

Empire State Realty Trust

4Q23: beats & introduces 2024 guidance above Street

Maintain Rating: BUY | PO: 11.00 USD | Price: 9.72 USD

Strong 4Q supported by diversified income streams

4Q23 FFO/sh grew +12% Y/Y to \$0.235 excluding 1.5c of one-time items. The beat was +18% above Street and +7% above BofAe. We attribute the beat to higher-than-expected rental revenues, stronger Observatory NOI and lower real estate taxes. We maintain our Buy rating based on ESRT's well-located modernized portfolio near transportation hubs, potential earnings upside from the Observatory and below average leverage. ESRT is on Spector's top picks.

'24 guidance beats Street and implies positive Y/Y growth

ESRT introduced 2024 FFO guidance of \$0.90-0.94 with the low end above Street expectations. The \$0.92 midpoint is +3c above Street & +1c above BofAe. Guidance implies +2% Y/Y growth (excl. one-time items) which compares to negative growth for most Office REITs under our coverage. Key drivers: 1) cash same store NOI growth of +0.5% at midpoint; 2) occupancy +170bp Y/Y to 88% at midpoint; and 3) Observatory NOI +4% Y/Y to \$98mn at midpoint.

Core portfolio operations are improving and well-leased

4Q23 SS cash NOI +11.3% Y/Y. Office and retail % leased +10bp Q/Q to 90.6%. Manhattan office +20bp to 92.1%. Greater NY -60bp to 79.3%. Retail +60bp to 92.1%. Leased 164,000 total SF which is down from 233,000 SF trailing four quarter average but we believe some activity may have gotten pushed into 1Q24 given over 135,000 SF activity announced YTD. Manhattan office at +6% cash leasing spreads.

Observatory NOI outperforms and returns to 2019 levels

4Q23 Observatory NOI was \$26.9mn with 711,000 visitors vs 743,000 in 3Q23. FY23 Observatory NOI of \$94mn compares to \$92mn initial guidance midpoint and is in line with 2019 levels.

Demonstrating balance sheet strength and flexibility

ESRT did not repurchase any shares during 4Q23 but refreshed its \$500mn buyback program in December. Net debt to EBITDA decreased -0.1x to 5.4x Q/Q. \$1.2bn of liquidity including \$347mn of cash and \$850mn credit line capacity.

What to look for on tomorrow's call

ESRT's earnings call is tomorrow at 12PM ET. We look for the latest on its leasing pipeline and more color on recently announced leasing activity, thoughts around the Observatory outlook and visitor volume, and capital allocation and investment underwriting assumptions.

20 February 2024

Equity

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Stock Data

Price	9.72 USD
Price Objective	11.00 USD
Date Established	8-Jan-2024
Investment Opinion	C-1-7
52-Week Range	5.39 USD - 10.32 USD
Mrkt Val (mn) / Shares Out (mn)	2,634 USD / 271.0
Free Float	81.4%
Average Daily Value (mn)	12.16 USD
BofA Ticker / Exchange	ESRT / NYS
Bloomberg / Reuters	ESRT US / ESRT.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	0%
ESGMeter™	High

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Key Terms:

FFO: funds from operations
NAV: net asset value
NOI: net operating income
Q/Q: quarter over quarter
SF: square feet
YTD: year to date
Y/Y: year over year

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 20 February 2024 08:25PM EST

Price objective basis & risk

Empire State Realty Trust (ESRT)

Our price objective of \$11 for ESRT is a -10% discount to our forward NAV estimate. This discount reflects uncertainty over net effective rent growth and cap rates in Manhattan, return of tourism to NYC, and NYC office asset values. We apply a blended 8.2% cap rate to our forward NOI estimate of \$398M. We use a 8.2% cap rate based on our view of interest rates over the next year, current and expected private market/transaction comps, and the market exposure of ESRT. Downside risks to our PO are NYC office market conditions and NOI from the Empire State Building Observatory below expectations. Upside risks to our PO are better-than-expected operating conditions for the Observatory and leasing progress across the office portfolio, and an even stronger market for NYC office asset trades that pushes market cap rates lower.

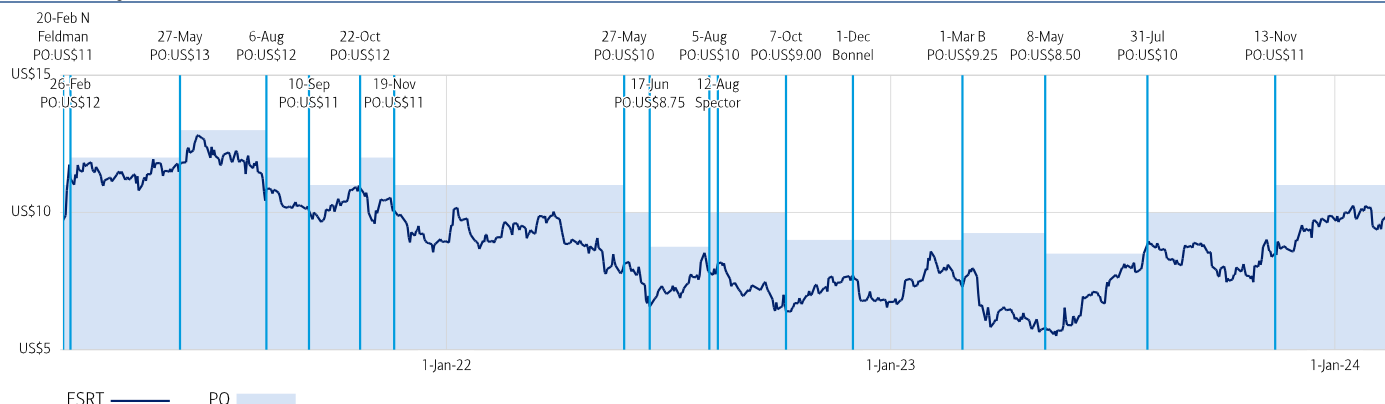
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Empire State Realty (ESRT) Price Chart



ESRT — PO — B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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