Price	0.03	0.06	0.07	0.15	0.00	0.32
EV/EBITDA	8.46	13.97	13.36	13.96	12.94	12.72
PEG Ratio	4.48	3.89	2.99	5.01	2.11	5.00
Price/Book (P/B)	0.72	1.31	3.16	1.57	1.68	0.66
Price/Cash Flow (P/CF)	3.16	10.81	12.71	10.83	9.87	6.63
P/E (F1)	10.57	15.26	21.82	12.27	10.32	6.69
Price/Sales (P/S)	3.06	4.71	2.47	4.50	5.12	2.83
Earnings Yield	9.70%	6.05%	4.37%	8.15%	9.69%	14.94%
Debt/Equity	1.88	0.92	0.76	1.56	1.01	1.17
Cash Flow ($/share)	3.99	2.05	6.94	7.77	3.77	6.92
Growth Score	F	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	-6.05%	0.73%	10.44%	5.50%	2.55%	-0.94%
Proj. EPS Growth (F1/F0)	-24.69%	-2.05%	-5.97%	-2.16%	8.33%	-2.02%
Curr. Cash Flow Growth	77.45%	3.36%	5.22%	-2.18%	-1.95%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	7.42%	12.74%	8.52%	2.31%	4.75%	-0.78%
Current Ratio	0.64	1.62	1.33	7.67	1.07	6.70
Debt/Capital	68.71%	48.09%	44.50%	60.42%	51.11%	52.02%
Net Margin	-50.48%	10.49%	10.13%	35.18%	41.15%	19.90%
Return on Equity	-4.46%	3.32%	14.67%	12.72%	13.93%	4.21%
Sales/Assets	0.07	0.13	0.51	0.13	0.15	0.09
Proj. Sales Growth (F1/F0)	-7.23%	0.00%	-1.54%	-2.16%	1.20%	-17.52%
Momentum Score	B	-	-	D	A	B
Daily Price Chg	-1.80%	-1.32%	-0.38%	-1.71%	-0.72%	-2.15%
1 Week Price Chg	-1.86%	-0.94%	1.09%	-4.01%	-4.54%	-2.55%
4 Week Price Chg	-14.71%	0.46%	2.23%	-9.63%	-0.32%	-7.76%
12 Week Price Chg	-18.89%	0.00%	6.91%	-5.22%	-2.05%	4.25%
52 Week Price Chg	-40.18%	-24.00%	2.28%	-34.07%	-15.23%	-40.58%
20 Day Average Volume	711,845	633,147	1,899,976	1,345,551	662,564	1,209,858
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.94%	0.05%	0.00%
(F1) EPS Est 4 week change	-0.81%	0.00%	1.70%	-3.64%	0.66%	0.88%
(F1) EPS Est 12 week change	-1.77%	0.00%	3.08%	-5.15%	0.80%	1.05%
(Q1) EPS Est Mthly Chg	1.33%	0.00%	0.83%	-3.76%	1.49%	-0.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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