

SL Green Realty Corp. (SLG)

\$78.44 (As of 03/02/20)

Price Target (6-12 Months): **\$86.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/09/17)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

SL Green is witnessing solid leasing velocity across its markets and made an encouraging start to 2020 by signing 239,771 square feet of office leases during the first two months of the year, at a mark-to-market of 12.2% over the prior fully escalated rents on the same spaces. Its business plan entails disposal of non-core properties and investing proceeds in its development pipeline, share-repurchase program and reduction of debt level. SL Green is well poised to benefit from the healthy job-market environment that has been spurring demand for office spaces, given its large footprint in New York Metropolitan area. However, the company's shares have underperformed the industry in the past year. Rising supply of office properties might curb its pricing power. Also, ongoing retail store closures and tenant bankruptcies are other woes.

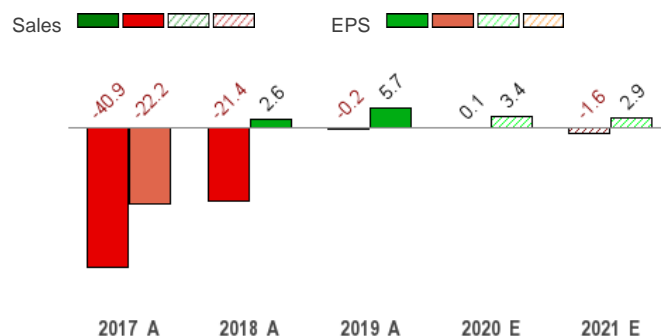
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.39 - \$75.46
20 Day Average Volume (sh)	676,412
Market Cap	\$6.3 B
YTD Price Change	-11.4%
Beta	1.23
Dividend / Div Yld	\$3.54 / 4.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 39% (155 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/15/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	214 E	216 E	217 E	219 E	850 E
2020	214 E	216 E	217 E	217 E	864 E
2019	213 A	216 A	215 A	219 A	863 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.85 E	\$1.88 E	\$1.91 E	\$1.86 E	\$7.45 E
2020	\$1.81 E	\$1.80 E	\$1.88 E	\$1.84 E	\$7.24 E
2019	\$1.68 A	\$1.82 A	\$1.75 A	\$1.75 A	\$7.00 A

*Quarterly figures may not add up to annual.

P/E TTM	11.6
P/E F1	10.8
PEG F1	2.9
P/S TTM	5.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/02/2020. The reports text is as of 03/03/2020.

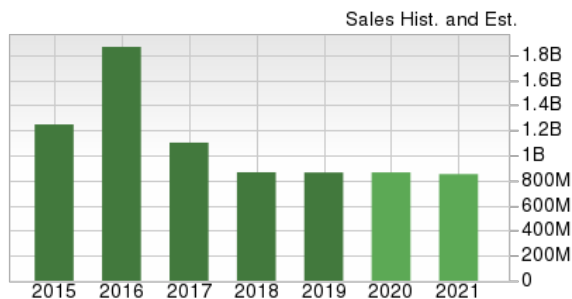
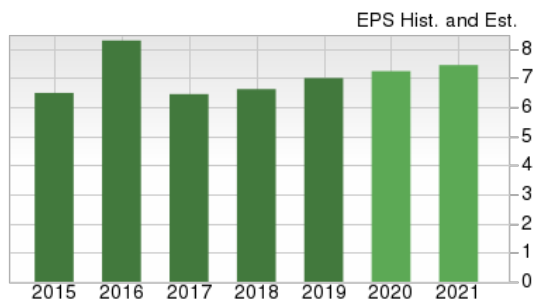
Overview

Founded in 1997, SL Green Realty Corp. is a real estate investment trust (REIT) that primarily acquires, manages, develops and leases commercial office properties in the New York Metropolitan area, especially midtown Manhattan. This S&P 500 company also makes investments in Brooklyn, Westchester County and Connecticut. These assets are jointly called the Suburban properties.

Moreover, of late, SL Green is seeking to tap opportunities in New York City's premium retail locations with its retail investments complementing its core office and structured finance businesses. The company has two reportable segments — real estate and debt and preferred equity (DPE) investments.

As of Dec 31, 2019, SL Green had interests in 97 buildings, covering 44 million square feet of space. This comprised ownership interests in Manhattan properties, spanning over 26.5 million square feet of area, and debt and preferred equity investments collateralized by assets spread over 16.4 million square feet of area.

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:

- ▲ SL Green has a mono-market strategy focus with an enviable footprint in the large and high-barrier to entry New York real estate market. This, along with ownership of premier Manhattan office assets, has enabled the company to enjoy high occupancy at its portfolio. Additionally, the company aims at maintaining a diversified tenant base to hedge the risk associated with dependency on single-industry tenants. As a result, its largest tenants include renowned firms from different industries. Moreover, with more than 34 years of experience in real estate, the company is well poised to generate stable rental revenues over the long term.
- ▲ With a resilient economy and stable job-market environment, healthy growth in demand for office spaces is expected to continue. This is because as the economy revives, business grows and therefore, corporate sectors seek expansion, renting more space to accommodate the increased workforce. In fact, early lease renewals and tenant expansions across the portfolio continues to drive leasing activity for SL Green. Also, the New York City market is projected to remain strong throughout 2020. Particularly, tenants within the technology and finance sectors are primarily driving demand and bolstering leasing velocity in the company's markets. Additionally, the company made substantial progress on its development projects in 2019 and expects these projects to significantly contribute to earnings growth, when completed.
- ▲ SL Green has been following an opportunistic investment policy to enhance its overall portfolio. This includes divesting its non-core assets in a tax-efficient manner and using the proceeds to fund development projects and share buybacks. The company has completed majority of its sub-urban asset sale. This has helped the company narrow its focus on the Manhattan market, as well as retain premium and highest-growth assets in the portfolio. The company intends to continue with the same strategy in the current year. Further, the company aims to shrink its DPE balance in the upcoming period. It will use these balances to repay the company's line of credit and to fund share buybacks and development pipeline. Such match-funding initiatives indicate the company's prudent capital-management practices and will relieve pressure from its balance sheet.
- ▲ Furthermore, dividend payouts are arguably the biggest enticement for REIT investors and SL Green has consistently increased its dividend rate. In fact, this December, the company announced a 4.1% increase in its fourth-quarter 2019 dividend. This represented SL Green's ninth consecutive year of common dividend hike. In 2020, the company expects to execute several asset sales with embedded tax gains and hence pay a special dividend. Apart from dividend hikes, the company remains committed to increase shareholder value through share buybacks. The company initially announced a \$1-billion share repurchase program in August 2016. This authorization was enhanced in subsequent periods, with the most recent addition of \$500 million in December 2019, bringing the tally to \$3 billion. As of Jan 22, SL Green had repurchased 22.7 million shares and redeemed 0.6 million common units of its Operating Partnership, or OP units.
- ▲ Shares of SL Green have declined by 11% over the past year compared with the industry's rally of 8.2%. However, the trend in estimate revisions for 2020 FFO per share indicates a favorable outlook for the company as it has been revised marginally upward over the past week. Therefore, given the progress on fundamentals and positive estimate revisions, the stock is likely to perform well in the upcoming period.

Substantial high-quality office properties in key markets, diverse tenant base, opportunistic investments and strong balance sheet are growth drivers. Expansion of co-working space is also encouraging.

Reasons To Sell:

- ▼ Rising supply of office properties in SL Green's markets remains a concern for the company. The company faces intense competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from its tenants. This restricts its ability to attract and retain tenants at relatively higher rents than its competitors. Amid higher leasing costs and elevated supply of office assets, it will be challenging for the company to backfill near-term tenant move-outs.
- ▼ Moreover, geographic concentration of assets remains a concern for SL Green. In fact, majority of the company's property holdings consists of commercial office properties situated in midtown Manhattan. The company also has a number of retail properties and multifamily residential assets in its Manhattan portfolio. Therefore, performance of the company is susceptible to the condition of the New York City economy as well as the market for office space in midtown Manhattan.
- ▼ Any softness in the retail sector will also affect SL Green's leasing activities. In fact, the retail real estate environment is currently choppy. Mall traffic has been declining significantly amid rapid increase in online sales, forcing retailers to opt for store closures. This is adversely affecting the demand for retail space, limiting the landlord's pricing power and resulting in lesser absorption.
- ▼ Although interest rate levels are low presently, any hike in future can pose a challenge for the company. This is because the company's ability to refinance existing debt would be restricted, while the interest cost on new debt would escalate. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.

Rising supply of office properties, intense competition from developers and owners, retail tenant bankruptcies and geographic concentration of assets are causes of concern before SL Green.

Last Earnings Report

SL Green Q4 FFO & Revenues Top Estimates, Occupancy Up

SL Green reported fourth-quarter 2019 FFO per share of \$1.75, surpassing the Zacks Consensus Estimate of \$1.74. The figure also compares favorably with the year-ago quarter's reported tally of \$1.61.

Results reflected strong leasing activity in the company's Manhattan portfolio. Further, rental revenues for the quarter improved year over year.

Net rental revenues of \$218.5 million in the fourth quarter outpaced the Zacks Consensus Estimate of \$216.1 million. The revenue figure also improved marginally from the prior-year tally of \$216.5 million.

For full-year 2019, FFO per share came in at \$7, ahead of the Zacks Consensus Estimate of \$6.99 and the prior-year tally of \$6.62. However, rental revenues witnessed marginal decline, year over year, to \$863.1 million.

Quarter in Detail

For the December-end quarter, same-store cash NOI, including SL Green's share of same-store cash NOI from unconsolidated joint ventures, improved 2% as compared with the prior-year period. This excludes free rent and lease termination income given to Viacom for space at 1515 Broadway.

In the Manhattan portfolio, SL Green signed 59 office leases for 1,283,470 square feet of space during the period. The average lease term on these leases is 10.6 years, while average tenant concessions were 7.9 months of free rent.

Importantly, for the reported quarter, the mark-to-market on signed Manhattan office replacement leases was 56% higher than the previous fully-escalated rents in the same spaces. As of Dec 31, 2019, Manhattan's same-store occupancy, inclusive of leases signed but not yet commenced, was 96.2%, up 90 basis points as compared with the prior quarter.

The company also decreased the carrying value of its debt and preferred equity investment portfolio to \$1.61 billion.

Liquidity

SL Green exited 2019 with cash and cash equivalents of nearly \$166.1 million, up from the \$129.5 million recorded at the end of 2018.

Investment Activity

In December, the company's board of directors authorized a \$500-million addition to its share-repurchase program, bringing the tally to \$3 billion. Under this program, as of Jan 22, the company has repurchased 22.7 million shares and redeemed 0.6 million common units of its Operating Partnership, or OP units. These were repurchased at an average price of \$95.70 per share.

Additionally, the company completed the sale of the development sites at 562 Fifth Avenue and 1640 Flatbush Avenue in Brooklyn for \$52.4 million and \$16.2 million, respectively. The disposals generated net cash proceeds of \$50.9 million and \$15.6 million, respectively.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	1.09%
EPS Surprise	0.57%
Quarterly EPS	1.75
Annual EPS (TTM)	7.00

Recent News

SL Green Sees Solid Leasing Velocity in First 2 Months of 2020 - Mar 2, 2020

SL Green is witnessing solid leasing velocity across its markets. The company made an encouraging start to 2020 by signing 239,771 square feet of office leases during the first two months of the year, at a mark-to-market of 12.2% over the prior fully escalated rents on the same spaces.

Management noted that there is continued tenant demand in the TAMI, legal and financial services sectors. This is driving solid leasing velocity across all market segments and price points.

Among the significant leases signed in the initial months of the current year includes a renewal and expansion with Hudson Yards Construction LLC for 75,704-square-foot lease at 410 Tenth Avenue, for 25 years. The other one is a new lease with Memorial Hospital for Cancer and Allied Diseases, for the full second floor at 485 Lexington Avenue spanning 54,199 square feet, for 10 years. Furthermore, a new lease has been signed with an internationally-renowned fashion brand — KCP Holdco, Inc. — for 37,169 square feet of space at 707 Eleventh Avenue, for 10 years.

In a separate press release, the company also announced the acquisition of 126-132 Nassau Street and plans to build new 215,000-square-foot building for long-term tenant on the site by demolishing the existing 98,412-square-foot office building.

This marks the company's fourth ground-up construction project in Lower Manhattan, aimed at capitalizing on the region's solid growth potential. In fact, serving as a center of commercial, residential and retail activity, Lower Manhattan has emerged as a preferred global destination.

SL Green Announces Sale of Asset in Manhattan – Feb 18, 2020

SL Green has entered into a contract to sell 315 West 33rd Street as well as a neighboring underdeveloped land parcel for a gross valuation of \$446.5 million. The move comes as part of the company's strategy of divesting its non-core assets and redeploying the proceeds in its share repurchase program to reward its shareholders.

The sale will be made to an affiliate of Brookfield Asset Management and the transaction is expected to close in the second quarter of 2020, subject to customary closing norms. Notably, the company acquired the 36-story, 492,987-square-foot building in 2013. Also known as "The Olivia", the mixed-use property includes 333 residential units with occupancy more than 96% and 270,132 square feet of commercial space that is fully occupied. AMC Theater, Music Choice and Landmark Education are among the commercial tenants of this property.

SL Green Provides 2020 Guidance at its 2019 Investor Conference – Dec 9, 2019

SL Green's management anticipates 2020 to be another solid year for the company. Its strategic plan for the year entails disposal of mature and non-core properties and aggressively investing the proceeds to fund its development pipeline and the ongoing share repurchase program as well as to reduce indebtedness.

Accordingly, the company has provided an introductory guidance range for 2020 FFO per share of \$7.25- \$7.35. The mid-point is \$7.30.

In its DPE investment portfolio, the company expects year-end 2020 DPE balance to be \$1.74 billion, while DPE investment income is projected to be \$161.2 million or \$2.03 per share. Further, real estate GAAP NOI is projected to be \$774.9 million or \$9.78 per share, while net other income is anticipated to be \$34.2 million or 43 cents per share.

The company expects to complete \$2.5 billion of share-repurchase authorization and use part of the remaining \$500 million based on timing of its asset sale. This will reduce its equity base by 23% since the initiation of the program in 2017.

Additionally, reported same store NOI is projected to be 8-9% on cash basis and 1.5-2.5% on GAAP basis for 2020.

Further, 2020 acquisitions are expected to be more than \$250 million while dispositions are projected to be more than \$850 million. This will likely include several asset sales with embedded tax gains. Accordingly, management expects that it may need to pay a special dividend in 2020.

Valuation

SL Green's shares have been down 11% over the trailing 12-month period. Stocks in the Zacks sub-industry gained 8.2% while the Zacks Finance sector declined 0.4%, over the past year.

The S&P 500 Index has been up 9.6% over the trailing 12-month period.

The stock is currently trading at 11.19X forward 12-month FFO, which compares to 17.59X for the Zacks sub-industry, 13.68X for the Zacks sector and 17.66X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.13X and as low as 10.79X, with a 5-year median of 14.53X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$86 price target reflects 11.83X FFO.

The table below shows summary valuation data for SLG.

Valuation Multiples - SLG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.19	17.59	13.68	17.66
	5-Year High	21.13	18.7	16.21	19.34
	5-Year Low	10.79	14.32	12.01	15.18
	5-Year Median	14.53	16.1	13.97	17.46
P/S F12M	Current	7.57	7.94	6.55	3.26
	5-Year High	10.85	8.15	6.65	3.43
	5-Year Low	5.75	5.91	5.39	2.54
	5-Year Median	8.59	6.87	6.04	3.01
P/B TTM	Current	1.14	2.6	2.6	4.14
	5-Year High	1.79	2.87	2.89	4.54
	5-Year Low	0.99	2.07	1.83	2.85
	5-Year Median	1.32	2.52	2.52	3.62

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 255)



Top Peers

Alexandria Real Estate Equities, Inc. (ARE)	Neutral
Boston Properties, Inc. (BXP)	Neutral
Cousins Properties Incorporated (CUZ)	Neutral
Douglas Emmett, Inc. (DEI)	Neutral
Highwoods Properties, Inc. (HIW)	Neutral
Hudson Pacific Properties, Inc. (HPP)	Neutral
Kilroy Realty Corporation (KRC)	Neutral
Piedmont Office Realty Trust, Inc. (PDM)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	SLG Neutral	X Industry	S&P 500	ARE Neutral	BXP Neutral	HIW Neutral
VGM Score	D	-	-	C	D	C
Market Cap	6.34 B	2.75 B	22.14 B	19.09 B	20.80 B	4.90 B
# of Analysts	10	4	13	3	9	9
Dividend Yield	4.35%	4.27%	1.98%	2.65%	2.91%	4.07%
Value Score	D	-	-	F	D	D
Cash/Price	0.04	0.02	0.05	0.01	0.03	0.00
EV/EBITDA	16.75	16.38	12.79	23.35	18.50	15.51
PEG Ratio	3.06	3.24	1.92	4.64	2.80	2.70
Price/Book (P/B)	1.14	1.52	3.00	1.88	2.66	2.28
Price/Cash Flow (P/CF)	11.76	13.70	11.97	21.61	17.35	12.50
P/E (F1)	11.37	14.85	17.43	21.05	17.73	12.96
Price/Sales (P/S)	5.12	6.05	2.48	12.47	7.03	6.65
Earnings Yield	8.90%	6.77%	5.74%	4.75%	5.64%	7.72%
Debt/Equity	0.97	0.88	0.70	0.67	1.51	1.19
Cash Flow (\$/share)	6.92	2.03	6.94	7.20	7.76	3.77
Growth Score	F	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	-0.14%	2.75%	10.85%	7.84%	5.43%	2.80%
Proj. EPS Growth (F1/F0)	3.39%	2.90%	6.48%	6.18%	8.24%	9.31%
Curr. Cash Flow Growth	-27.69%	4.79%	6.03%	4.79%	-2.38%	-1.95%
Hist. Cash Flow Growth (3-5 yrs)	-0.78%	12.96%	8.52%	23.85%	2.27%	4.75%
Current Ratio	1.62	1.28	1.23	0.19	4.15	0.96
Debt/Capital	47.20%	46.73%	42.57%	40.07%	59.58%	55.18%
Net Margin	21.83%	14.28%	11.57%	23.72%	17.62%	18.52%
Return on Equity	4.56%	4.52%	16.66%	4.07%	6.64%	6.31%
Sales/Assets	0.09	0.13	0.54	0.09	0.14	0.15
Proj. Sales Growth (F1/F0)	0.08%	4.32%	4.07%	0.00%	3.69%	4.94%
Momentum Score	A	-	-	B	C	B
Daily Price Chg	3.74%	2.90%	3.82%	2.44%	4.34%	5.12%
1 Week Price Chg	-16.00%	-12.19%	-12.06%	-9.58%	-11.55%	-13.38%
4 Week Price Chg	-11.73%	-6.33%	-6.43%	-5.60%	-6.03%	-6.72%
12 Week Price Chg	-8.16%	-4.80%	-5.15%	-4.20%	-3.81%	-0.94%
52 Week Price Chg	-11.01%	3.25%	4.77%	13.60%	1.69%	3.42%
20 Day Average Volume	676,412	594,809	2,363,047	791,041	820,727	698,898
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.07%
(F1) EPS Est 4 week change	0.00%	-0.19%	-0.04%	0.18%	0.09%	1.35%
(F1) EPS Est 12 week change	4.11%	-0.39%	-0.33%	0.45%	0.52%	1.48%
(Q1) EPS Est Mthly Chg	0.00%	-0.06%	-0.38%	1.40%	0.05%	1.23%

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	A
VGM Score	D

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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