

Mack-Cali Realty Corp. (CLI)

\$23.56 (As of 01/20/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Shares of Mark-Cali have underperformed the industry it belongs to over the past year. Further, the trend in estimate revisions for the current-year funds from operations (FFO) per share does not indicate a favorable outlook for the company. In December, as part of its decision to offload the entire suburban office portfolio, Mack-Cali announced that it will sell Parsippany and Giralda office properties for \$288.5 million. It plans to complete the sale of the entire suburban office portfolio in 2020. Although, Mark-Cali is transforming itself by focusing on waterfront and transit-based office holdings and luxury multifamily portfolio, such plans involve significant upfront costs and will likely restrain its profit margin in the short run, while high disposal activity is likely to have a dilutive impact on its earnings in the near term.

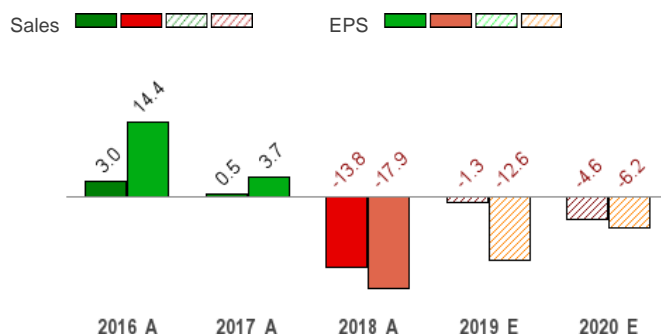
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.88 - \$19.78
20 Day Average Volume (sh)	542,727
Market Cap	\$2.1 B
YTD Price Change	1.9%
Beta	1.06
Dividend / Div Yld	\$0.80 / 3.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 32% (172 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.6%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-3.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	14.5
P/E F1	15.7
PEG F1	6.7
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					500 E
2019	134 A	130 A	132 A	131 E	524 E
2018	139 A	127 A	132 A	133 A	531 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.36 E	\$0.36 E	\$0.32 E	\$0.28 E	\$1.50 E
2019	\$0.40 A	\$0.40 A	\$0.38 A	\$0.41 E	\$1.60 E
2018	\$0.50 A	\$0.45 A	\$0.43 A	\$0.45 A	\$1.83 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 01/20/2020. The reports text is as of 01/21/2020.

Overview

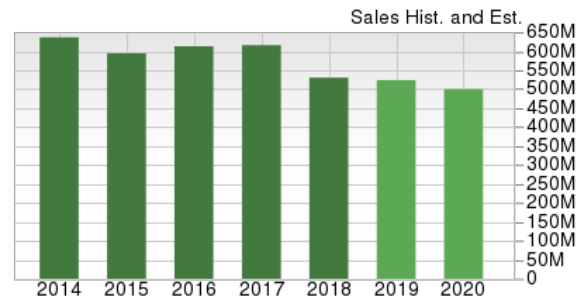
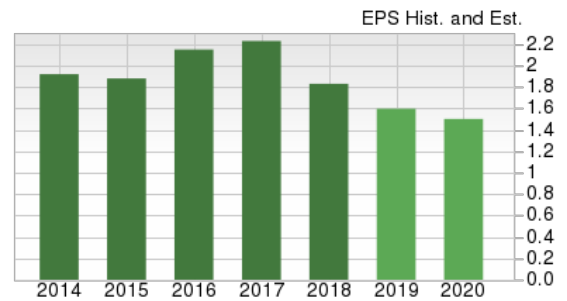
The Jersey City, NJ-based real estate investment trust (REIT) — Mack-Cali Realty Corporation — is engaged in providing management, leasing, development and other tenant-related services for office and multi-family real estate assets. Specifically, the company has dual platform operations of waterfront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

Operating in the Northeast United States for more than 60 years, Mack-Cali owned or had interests in 76 properties as of Sep 30, 2019. These properties include 45 office properties spanning roughly 11.7 million square feet of space. The properties are leased to around 400 commercial tenants.

The company also has 24 multi-family rental assets, including 7,904 residential units, four parking/retail properties, together with two hotels and a land parcel leased to a third party. These properties are located in the Northeast and the District of Columbia.

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

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 Sell:

- ▼ As part of portfolio-streamlining efforts, Mack-Cali has been aggressively disposing its assets in recent years. This has enabled the company to exit non-core markets and shed non-core assets. It sold part of its flex portfolio in 2018 for \$70.3 million, and in first-quarter 2019, for \$487.5 million. Furthermore, the company has largely completed its disposition program that entails exodus from non-core suburban markets. In fact, in the first nine months of 2019, the company completed building dispositions for \$593.4 million. Moreover, in December, Mack-Cali announced that as recommended by the Shareholder Value Committee, the company's board of directors has determined to dispose its entire 6.6 million square-foot suburban office portfolio. It plans to complete the sale of this entire portfolio in 2020. While the measures are a strategic fit for the long run, the dilutive impact on earnings from such huge asset sales cannot be bypassed in the near term.
- ▼ Moreover, as part of its long-term strategy, Mack-Cali continues to pursue multi-family residential investments. Particularly, the company expects its multi-family business to grow more than 60%, going forward. In fact, as of the third quarter's end, Roseland's active construction pipeline comprised 1,944 apartments. While this strategy is encouraging from the long-term perspective, it involves significant upfront operating expenses and hence, 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.
- ▼ Although interest rate levels are low, at present, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ Over the past year, shares of Mack-Cali have underperformed its industry. Shares of the company have gained 15.5% compared with the industry's rally of 18.9% during the same time period. Further, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as it has moved 3.2% south over the past week. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock is not likely to perform well in the upcoming period.

Dilutive impact on near-term earnings from asset sales, significant upfront operating expenses tied to multi-family residential projects and concentration of assets in the Northeast are concerns.

Risks

- Mack-Cali, with around 400 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.
 - It has also been making robust strides in its strategic plan. The company continues to redeploy non-core asset sale proceeds in the acquisition of office and multi-family properties as well as debt reduction. In the first nine months of 2019, the company completed acquisition of three rental properties for \$736.9 million. Moreover, efforts to use flex sale proceeds to repay debts will strengthen the company's balance-sheet position. Additionally, Mack-Cali intends to upgrade its current amenities and improve its properties with major capital-investment programs. With its strategic efforts, the company plans to improve quality of cash flow and achieve better margins in both office and multi-family apartment portfolios. Such efforts augur well for the company's long-term growth.
 - Mack-Cali enjoys debt-free ownership for the bulk of its portfolio. As of Sep 30, 2019, the company had 42 unencumbered properties, with a carrying value of \$1.7 billion. This denoted 71.2% of the company's total consolidated property count.
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Last Earnings Report

Mack-Cali's Q3 FFO Misses Estimates, Revenues Fall Y/Y

Mack-Cali's third-quarter 2019 core FFO per share of 38 cents missed the Zacks Consensus Estimate by a whisker. The figure also compares unfavorably with the year-ago quarter's reported tally of 43 cents.

The company's results indicate a slowdown in leasing activity in its office portfolio. Further, same-store cash net operating income (NOI) for the office portfolio declined year over year.

Though quarterly revenues of \$131.9 million surpassed the Zacks Consensus Estimate of \$129.3 million, the reported figure came in lower than the prior-year quarter's tally of \$132.1 million.

Q3 Highlights

As of Sep 30, 2019, Mack-Cali's consolidated core office properties were 80.8% leased, reflecting a decline from 84.2% as of Sep 30, 2018. Notably, Class A suburban portfolio was leased 90%, while Suburban and Waterfront portfolios were leased 79.1% and 77.9%, respectively, as of end the reported quarter.

Same-store cash revenues for the office portfolio descended 2.2%, and the same-store cash NOI was down 4.4% year over year.

During the reported quarter, Mack-Cali executed 14 lease deals, spanning 69,650 square feet, in the company's consolidated in-service commercial portfolio. This comprised 62.1% for new leases, and 37.9% for lease renewals and other tenant-retention deals.

In addition, for the core portfolio, rental rate roll up for third-quarter 2019 deals was 10.9% on a cash basis. For new transactions, rental rate roll up was 21.6% on a cash basis, while for renewals and other tenant retention deals, it was 5.7% on a cash basis.

Moreover, Roseland's multifamily stabilized operating portfolio was 97% leased at the end of the quarter, down 70 basis points (bps) from the prior quarter's end. However, same-store NOI climbed 2.7% year over year.

Mack-Cali completed the acquisition of Liberty Towers Apartments, a 648-unit residential community in Jersey City, NJ, for \$409 million during the third quarter. This deal was partly funded by a five-year \$232-million financing.

Balance Sheet Position

As of Sep 30, 2019, Mack-Cali's net debt to adjusted EBITDA was 11.40X compared with 9.30X as of Dec 31, 2018.

Finally, the company exited the third quarter with \$34.8 million in cash compared with approximately \$29.6 million as of Dec 31, 2018.

Guidance

The company narrowed its 2019 core FFO per share guidance to \$1.59-\$1.64 as compared with the \$1.58-\$1.66 estimated earlier.

Additionally, the company projects office occupancy (year-end % leased) of 79-81% and dispositions (excluding flex) of \$190-\$240 million for the ongoing year.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	1.98%
EPS Surprise	-2.56%
Quarterly EPS	0.38
Annual EPS (TTM)	1.63

Recent News

Mack-Cali to Dispose Entire Sub-urban Office Portfolio - Dec 17, 2019

Mack-Cali announced that as recommended by the Shareholder Value Committee, the company's board of directors has determined to dispose its entire 6.6 million square-foot suburban office portfolio. It plans to complete the sale of this entire portfolio in 2020.

As part of this decision, the board has approved the sale of two sub-urban office portfolios, aggregating around 2.4 million square feet of office space in New Jersey, Parsippany and Madison, NJ, to Onyx Equities, LLC, in partnership with Axonic Capital LLC and Taconic Capital Advisors, L.P.

This portfolio represents nearly 36% of the square footage of Mack-Cali's sub-urban holdings, and will be sold for \$285 million in cash and roughly \$3.5 million of assumed lease obligations.

The company intends to redeploy asset sales proceeds to repay outstanding corporate-level, unsecured debt. This effort to reduce leverage will strengthen its balance-sheet position.

Post the sub-urban portfolio sale, Mack-Cali's entire holdings will consist of its waterfront Class-A office portfolio, spanning 5 million square feet of space and the multi-family residential real estate operations through its subsidiary Roseland Residential Trust.

Mack-Cali Acquires Liberty Towers in 1031 Exchange – Oct 14, 2019

Mack-Cali recently announced the acquisition of Liberty Towers, a 648-unit residential tower located on the Jersey City Gold Coast, for a total value of \$409 million. The move comes as part of its 1031 exchange that will aggregate more than \$820 million in value.

The purchase of Liberty Towers was initially financed using a mortgage of \$232 million and rest from the company's line of credit. Located on the Jersey City Gold Coast, the property buyout seems a strategic fit. It has superior amenities, including yoga studio, a spin studio, a rooftop pool, a boxing gym and an on-site concierge. Further, it offers convenience retailing like pharmacy, florists and even nails salons. This highly-amenitized residential tower is, therefore, likely to witness superior demand from tenants.

The other part of the 1031 exchange includes the sale of the Chase at Overlook Ridge and Alterra at Overlook Ridge in Boston, MA.

Developed by Mack-Cali's Roseland Residential Trust subsidiary, these properties are presently under contract to be sold to Rockpoint Group, for approximately \$411.5 million. Mack-Cali will use the proceeds from the divestitures to repay its line that was used to buy Liberty Towers.

Michael J. DeMarco, CEO of Mack-Cali stated, "This transaction allows us to further concentrate our capital on the waterfront where we believe our market share and operating familiarity with the community should allow us to enhance the performance of Liberty Towers."

Moreover, Mack-Cali expects to get \$2.6 million of proceeds in relation to the sale of its Urby tax credit in the fourth quarter of this year. The company's FFO will realize a direct benefit from this tax credit.

Dividend Update

On Dec 17, Mack-Cali announced quarterly cash dividend of 20 cents per share on its common stock. This dividend was paid on Jan 10, 2020 to shareholders of record as of Jan 3, 2020.

Valuation

Mack-Cali's shares have been up 15.5% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 18.9% and 13% over the past year, respectively.

The S&P 500 Index has been up 25.6% over the past year.

The stock is currently trading at 15.77X forward 12-month FFO, which compares with the 18.28X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.77X and as low as 7.95X, with a 5-year median of 11.42X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$20 price target reflects 13.39X FFO.

The table below shows summary valuation data for CLI.

Valuation Multiples - CLI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.77	18.28	14.73	19.19
	5-Year High	15.77	18.94	16.21	19.34
	5-Year Low	7.95	14.29	12.01	15.17
	5-Year Median	11.42	16.11	13.98	17.44
P/S F12M	Current	4.27	8.27	6.53	3.57
	5-Year High	4.49	8.27	6.61	3.57
	5-Year Low	2.59	5.9	5.2	2.54
	5-Year Median	3.59	6.88	6.04	3
P/B TTM	Current	1.19	2.85	2.86	4.55
	5-Year High	1.54	2.92	2.89	4.55
	5-Year Low	0.81	2.06	1.83	2.85
	5-Year Median	1.13	2.52	2.51	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 254)



Top Peers

Brandywine Realty Trust (BDN)	Neutral
CoreSite Realty Corporation (COR)	Neutral
Hersha Hospitality Trust (HT)	Neutral
Summit Hotel Properties, Inc. (INN)	Neutral
Life Storage, Inc. (LSI)	Neutral
Corporate Office Properties Trust (OFC)	Neutral
Piedmont Office Realty Trust, Inc. (PDM)	Neutral
SEGRO PLC REIT (SEGXF)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	CLI Underperform	X Industry	S&P 500	BXP Neutral	HIW Neutral	SLG Neutral
VGM Score	F	-	-	D	C	D
Market Cap	2.13 B	3.06 B	24.65 B	21.58 B	5.24 B	7.31 B
# of Analysts	4	4	13	7	8	9
Dividend Yield	3.40%	4.06%	1.73%	2.81%	3.76%	3.88%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.03	0.04	0.04	0.02	0.03
EV/EBITDA	14.06	17.72	14.11	18.90	15.58	18.57
PEG Ratio	6.68	3.67	2.08	2.69	5.45	3.27
Price/Book (P/B)	1.19	1.74	3.39	2.77	2.44	1.27
Price/Cash Flow (P/CF)	8.00	15.13	13.81	17.54	13.08	10.05
P/E (F1)	15.77	15.69	19.19	18.53	14.03	12.71
Price/Sales (P/S)	4.03	6.98	2.69	7.42	7.22	5.86
Earnings Yield	6.37%	6.37%	5.21%	5.40%	7.13%	7.87%
Debt/Equity	1.76	0.88	0.72	1.52	1.08	0.99
Cash Flow (\$/share)	2.94	2.27	6.94	7.95	3.86	9.08
Growth Score	F	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	-1.37%	3.10%	10.56%	5.23%	3.27%	0.38%
Proj. EPS Growth (F1/F0)	-5.98%	4.26%	7.57%	7.79%	8.56%	2.80%
Curr. Cash Flow Growth	13.57%	13.18%	14.73%	13.75%	-3.61%	9.58%
Hist. Cash Flow Growth (3-5 yrs)	19.17%	18.05%	9.00%	0.61%	10.23%	9.89%
Current Ratio	0.74	1.27	1.24	3.98	1.40	1.65
Debt/Capital	67.10%	46.68%	42.99%	59.69%	52.94%	47.68%
Net Margin	39.15%	13.72%	11.14%	18.20%	17.85%	15.37%
Return on Equity	11.35%	4.54%	17.16%	6.70%	5.93%	3.18%
Sales/Assets	0.10	0.13	0.55	0.14	0.15	0.09
Proj. Sales Growth (F1/F0)	-4.57%	4.82%	4.16%	3.21%	4.63%	-1.31%
Momentum Score	F	-	-	B	A	B
Daily Price Chg	-0.38%	0.00%	0.27%	0.20%	0.60%	-0.32%
1 Week Price Chg	-0.48%	-0.04%	0.39%	-1.14%	1.26%	2.06%
4 Week Price Chg	12.83%	2.62%	2.95%	2.85%	6.66%	0.78%
12 Week Price Chg	5.84%	0.37%	7.76%	5.43%	10.63%	7.76%
52 Week Price Chg	14.81%	14.40%	22.29%	15.89%	19.39%	2.55%
20 Day Average Volume	542,727	497,680	1,536,375	461,307	598,564	640,575
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.06%	0.73%
(F1) EPS Est 4 week change	-3.01%	0.00%	0.00%	0.00%	0.03%	1.56%
(F1) EPS Est 12 week change	-2.15%	-0.34%	-0.40%	1.01%	0.95%	3.13%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.47%

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	D
Growth Score	F
Momentum Score	F
VGM Score	F

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.

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