Vornado Realty Trust (VNO) CEO Steven Roth On Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release *Slides*

EPS of $1.69 beats by $0.77 | Revenue of $465.96M (-14.04% Y/Y) beats by $8.69M

Earning Call Audio

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Vornado Realty Trust (NYSE:VNO) Q3 2019 Earnings Conference Call October 29, 2019 10:00 AM ET

Company Participants

Cathy Creswell – Director-Investor Relations

Michael Franco – President

Joe Macnow – Chief Financial Officer

Steven Roth – Chief Executive Officer

Glen Weiss – Executive Vice President-Office Leasing

Conference Call Participants

Manny Korchman – Citi

Nick Yulico – Scotia Bank

Steve Sakwa – Evercore

Jamie Feldman – Bank of America

John Kim – BMO

John Guinee – Stifel

Alexander Goldfarb – Sandler O'Neill

Vikram Malhotra – Morgan Stanley

Michael Bilerman – Citi

Daniel Ismail – Green Street Advisors

Operator

Good morning, and welcome to the Vornado Realty Trust Third Quarter 2019 Earnings Call. My name is Michelle and I will be your operator for today's conference. At this time all participants are in a listen-only mode. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the call over to Ms. Cathy Creswell. Ma'am you may begin.

Cathy Creswell

Thank you. Welcome to Vornado Realty Trust third quarter earnings call. Yesterday afternoon, we issued our third quarter earnings release and filed our quarterly report on Form 10-Q with the Securities and Exchange Commission. These documents as well as our supplemental financial information package are available on our website, www.vno.com, under the Investor Relations section.

In these documents and during today's call, we will discuss certain non-GAAP financial measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in our earnings release, Form 10-Q and financial supplement.

Please be aware that statements made during this call may be deemed forward-looking statements, and actual results may differ materially from these statements due to a variety of risks, uncertainties and other factors. Please refer to our filings with the Securities and Exchange Commission, including our Form 10-K, for more information regarding these risks and uncertainties.

The call may include time-sensitive information that may be accurate only as of today's date. The Company does not undertake a duty to update any forward-looking statement. On the call today from management for our opening comments is Michael Franco, President. In addition, Steven Roth and our senior team are present and available for questions.

I will now turn the call over to Michael Franco.

Michael Franco

Thank you, Cathy, and good morning, everyone. Overall, our business is in great shape. Our buildings are full and we can see hone in on the significant opportunity that we have with the redevelopment of the Penn District.

Let me review our third quarter financial results before giving some thoughts on the markets and our portfolio and in particular the Penn District. Third quarter FFO as adjusted was $0.89 per share, $0.07 lower than last year's third quarter. As I discussed on last quarter’s call these results were impacted primarily by reduced income related to the over $3.1 billion of asset sales we've completed year-to-date, and the lost income from the Topshop and Forever 21 bankruptcies.

Last quarter, I also discussed the impact of Topshop’s closing at 608 Fifth Avenue and 478 Broadway. In August, we delivered the required nine-month notice to the ground resort at 608 Fifth Avenue. We will terminate the lease in May, 2020. This permanently reduces FFO by approximately $10 million annually and mix our NAV about roughly $1 per share. This ground lease had only 14 years left on it. It was not economic for us to hold on to.

Now to Forever 21, which we mentioned last quarter was restructuring candidate. As you know, they filed for Chapter 11 bankruptcy protection at the end of September. They are a tenant at 1540 Broadway and 435 Seventh Avenue.

They have a third lease with us at 4 Union Square, which expires next month and we chose not to renew them. We have already released a portion of that space to Whole Foods as part of their expansion and have a lease out with another important tenant for an additional portion both at higher rents than what Forever 21 was paying us here.

Forever 21's annual rent on 1540 Broadway and 435 Seventh Avenue totals approximately 20 million each year. While the bankruptcy process is fluid and it's still in its early stages, we have reached a tentative agreement with Forever 21 to shorten their laces and retain them in those two locations for a little less than half of their current rent.

With us having the right to recapture the spaces at any time after the first year, enabling us to secure long-term spaces. Both of these assets are in prime locations and we are confident of their long-term potential. So to summarize, even with these items, we remain on track to meet the approximate $3.40 per share and comparable FFO for 2019 that we referenced in the last quarters call.

Our non-comparable items this quarter included a couple of large gains, one the $178.8 million of net gains on sale of real estate, primarily related to the July sale or 25% interest in 330 Madison that we made eight times our investment; and two the $109 million after-tax net gain on unit closings at 220 Central Park South.

To-date we have closed on 48 units for net proceeds of $1.25 billion including 14 units, for $349 million this quarter. And we continue to sign new contracts for the few remaining units as well. Remember that we paid off the remainder of the $950 million loan on this asset in July.

So as closings continue through 2020 we retain all net proceeds, which importantly will be redeployed into Penn District redevelopments turning this capital into highly accretive earnings and propelling our future growth. Company-wide, our third quarter cash basis, same store NOI increased by 1%, broken down as follows. New York office and Street retail both up 1%, theMART was down 1% and 555 California Street was up 17.7%.

For the first nine months cash, same store NOI across the business was up 2.7%. Let me now turn to the New York market. The New York office market, which continues to be fueled by positive job growth in delivery of premium office product performed strongly during the third quarter of 2019.

Leasing activity across the city remains vibrant driven mainly by technology and financial tenants with the asking rents at record highs for the market overall. More than 25 million square feet of new leases have been signed in New York during the first three quarters of 2019 with many large deals in process expected to close in the fourth quarter.

Talent wants to be in New York and therefore companies are migrating to and expanding in the city, creating tremendous competition for top talent. No where is this more evident than with the dramatic demand from the big tech companies. Executives view their real estate as one of the key drivers to recruiting the best and brightest talent to their teams.

Private sector jobs decreased 53,000 in the first nine months on pace with 2018 with nine months office sector jobs increasing about 18,000 as compared to 20,000 for all of 2018 and certainly had a pace strong enough to continue absorbing new supply coming online. There are currently 65 tenants actively looking for a 100,000 square feet or more totalling 16 million square feet potential activity.

This demand is coming from all indices, all industry sectors from companies already in the city as well as those seeking their first home here. Our development in the Penn District is seeing the benefits of this demand as we are in the full gear on our 5.2 million square feet of combined redevelopments as Farley and PENN1 and PENN2.

We are experiencing robust interest in all three projects as perspective tenants begin to appreciate the magnitude of our district transformation. Tenants are responding very favorably to the unique nature of our amenities, space of offerings and design elements at each property that will serve today's workforce at the most successful location directly on top of the most important transportation hub integration

Farley is one of a kind and we have great activity on the space. At PENN2, we are negotiating a lease with a 400,000 square foot headquarters tenant and there's more in the works beyond this.

All at rents at or above our underwriting, all our activities will benefit from significant public sector projects being built in our district, including the new grand Moynihan Train Hall, which will be delivered in 2020, the expanded LIR concourse running from Seventh and Eighth Avenues by the end of 2021 and a soaring new station entrance at 33rd Street at PLAZA33.

Against the backdrop of this district transformation, we are place-making the entire district in our heart at work negotiating deals to curate the district with new food and beverage outlets by leading operators, coffee spots, fitness offerings and other retail-as-a-service our tenants.

These additions will dramatically enhance our offering and drive greater demand and rental rates within our 10 million square foot district portfolio. Our goal simply is to make the Penn District and our holding specifically the go-to location for tenants in the city. More broadly, our New York office portfolio is in great shape and can see us to perform well.

We are substantially full with occupancy ending the quarter at 96.8%. Our remaining 2019 expirations are only 85,000 square feet while our 2020 expirations are modest total of 1,055,000 square feet with 760,000 square feet of this amount expiring at PENN1 and PENN2.

Please remember this includes 565,000 square feet at PENN2, which will be taken out of service in 2020 as this development kicks into high gear. This will bring the total added service at PENN2 at the end of next year to approximately 1 million square feet. Basically, we're repositioning the buildings from mid-60s per square foot rents to the 90s and need to move the old tenants out in order to accommodate the new ones.

During the third quarter, our leasing team completed 25 leases totaling 197,000 square feet in New York and over $80 per square foot starting rents with very strong second generation positive mark-to-markets of 22.7% cash and 28.5% GAAP.

We have now completed 814,000 square feet of leases during the first three quarters of 2019 at a healthy average starting rent of $79 per square foot. In the quarter, we signed our first lease at our new build at 512 West 22nd Street on the High Line with

WarnerMedia for 20,000 square feet at a triple-digit rent. We also have an additional lease out here for 43,000 square feet at triple-digits, which we expect to sign in the fourth quarter.

Additionally, during the quarter we finalized a relocation expansion deal with an existing tenant in our portfolio, which we'll be moving from Midtown to 28,000 square feet at 330 West 34th Street in the Penn District. The starting rent per square foot here is in the high 80s, a record for this building, which is clearly benefiting as tenants recognize what's coming with the Penn District transformation. Overall, tenant dialogue across our entire portfolio is very strong. We're as busy as ever with 3 million square foot up deals in different stages and negotiations, including a strong momentum at Farley and PENN2.

Moving to Chicago now. At theMART during the quarter, we executed 45,000 square feet of leases at an average starting rent of over $48 per square foot with positive mark-to-markets of 6.7% cash and 14.9% GAAP. This included an expansion lease with all state for 17,500 square feet, raising the total footprint to 120,000 square feet, occupancy here is 95%.

In San Francisco, the market continues to be hitting on all cylinders. With our campus here at 100% occupancy, we are taking advantage of the extreme tightness in the market and are now discussing with renewals with several important tenants totaling 180,000 square feet well advanced their expirations.

During the quarter, we leased 50,000 square feet, including a 42,000 square foot renewal expansion with an existing tenant in 315 Montgomery Street, at a starting rent of $97 per square foot. Please note our positive mark-to-markets on second generation space here, which were spectacular 39.3% cash and 64.5% GAAP.

Before turning to our retail business. Let me comment on rework. There's been some speculation in the press that we and several other landlords that meaningful exposure rework, quite the opposite is true in our case. We work as a tenant in only one location, 606 Broadway, mere 15,000 square feet of share. While we appreciate some of the creativity the rework brought to the office business.

We chose to lease our space to end users with better credit over the past few years. Notwithstanding this, we do think that co-working provides an important service in the real estate ecosystem and we will be providing flex space as part of our overall offering for tenants at PENN1 and PENN2. This space will provide our tenants swing space, co-working space, meeting and social spaces, food and more. We will brand this space under the Vornado name and importantly retain the bulk of the upside.

Turning now to our New York Street retail business. Overall, the retail market continues to be challenging with leasing velocity is slow and assets prone to negative surprises, à la Topshop and Forever 21. Retail occupancy was 95.9% at quarter-end. In the third quarter in spite of the challenging leasing environment, we executed nine leases for 26,000 square feet of retail space achieving positive mark-to-markets of 6.2% cash and 15.6% GAAP of second generation space.

During the first week of October, we finalized the replacement lease for the short lived former Four Seasons Restaurant at 280 Park Avenue with the famous best-in-class Fasano hotel and restaurant group. Fasano has been a symbol of quality fine-dining and excellence in São Paulo and Rio since 1949. This will be their first New York restaurant and we'll focus on classic Italian cuisine similar to those they operate in Brazil. Fasano will deliver the best and fine dining to Midtown Manhattan while creating atmosphere style, sophistication and the energy. We think this will further enhance the quality of our tenant experience at 280 Park and are excited for their openings in the first half of 2020.

We continue to maintain a fortress balance sheet with reasonable leverage and an abundance of liquidity today and growing over the next few years. Our current liquidity is $3.36 billion, comprised of $1.28 billion in cash, restricted cash and securities and $2.08 billion undrawn on our revolving credit facilities.

Lastly, I want to remind you that based on tactical games from our assets sales year-to-date, we are currently anticipating paying out a special dividend of approximately $1.90 per share this year.

With that, I'll turn it over to the operator for Q&A.

Question-and-Answer Session

Operator

Thank you so much, sir. We will now begin the question-and answer-session. [Operator Instructions] The first question in the queue comes from Manny Korchman with Citi. Your line is open, please proceed.

Manny Korchman

Hey, good morning everyone. If you think about the leasing pipeline you talked about in the Penn District and you dissect that, how many of those tenants are looking to make a move or stay within sort of the Hudson Yards and Manhattan West, Penn District’s corridor versus looking elsewhere in the city?

Glen Weiss

Hi Manny, it's Glen Weiss. We're seeing a real balance of activity both from tenants in Midtown, Park Avenue tenants, Sixth Avenue tenants, looking at all of our projects. In addition, we have a lot of activity from the tech sector, the ever-growing, brimming tech guys are all looking at the projects as well. So I'll tell you the balance of tenants from within Midtown core and from tenants looking to continue expand in the city.

Manny Korchman

Thanks Glen. And then on the Forever 21, comments that you made how did you think about sort of giving them that rent relief and the impact that would have on both leasing and other tenants’ psychology?

Michael Franco

Manny, obviously, it’s a negative surprise, right in the sense of we had term on the lease and all of a sudden, they filed and so you have to deal with a real-time situation. And I think the deal that we struck has been finalized now, works for both parties but I think importantly, keeps the space occupied, paying rent and allows us the flexibility to go troll for tenants and find tenants, they'll occupy that space long-term.

So if you think about the locations individually, 1540 Broadway is arguably the best location in the city right now, right. From a street retail perspective, Times Square is the strongest marketplace, tenants sales are holding up the best. And we have the block from one side of the boat tie that is a premium location.

So with appropriate time, we will find a replacement tenant, a great tenant there and are confident about what we're going to achieve. On 435 Seventh Avenue, right that was always a short-term deal. There's a five-year deal, the tenant to get us through the period when we're ready to redevelop the entire block. And so this continues to preserve that for a period of time. We can go replace them if we want. If not, we'll keep it in place but again, there's a bigger picture on 435.

Manny Korchman

Thanks everyone.

Operator

And the next question in the queue comes from Nick Yulico with Scotia Bank. Your line is open.

Nick Yulico

Thanks. I just wanted to ask about, you talked about Topshop, Forever 21, I just wanted to be clear. Are these impacts that are only starting to hit NOI in the fourth quarter is trying to kind of bridge what you're reporting in the third quarter versus these impacts.

Joe Macnow

Hi Nick. It's Joe. Next the Topshop started to affect us in Q3 and Q2 we think, Forever 21 starts to affect in Q3.

Nick Yulico

Okay. So I guess, I'm sorry if I missed this, if you went through it, but I'm just trying to understand how – always thinking about that 340 kind of soft number for the year on FFO, what are some of the items in the fourth quarter that create that drag versus what you reported in the third quarter?

Joe Macnow

So Nick, when we had the second quarter call, we said that the sale of items and the other items we discussed that reduced NOI going forward. If you apply them to the six month numbers, you get 340. The third quarter last year was $0.96, this year its $0.89, that's a diminution of $0.07. That really comes primarily from sales. Specifically the retail JV is $8.2 million of that reduction, 330 Madison, $1.4 million, the sale of Lexington shares 3.3 million, the sale of Urban Edge $1.9 million, the delta between the dividend on pre and our share of their earnings another million.

And then there were other items that makes $0.07 or the delta in $9 million – $15 million, all of those items continue in Q4. And with that and now with even the Forever 21 effect in Q4, which we didn't know when we talked about the 340, other pluses and minuses leave us comfortable at 340.

Nick Yulico

Okay, that's helpful. Thanks. Just one last question on for OEM and you have a lot of interest in the building from what we've heard, there’s some press reports on it. Can you give us a sense – on getting the building leased and then in terms of the yield that you're giving there in the supplemental, I don't think that's been updated in a while. We've heard you've kind of been pushing rents in the building. So is there upside to that yield in the building?

Michael Franco

Look, I think there has been a lot of press speculation about Farley and there's quite a bit of interest in the asset. And I think as we've talked about on prior calls it's a totally unique asset. We wish we had five of them. And so the interest has been high. We're not prepared to comment on when have you might get done in terms of that deal. But even if we sign a lease near-term, the cash flow is not going to start probably till beginning of

2022. So the interest is high. I think the yields that we published in the last quarter was our best assessment as to where it would end up, we're not prepared to make any adjustments to that.

Obviously, we have some sense based on some dialogue at that time. And I think the interest in the retail has been significant as well. So we have to let it play out, but I think we put the third and second quarter numbers was continues to be our best guess as to where the yields will end up.

Operator

Thank you. The next question comes from Steve Sakwa with Evercore. Your line is open.

Steve Sakwa

Thanks. I guess, Mike, when you look – Michael, when you look through kind of the retail tenant list, some of these things are kind of popping up that maybe you weren't expecting. Just what – like how do you sort of look at the watch-list today? What other potential tenants, maybe without naming specifics, are you sort of worried about moving into 2020 at this point?

Michael Franco

Look Steve, the retail market is soft. Tenants performances are not what they were a few years ago. And so generally, we watch everybody, six, nine months ago Forever 21 was struggling, but we didn't necessarily expect them to file bankruptcy. So I don't think there's necessarily anybody that we look at the way the view as in the same position today. But we're constantly watching what may happen with different retailers. And so, there's risk in the sector. We do have – I think on average about eight years weighted average term on leases in retail and we continue to view that durability is a real strength. And so no specific names that I would mention, but everybody is mainly focused on.

Steve Sakwa

Okay. And then maybe just a question for Glen, I mean, I realize you guys don't have a lot of space coming due that Michael outlined, but just sort of what is the tenant psychology today as tenants are thinking about their 2020, 2021, maybe 2022 expirations and are you seeing more tenants coming to you sooner in order to lock in deals? I mean just sort of what does that dynamic today?

Glen Weiss

I think the tenor of the market is very good, Steve. We're seeing a lot of tenants, number one, expanding in the portfolio, lot of tenants looking for new space in the portfolio. We do see tenants who have expiring leases forward or looking at our developments in Penn specifically. So I'd tell you, I think the market overall is healthy, the tenant demand is strong and the tenants are still very active across all the sub-markets.

Michael Franco

I would just add Steve, look I think if we look at the – because we look at the pipeline – we were chatting here a few days ago, I think the activity really across all sub-markets, whether it's Midtown, Midtown South, Penn District, we have good action across the board and I think that's reflective of the fact that the tenants are growing and the market is healthy.

Steve Sakwa

And then just lastly, could you just comment on the TI leasing commissions? I think it looked a bit elevated on a couple of areas. I think in New York it looked a bit high. I was just wondering if that was a specific deal or kind of what you're seeing on the concession front?

Glen Weiss

It’s Glen. During the quarter, particularly this quarter, we had a bulk of our leasing via our turnkey program. So we built space for tenants. Those leases had relatively short-term at around seven years on average on out leasing. And the way we look at the turnkeys, we build them today, we lease them for the term and there's definitely a great value in the next-generation of the leasing of those spaces. So that's why you see that elevated TI number this quarter.

Operator

Thank you. The next question comes from Jamie Feldman with Bank of America. Your line is open. Please proceed.

Jamie Feldman

Great. Thanks and good morning. So I know you guys kind of confirmed the 340 for FFO, but I think on the last call, you talked about a low 200 range for street retail. Are you still comfortable with that outlook or has that changed?

Joe Macnow

Good morning, Jamie. That is the number that Steve referenced in the last call. Like I think that number may still be fine but there are some things in flux. Obviously, Forever 21, we have a handshake deal and until that's done and we see how that plays out, [indiscernible] generally as a company in that specific arrangement that can have an impact. We sold a couple of assets including 340 M for example that comes out of that number.

And then the last thing I would say is that we are now projecting to take the retail on railroad concourse out of service and next year for a couple of years while we redevelop the concourse. So when that comes back, we're going to have additional retail square footage which we think is going to be in very high demand based on that retail today. And the income will be higher, but we're going to lose $12 million per year temporarily. So yes, there's a couple of things that are moving around. Again some of those temporarily, we need to see how Forever 21 plays out. But I think the general numbers that Steve outlined in the last call still appears fine.

Jamie Feldman

Okay. Thank you. And then I thought I heard you say you're in talks for a 400,000 square foot headquarter deal at 2 PENN. Can you talk more about that potential lease and then just timing, like a 400,000 square foot block, how that would fit into the building and how we think about the ins and outs over the next couple of years if that hits?

Glen Weiss

The lease is out. We expect the lease to get signed in the next few months. The tenant would start their construction once we delivered the redeveloped building to them. So, deal – it's a deal we like a lot. And we're going to try to close it in the next few months.

Jamie Feldman

Okay. And then finally for me, just I know you had said you're seeing expansions pretty healthy market conditions. Can you just talk about your view of kind of traditional Midtown versus Midtown West? It sounds like a lot of the activity is Midtown West, but if the tenants you're talking to do end up moving to the West side, what did you think the outlook is for more traditional Midtown and market conditions there?

Glen Weiss

I can speak in terms of our portfolio, Jamie, in Midtown. And we are still seeing expansions in the buildings in Midtown, whether it's a 1290, a 90 Park, 280 Park, an 887. So we are seeing expansions throughout our Midtown portfolio, we – in our portfolio, we have not lost a tenant to the new developments on the West side. So I can't really specifically speak about others losing their tenants, migrating their, but we are seeing expansions still healthy within our portfolio in the Midtown district.

Michael Franco

And the other thing I'd add, Jamie, is that I think we've talked about this now on a few calls is that, in order to compete effectively in this marketplace, your buildings have to be monitored from an infrastructure standpoint and technology standpoint, amenities standpoint. And we got ahead of that starting many years ago, all of our buildings in Midtown has been renovated. We attracted top-flight tenants to anchor those redevelopments.

And so when you look at our assets, notwithstanding the activity levels, which are healthy on them, they're generally put to bed for awhile. There's not – so you look at the leasing activity in last quarter, this quarter, next quarter we alluded to, there's not a lot of role because we did the work, put those buildings to bed, had healthy rents and strong tenants. So I think where you're going to see some impacts from those landlords that have either inferior locations or functionally obsolescent assets, we're starting to move out, going to occur beginning in two, three, four years.

Operator

Thank you. The next question comes from John Kim with BMO. Your line is open. Please proceed.

John Kim

Thank you. A question on the Forever 21 rent type. Is your expectation that you will release that space in a meaningfully higher rent or is there a new rent really reflective for the market?

Michael Franco

John, I had a little trouble hearing you at the end there. Just repeat the question please.

John Kim

Sure. Do you foresee releasing this space of Forever 21 at a higher rent or is there new rent really reflective of where market rates are today?

Michael Franco

I would say, take them individually right on 1540 Broadway, our expectation is as I said, given the quality of that space that we should be able to achieve a higher rent and what the deal is with them. And 435 Seventh was a temporary deal, we went to lease that in long-term that rent would absolutely be higher. But again, we want to keep flexibility there and so we're balancing flexibility with how much rent we're going to get. So frankly, I know you guys care quarter-to-quarter what the rent is there. We don't really care what the rent is for the next four and a half years as we can see and put our plans together for that block.

John Kim

Okay. And Michael, you mentioned 65 tenants potentially looking for up to 16 million square feet in Manhattan. Do you have any commentary on how much of that is new demand versus musical chairs?

Glen Weiss

It's Glenn. It's a mix. It's a mix of type of tenant, whether demands expansion, relocation it's a mixed bag across all the industry sectors, across all the sub-markets. I wouldn't necessarily pinpoint one particular flavor of activity within that subset.

John Kim

But what about…

Michael Franco

John, the one thing I would add is, you see that really I think in space this year right is the growth from the tech companies, which – I don't think, most people didn't see the magnitude that was going to occur this year and there continues to be dialogue on, those are major impacts that tend to happen. I think with much greater speeds and a lot of the other leasing from traditional tenants. So we continue to see migration once those tenants get here, their expansion has been pretty significant.

John Kim

Great. Thank you.

Operator

The next question in the queue comes from John Guinee with Stifel. Your line is open. Please proceed.

John Guinee

Great. Two sources and uses questions. First can you remind us again when you have access as a preferred equity from the retail deal you did earlier this year? And then what do you expect to be the remaining after-tax proceeds of 220 Central Park South? And then the next sources and uses is how do you think the JP Morgan news ultimately plays out, does this result in a stable headcount in New York city or is it down 20%?

Glen Weiss

So John, good morning. I'll let Joe answer the after-tax proceeds on two points.

Joe Macnow

Okay. We'll start with that. John. Hi, how are you? It's Joe.

John Guinee

Good.

Joe Macnow

John, we have – excuse me.

John Guinee

Where's Steve?

Joe Macnow

Sitting next to me.

John Guinee

Good, good.

Joe Macnow

We have 1.9 billion in future sales, the lion's share of which is under the contract, there's another 100,000 of taxes against that 1.9 billion and another 100,000 of cost to complete the project against that 1.9 billion. So net of all costs, net of all taxes from this point forward, we'll be receiving $1.7 billion plus or minus from remaining sales closings of the sales at 220.

Michael Franco

So John, just on your…

John Guinee

You'll be all over the newspapers tomorrow.

Michael Franco

Your other question, John, so on the retail preferred, we have not said specifically in the past when that can be refinanced. And I think we continue to not want to the state that there's some tax sensitivities to that, but we will in due time be able to refinance and redeem that retail preferred. But thank you for pointing that out. That is a another significant source of capital we will have access to in a few years.

In terms of the JP Morgan announcement like I think the most important thing to remember is that they are building a significant world-class headquarters on Park Avenue right now and have recommitted to New York city through doing that. So this is their home, I don't think it's unusual for companies to get the banks to move back office personnel outside of New York, whether that's went to New Jersey or went to other cities. And so I think this is along those lines, but I haven't heard any announcements on percentage of headcounts, whatnot. You all have to sort of read that news. But there's ebbs and flows in the city in terms of companies and how they grow and manage their headcount. I think JPMorgan is just doing it.

John Guinee

Great. We missed you, Steve. Thank you.

Operator

Operator

The next person in the cue comes from Alexander Goldfarb with Sandler O'Neill. Your line is open, sir.

Alexander Goldfarb

Hey good morning, good morning. So, two questions. First you guys obviously talked a lot about the big-tech demand this year that surprised the market. And at the same time, [indiscernible] is busy contemplating redeveloping One Madison, you guys have the Farley, but at the same time you have the Forever hotel, Pennsylvania. So are there, is there sufficient demand in the market where you guys would start to, I don't know if it dust off the old plans may be reconceived but where that project starts to be something that may actually come to fruition given the tech demand, the city and its locations.

Good morning house. Look we are unbelievably excited about the hotel Penn site. We think that that site, we are done transforming Seventh Avenue with a PENN1 and PENN2. We think its going to be the best development sites in the city. So, but time is not here yet. We're going to finish developing PENN1 and PENN2 and we think that follows that after the fact. So, you are guesstimating what demand is going to look like and two, three, four years and knowing and you can effectively do that. But we biggest goal and the plan we have for that is going to be unique. We think that will appeal to all sorts of tenants.

Alexander Goldfarb

Okay. And then the second question is, just going back to the questions on retail rents, Topshop, you mentioned a cut to rent. The Ikea replacement for this year is out in Rego Park is a cut from what Sears was paying. So it would almost sound like rent for street retail are, they're either coming down dramatically or these were special circumstances where they were so far above where the market had moved. Or maybe it's just the amount of space to, so maybe you can just give a little bit more color on the dramatic cuts that we're seeing in these locations versus where you think, sort of generic – your generic, your average street retail lease would reprise.

Michael Franco

So like, I think we've talked about, frankly for the last at least two years that, the street retail rents like Steve was, was really, I think he was early in saying it and that the market has been correcting, right? The retail demand was down and therefore rents followed. And therefore rents followed. I think it's probably been most significant in Madison Avenue and, so and again, no deals that were signed that, high water marks, seeing those rents come down.

So Madison, could be down, certainly well North of a thousand and certainly below that, below a thousand today. So yes, the market has been correcting and we've bottomed. The answer is in some sub markets that we're close in and maybe a couple others, not necessarily yet.

But I think it's case by case, right? Depends on when the lease was signed. We have many leases that are still below market. We have obviously some that are above market, depends on what the advantage of those leases were. And obviously windows leads this role. Can't predict where the market will be at that time, but in some cases, the asset and maybe a better year. So Topshop, SOHO, that was entirely retail. And, today the best answer may be that, the ground floor space is retail and the upper floor has become office and income is, not that different.

That office space with the Crosby street address we think is going to be very attractive and we have interest already. So I think it depends on the asset. It depends on the sub-market but clearly, rents have been corrected.

Alexander Goldfarb

Thank you.

Operator

And the next question in the queue comes from Vikram Malhotra from Morgan Stanley. Your line is open. Please proceed.

Vikram Malhotra

Thanks for taking, I have two questions. So just one following up on Street retail, any update on the Massimo space or the Madison assets.

Michael Franco

Good morning Vikram, nothing really to report, on either one of those. We have some kind of dialogue going on Fifth Avenue but nothing is imminent. Retailers continue to be cautious and are conservative on making large commitments, which, Fifth Avenue generally is. So nothing to report there.

I think Madison is a little bit different where, Madison is slow, there's no sugarcoating. The demand on Madison is probably the lowest of any sub-market in the city. And so, it's going to continue to take some time to fill out.

Vikram Malhotra

Okay, great. And then just, I just want to clarify on the 340 and the run rate going into next year. Joe, should we assume that therefore the FFO in 4Q is closer to $0.80 to hit that 340 and you still anticipate recouping a lot of those losses heading into 2020?

Joe Macnow

Hi, Vikram, so far we’ve talked about Forever 21. We've said that the rent at share is 20 million and that's going to be diminished by at least half. We talked about the Long Island Rail Road Concourse coming out of service next year. Either one of those things were included when we talked about the 2020 versus 2019. Now as you know, we don't give guidance, but that being said, as a result of that negative effect of Forever 21 additional out of service at PENN1 and PENN2 to the support our development plans, including the [indiscernible] lower expectations from hotel Pennsylvania. We no longer believe that 2020, will be a substantial bounce back here. It's going to have to wait a little longer.

Vikram Malhotra

Okay. That sounds good. I'll follow offline. Thank you.

Steven Roth

Yes. Vikram, I would just add to what Joe said though, which is, notwithstanding may not be a bounce back year, and I know, you and others are very focused on the next few quarters and I think as we look at our business, our big growth engine is Penn District and we have tremendous confidence in what we're doing there. The early reception has been very positive. And so, that's going to take some time to kick in, but it's going to be meaningful when it does. And obviously we publish the information on the first few redevelopments last quarter. And so we feel good about that. So it's going require a little patience, but the growth is going to come quite meaningfully.

Vikram Malhotra

That's great. And I just wanted to just clarify, just on the 340 Joe, the run is at 340 still in tax for the reported full year or that was that a run rate sort of number?

Joe Macnow

No, that's, the number we expect to publish at the end of this year or calendar 2019.

Vikram Malhotra

Okay, great. I'll, follow up post the call. Thank you.

Operator

And the next question in the queue comes from Manny Korchman with Citi. Your line is open.

Michael Bilerman

Hey, it's Michael Bilerman with Manny. Just a few follow-up questions. Michael, you mentioned that 400,000 square foot headquarters lease and I don't know if Glen or David or yourself want to answer this, but I guess at when do you sort of disclose that information to the street? Cause I go to assume in your comment that there was a lot more in the works. And I assume that set Farley and maybe other stuff at PENN1 or PENN2 and other buildings. So, I guess at what point in the negotiation do you feel comfortable making a statement like you did about a significant value creating lease? Like the one you mentioned?

Michael Franco

Look Mike, I think we'll announce it when the lease is actually signed. I guess the general view, we have good dialogue going on the assets right now, but the actual, actual detailed come home and finalize the lease.

Michael Bilerman

But I guess in this case this lease is out for signature. I guess you talked about it on the call. It's out for signature. I just didn't know at what point in the process, let's say at least at Farley would be at what point you would be talking about that in the open about real.

Michael Franco

Yes. Just when it's signed Michael.

Michael Bilerman

Like, so in this case, the 400,000 was signed and you're just going through the door.

Michael Franco

400,000 there is, we're negotiating the lease.

Michael Bilerman

So I guess in the other leases that you're negotiating, how sizable are those and where do they stand in the process relative to this 400,000

Joe Macnow

Hi, Michael, I think you're trying to pin down on exactly where we are. This, I think there is really nothing more to say. Right? I think high level what we’ve said is, it all that we're prepared to say right now? When the leases get signed, we'll announce those. You'll know about those. But until they're done, nothing's done. And maybe beyond what we mentioned specifically is again, still, just active dialogue and negotiation. And not ready for it to be reported.

Michael Bilerman

Right. I'll look it, it's very exciting to hear about the PENN2 lease. I was just trying to understand the surface policies that you have in terms of disclosing it, and that was really more than I was trying to get out.

Joe Macnow

We're excited too Michael but got to wait a little bit.

Michael Bilerman

And maybe a question for Steve. You've not been shy about where your shares trade relative to the inherent value of the asset base and you've been extraordinarily aggressive over the last six years at simplifying a lot of the complexity spins, merge, sales, completely new construction at 220, done the Farley buy out all variety of long lists. I guess where is your head today in terms of further sort of potential sales? In most obvious would be something on the office side, either New York or outside of New York either an end joint venture or outright or is all the focus right now on Penn Plaza and the redevelopment efforts?

Steven Roth

All of the above. I'll say a couple of things. Number one everything's on the table as it has been for the last number of years. Number two, we are certainly not done yet. Number three is we definitely are not satisfied with our stock price at all. And just, I would like to throw it back to you. For example you said asset sales outside of New York and I guess you were referring to San Francisco or Chicago. I would remind you that for the last five years, you and your brethren had been begging me to sell San Francisco. And in the last five years it has gone up in vacuum over a $1 billion since we continue to hold it. So everything's on the table. We're not done yet.

And we're actually surprised by our stock price. But Mr. Market speaks and we're not done yet.

Michael Bilerman

Joe, just in terms of 220 the 1.7 billion is that also include the basis, the money that you have in the buildings. So it's effectively, we should think about a billion seven of cash.

Steven Roth

Michael, Joe spoke a little bit out of turn, trying to be very, very thorough. The answer is, is that we have published numbers which show that the sell out of that building is about $3.3 billion. And the cost of that building is about $2 billion. Okay. So you can do the math from there. The important thing is, is that all of we, we paid off the indebtedness. So all of the closings that come from in the future go into our treasury and go to Penn Plaza. So we, but now it's that we've started, we have closed a 1.2 or 3 billion. You could deduct that from the sellout. You can do the math.

Joe Macnow

My math was consistent with what Steve said.

Steven Roth

Okay. You can't go back with that. One of the reasons, we've been, I've been accused of being secretive with respect to that property. That's really not the case. We have a very important clientele and I think the word discreet is more important than your, the residential real estate market is a very gossipy market. So, information that gets into that market is not helpful.

Operator

Okay. So the next question to queue comes from Daniel Ismail with Green Street Advisors. Your line is open. Please proceed.

Daniel Ismail

Good morning guys. Just a quick question on New York city office cap rates. Given the movement in the 10 year as most sales that we've seen in New York, where we stand today earlier that you guys put up 4.5 cap on your office holdings, do you think we've drifted higher or lower at that time?

Steven Roth

I don't know that I would change it, Daniel, but obviously we do it once a year. You know, we'll revisit the time and see, where the markets are and what we're hearing from capital sources. I do think that the fact that interest rates have trended back down and appear to be stabilizing at lower levels, I think it is brain capital further into real estate as a general matter. And I think that a number of the capital sources we talked to, I think we view New York as there's value here, right?

So, cap rates probably widened a bit over the last year or so. And given where the tenure is, you can finance, on a reasonable leverage basis, generally below 4% right now. So that's a very attractive catch on cash yield. And so as the hedging costs have come in for a number of the capital sources abroad that are, that's an important issue. I think you, I think you're seeing capital sources refocus a bit and not just in the U.S .but, on New York as potentially a value play given values. And frankly, pretty flat, maybe even a little bit down over the last few years.

So, there's a lot that goes into what we publish, not just, where the market is, but how much growth is in a particular asset or vacancy or whatnot. So we'll, revisit that, as we get closer to when we publish it. But I think today directionally is not far off.

Glen Weiss

Daniel, you guys have been hustling that New York is overpriced. I'm not sure we agree with that. So if you look at comps, the comps pretty much support the cap rates that we have been using. The volume of activity in the capital markets has definitely been declining. It's been declining all over the country and all over the world. So it's a very specific asset by asset calculation. Now the NAV calculation is not intended to be, nor can it possibly be a rigorously ruthless – ruthlessly accurate correct number to the $0.01, it's a range. And so the volume is down. Pricing is pretty much holding on specific assets. And we think that you are a little bit too pessimistic on your thinking about New York, and even more than – maybe even significantly too pessimistic.

Daniel Ismail

All right, that's fair. Maybe just a quick follow-up PENN1 and PENN2 based on some earlier comments. You mentioned wanting to do the flex space there yourself. Is that a results of any of the turmoil we've seen at we work and wanting to reduce operator risk? Or is that a conscious decision of wanting to capture some of the upside in flexible leasing and keep sort of that tenant experience in-house?

Glen Weiss

Hi, it's Glen. We think in Penn, it's important to create a flex space for our portfolio, for our tenants, particularly at PENN1, the big building 2.5 million feet, more than 200 tenants are in the building, we're always seeing tenants needing agile space, whether it's swing space, expansion space, short-term band-aid space for whatever reason. So we think in Penn, doing the co-working, the flex space is going to be huge benefit for us in our tenants.

And of course with that, we do expect it to be a profitable operation, which is why we decided to do what at PENN1.

Steven Roth

When you think about like this is part of the center piece of the Penn District. We want to control exactly what goes on here exactly how we want to create the right back. And so we don't think anybody is better to do that than ourselves. I think we've proven that over the years and what we've done. And so – and when you think about when you lease to a co-working operator, you're generally providing the bulk of the TIs and getting a lease and maybe get a little upside. You're not getting a lot of credit and you have a capped upside. So here we're going to invest the capital exactly what we wanted. And create the right environment and capture the bulk of the upside. And so for us it's a pretty straightforward answer.

Daniel Ismail

Makes sense. Thanks, guys.

Steven Roth

And then by the way, that's always been the plan.

Operator

Thank you. And the next question in the queue comes from Jamie Feldman with Bank of America. Your line is open.

Jamie Feldman

Thanks. Just a quick follow-up on that last question. I mean have you – what – I know it hasn't been that long, but what changes have you seen in the market since we were pulled our IPO in terms of demand for co-working or just tenant behavior or discussions.

Steven Roth

I haven't seen any change Jamie. No change.

Glen Weiss

Obviously, we watched no signs of this Jamie.

Jamie Feldman

Well, I guess just the attitude towards co-working and flexibly thing. I mean it certainly seems like the products, that cycle seems a lot more talked about in tendency more interested.

Steven Roth

Look, I think it's – I think the way that people work hadn't used that space. I think got to here to stay. And just one of the reasons we're offering that type of space in the Penn District. I do think my own view would be that, there's been this big discussion of shift toward enterprise after these co-working companies, particularly we work. And I think those large enterprises are going to focus even harder on who their landlord is.

So I think that accrues to the traditional landlords. And quite a bit like us, and so the desk by desk and small companies, I think co-working will continue to be an alternative for a number of those. But I do think that the shifts are 10 or back a little bit.

Operator

Thank you, sir. We have no further questions at this time. I will turn the call over to Mr. Michael Franco for any closing remarks.

Michael Franco

Thank you, everybody for joining the call. We look forward to seeing many of our investors out at the NARI Conference in Los Angeles on November 12 and 13. And our next earnings call for our fourth quarter earnings will be on Wednesday, February 19, 2020, and we'll look forward to your participation again. Take care.

Operator

Thank you, ladies and gentlemen. This concludes today's teleconference. Thank you for participating. You may now disconnect.