SL Green Realty Corp. NYSE:SLG

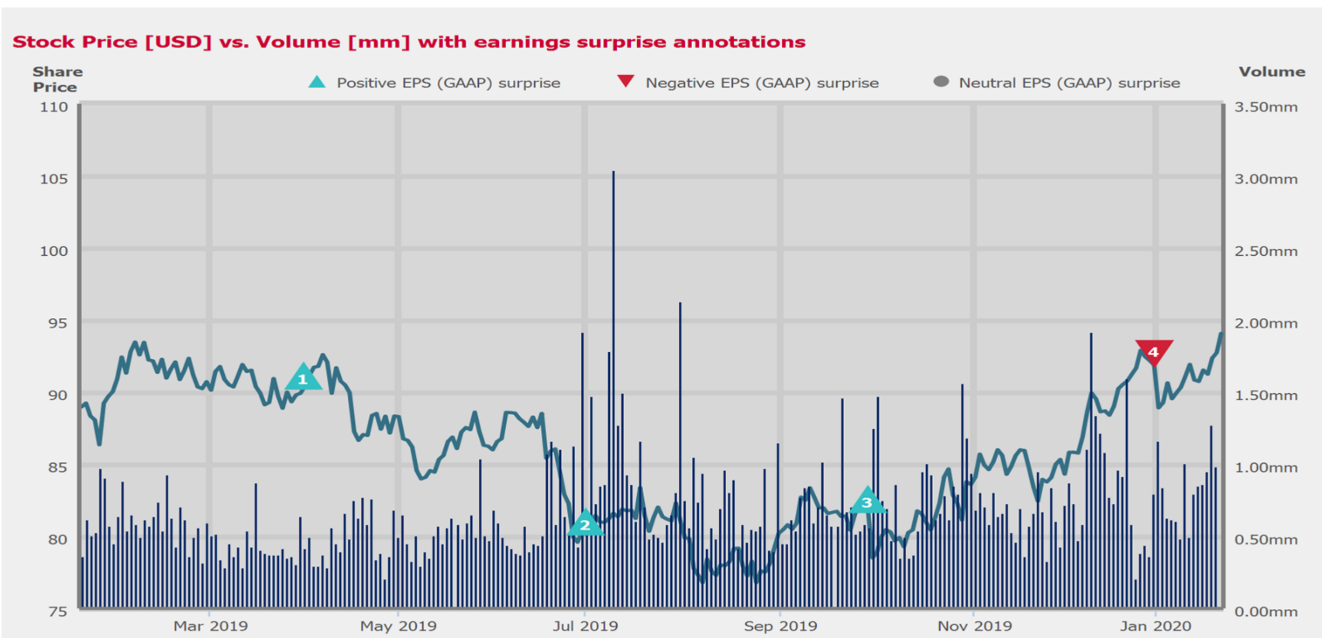
FQ4 2019 Earnings Call Transcripts

Thursday, January 23, 2020 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS (GAAP)	0.35	0.22	▼(37.14 %)	0.30	2.99	3.11
Revenue (mm)	248.24	250.45	▲0.89	237.20	981.36	983.56

Currency: USD
Consensus as of Jan-23-2020 1:13 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.39	0.52	▲1 33.33 %
FQ2 2019	0.34	1.94	▲2 470.59 %
FQ3 2019	0.33	0.40	▲3 21.21 %
FQ4 2019	0.35	0.22	▼4 (37.14 %)

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EXECUTIVES

Andrew W. Mathias
President & Director

David Schonbraun
Co-Chief Investment Officer

Marc Holliday
Chairman & CEO

Matthew J. DiLiberto
Chief Financial Officer

Steven M. Durels
Executive VP & Director of Leasing & Real Property

ANALYSTS

Alexander David Goldfarb
Piper Sandler & Co., Research Division

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

Derek Charles Johnston
Deutsche Bank AG, Research Division

Emmanuel Korchman
Citigroup Inc, Research Division

James Colin Feldman
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Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

John William Guinee
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Michael Robert Lewis
SunTrust Robinson Humphrey, Inc., Research Division

Nicholas Philip Yulico
Scotiabank Global Banking and Markets, Research Division

Vikram Malhotra
Morgan Stanley, Research Division

Presentation

Operator

Thank you, everybody, for joining us, and welcome to SL Green Realty Corp.'s Fourth Quarter 2019 Earnings Results Conference Call. This conference call is being recorded.

At this time, the company would like to remind listeners that during the call, management may make forward-looking statements. Actual results may differ from the forward-looking statements that management may make today. Additional information regarding the factors that could cause such differences appear in the MD&A section of the company's Form 10-K and other reports found by the company with the Securities and Exchange Commission.

Also during today's conference call, the company may discuss non-GAAP financial measures as defined by SEC Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed in the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on the company's website at www.slgreen.com by selecting the press release regarding the company's fourth quarter 2019 earnings.

Before turning the call over to Marc Holliday, Chairman and Chief Executive Officer of SL Green Realty Corp., I ask those of you participating on the Q&A portion of the call, please limit yourself to 2 questions per person. Thank you.

I will now turn the call over to Marc Holliday. Please go ahead, Marc.

Marc Holliday
Chairman & CEO

Thank you very much. Good afternoon, everyone. We appreciate you joining us. And we'd love to speak with you today about our earnings release yesterday, which brought to a close 2019, which turned out to be an exceptionally good year for the company.

We're certainly proud of the results we've achieved throughout the year on your behalf, including highlights such as the generation of $7 per share of FFO, representing a year-over-year increase of nearly 6%; the leasing of 2.5 million square feet of space in our Manhattan office portfolio, which activity carried a 38% mark-to-market on replacement leases and brought the same-store portfolio to 96.2% occupancy. We also achieved the near-complete liquidation of the Suburban portfolio; a high level of performance in the debt and preferred equity portfolio; and the total return to shareholders in excess of 20%, reflecting the success of our innovative and strategic business plan centered around disposing of assets at compelling prices and redeploying those proceeds into share repurchases.

Just last month, we held our Annual Investor Conference, which was well attended, and we thank all of you for that. We took a new approach in our conference presentation and focused almost exclusively on the work we've been doing these past years to position the company to benefit from a spectacular set of new developments. The 8 projects that we detailed will contribute an enormous amount of earnings growth to SL Green, estimated to be nearly $300 million of incremental NOI creation when combined with expected increases in the retained portfolio. The success of these development projects and the positive impact they will have on our city will cement SL Green's position, not only as the leading owner-operator of commercial properties, but also as one of the premier developers in New York.

The SL Green team is completely energized to take on the challenges of the new year and is already hard at work to fulfill the mission we laid out. Our mandate for 2020 is quite clear, meaningfully progress our construction and leasing efforts at our development projects, maintain virtual full occupancy in the retained portfolio, actively sell mature noncore properties, aggressively invest in ourselves by repurchasing stock at a significant discount to underlying value and continue investing in our properties to support SL Green's sector-leading sustainability initiatives. We feel confident in our ability to execute on that program, in part because we believe we have the exact right team to do it and in part because we believe the New York market will stay strong throughout the year, benefiting from low interest rates, record job growth, positive economic sentiment and white-hot capital markets.

As an example, last year, private equity fundraising in the U.S. hit record territory with firms raising north of $300 billion. As levered, that's $750 billion of total PE buying power with more to be raised in 2020, and real estate will certainly be a beneficiary with significant portion of those investment monies. So in recognition of our recent presentation at our Investor Conference where we went through in detail our business plan and New York City market dynamics, we're going to go right to questions on the call as we've done in past earnings calls that follow immediately our investor conference.
So with that, operator, we'd like to open it up for questions.

Question and Answer

Operator

[Operator Instructions] And our first question is from Manny Korchman from Citi.

Emmanuel Korchman
Citigroup Inc, Research Division

Marc, just given the recent rise in share price, does it change your perspective of the pace on the buyback you presented at the Investor Day?

Marc Holliday
Chairman & CEO

Just -- does it change buyback plan from investors? Is that -- I didn't hear the final word.

Emmanuel Korchman
Citigroup Inc, Research Division

Sure, yes, that works.

Marc Holliday
Chairman & CEO

Yes. No. I mean we say there's a change. It got slightly more expensive, so that's a reality. The prices fluctuated throughout the program. We bought it at prices in the 90s, down to in the 80s, maybe even high 70s, I'm not sure, but I think our average price at the moment is somewhere around 95 and change. We think anything within that range where we've been buying, we continue to be a buyer as much or more today as a year or 2 ago because we believe there's more value in the platform today than a year or 2 ago, in part because rates have continued to lower. We see cap rates stabilizing and maybe even compressing a bit for higher quality assets. And we get closer to the realization date of these development projects that I mentioned earlier, all of which brings more value to that portfolio. So it does cost us a little more. Some of that is incorporated into our projections that we put out for -- in guidance that we put out for 2020, but it doesn't -- the pricing levels we're at now, we're still an affirmative buyer. And I think you've seen that in what was disclosed as buying activity in the recent press release, at least through the date that it was -- of the quarter.

Emmanuel Korchman
Citigroup Inc, Research Division

And then if we think about acquisitions that you're potentially looking at in the market, are those going to be concentrated on the west side, similar to the last couple you've done?

Marc Holliday
Chairman & CEO

I think we're going to be opportunistic in terms of acquisitions, and I think we'll go where we see the best risk-adjusted returns. I mean it's going to purely depend on deal flow, and I think anywhere in the 5 boroughs is game, if we can find the right returns.

Operator

Our next question comes from the line of Michael Lewis from SunTrust.

Michael Robert Lewis
SunTrust Robinson Humphrey, Inc., Research Division

Great. It looks like several of the fourth quarter lease expirations turns into month-to-month or holdover tenants, about 423,000 square feet, $35 million of annual cash rent. Was that expected? Or maybe you could provide some color on that?

Marc Holliday
Chairman & CEO

$35 million?

Matthew J. DiLiberto
Chief Financial Officer

Yes, Mike. It's Matt. Part of that is Polo actually leaves in January, I think, so that's the bulk of that. And beyond that, every quarter there's a little bit of carryover month-to-month as guys get their things sorted out, but that big number was Polo in January. Their natural expiration was end of December.

Michael Robert Lewis
SunTrust Robinson Humphrey, Inc., Research Division

Okay, that makes sense. And then I just wanted to ask about the rent spread during the quarter. I think it was 50%, even better than the 38% for the year overall. Was there anything there that stood out in that high rent spread?

Matthew J. DiLiberto
Chief Financial Officer

There's 2 deals that drive a lot of that. The Amazon deal in the west side is a 222% mark-to-market on 280,000 square feet of their deal, and the BMW early renewal is 91% over at 555 West 57th.

Operator

Our next question comes from the line of Jamie Feldman from Bank of America.

James Colin Feldman
BofA Merrill Lynch, Research Division

Maybe a question for Steve, just on the leasing front. Can you talk about just kind of the city's leasing pipeline today and maybe compare it to this time last year? We've seen a lot of big leases get done over the last 6 months or so. But how do things stand today and -- as it relates to interest in like 1 Madison and some of your pending move-outs that we know about over the next couple of years?

Steven M. Durels
Executive VP & Director of Leasing & Real Property

Well, I can speak to our pipeline. I'm not certain I can speak to the city's pipeline. We've got a pipeline of 0.75 million square feet, which, I think, is a pretty full pipeline given the amount of deals that were closed, 1.25 million, in the fourth quarter of last year. So notwithstanding all that great leasing velocity and signed deals, there's still a pretty full pipeline across the board in our portfolio with a wide range of sizes, the largest of which in that pipe is probably about 115,000 square feet.

One Vanderbilt continues to see extremely strong activity. We have a couple of leases out that we're working on. We have a number of proposals that we're also exchanging back and forth. We're starting to get to a point where certain tenants are getting bumped from deals because they're competing for the same floors. And so we feel very good about our pace at that building.

1 Madison, a little early to the game. We're still 3.5 years out from delivery. We are responding to 3 or 4 different RFPs that have been submitted to us. We expect some others to come through the door, but I wouldn't read too much into that. I think it's early days there.

Like what we saw at One Vanderbilt, if you recall, when we started the lease up there, there was a long period of just educating the marketplace about what the product is all about. And then when we got into that kind of 2, 2.5 year away from delivery, that's when things heated up because that's a natural time line for tenants to make their decisions.

James Colin Feldman
BofA Merrill Lynch, Research Division

Great. And then just thinking about some of the known move-outs over the next couple of years, Debevoise, Cravath, NHL, any early read on -- or maybe just talk through how you're approaching those spaces and what we should expect to see?

Steven M. Durels
Executive VP & Director of Leasing & Real Property

Well, we're actively in the market with both of them. Cravath is still way out there, that's 2025, so it's -- there's no tenant that is really, I think, at this moment in time, making that far ahead decision for a product that's currently occupied. Debevoise is a little closer to us. We're probably doing a modest capital program in the building to attend to some of the public areas.

I'll remind you that on both of those buildings, it's the top of the house. It's the best part of the building. So we've got very -- they're both very strong buildings. So I think we're well-positioned to be able to bring those product to market. And particularly with Third Avenue, I expect it will -- we'll be leasing that at higher rents that are in place today.

Operator

Our next question comes from the line of Alexander Goldfarb from Piper Sandler.

Alexander David Goldfarb
Piper Sandler & Co., Research Division

So 2 questions. First, just big picture, recently, there's the politicians who are proposing extending the mortgage recording tax to mezz and other forms of subordinate finance for real estate. Maybe if you could just give your view on this? I'm assuming it would be borne by the borrower, but still, it just adds cost and friction to the system. So maybe you can just give your view on what do you think happens? And what you may be hearing from your folks that you may speak to in Albany?

Marc Holliday
Chairman & CEO

Yes. Alex, it's Marc. And the -- what you're referring to, I believe, is the -- is a bill that was just recently introduced in the Senate and the Assembly by 2 of the more junior senators, assembly people. It's been introduced. It's not a part of any budget at this time. It's not on any committee agenda. So it's far, far from something that I think has any traction.

We've looked at the bill as drafted and, frankly, we think it's flawed in a number of ways. So on the one hand, we think it's flawed. On another hand, we think it's written in a way as to be so broad as it would apply not only to real estate, but to maybe to commercial loans much beyond, which I can't imagine there's going to be support for that type of disruption of the lending markets in New York City right now, which is really helping to drive this economy. And while it might have been narrowly construed, we don't read it that way.

So on the one hand, I think it's early. On the other hand, we don't think it's going to get traction. On the third hand, it's not even clear how it would be enforced because it would appear to be not really enforceable as a UCC loan or enforceable as a mortgage loan. It sort of creates a third category of I don't even know what.

So I think we'll monitor it. I'm sure there'll be significant opposition to it from the business community. We'll just see where it goes.

Alexander David Goldfarb
Piper Sandler & Co., Research Division

Okay. And then, Steve, as you talked to some of the bigger, especially on the tech side, are you seeing that when they look at Manhattan for space, are they trying to sort of create like a campus where if they have to be in multiple locations, they want to have buildings that are within a few blocks of each other? Or is your sense that as these bigger tech users come to the city, they're just happy to take space wherever they can get it? So if it means splitting it between Downtown and Midtown or in different submarkets, they're buying? Or is it like -- I mean, I'm just thinking about Facebook where it seems like they aggregated pretty tight to one another on the west side.

Steven M. Durels
Executive VP & Director of Leasing & Real Property

Well, I think it's interesting. If you roll the tape back a couple of years ago, the tech tenants that were in the city, by and large, migrated to older buildings, buildings with a lot of character, smaller floor plates. They were hampered with lots of columns, small windows, low ceilings, that kind of thing, but it was in the Midtown South market where they wanted sort of the quality of life. And as that industry has gotten bigger in the city and the size of the tenants have expanded and the sophistication of those tenants has grown, their need for quality real estate has led them to better-quality buildings that can support the occupancy, which means bigger ceilings, bigger windows, less columns, better infrastructure where they can support greater density of occupancy. So that's driving them to new construction.

It puts us in the catbird seat with the redevelopment of 1 Madison because it's large floor plates in the part of town that they want to be. And I think that's the real change that you've seen in that sector of the marketplace where it was not just about which part of town they want to be in. Now they're finding themselves needing to be in certain types of buildings.

Operator

Our next question comes from the line of Derek Johnston from Deutsche Bank.

Derek Charles Johnston
Deutsche Bank AG, Research Division

DPE balances dropped to $1.61 billion this quarter. Is this the new base to grow from? And have DPE balances bottomed out? Or could we see a bit more shrinkage here?

Andrew W. Mathias
President & Director

No, it's Andrew. I think you'll see those balances rebound quite a bit by the end of the first quarter or mid-second quarter. We've already added about $100 million of assets so far in first quarter, and that $1.6 billion should be a low point. I think our guidance was to end the year a bit higher than that.

Derek Charles Johnston
Deutsche Bank AG, Research Division

Okay. Great. And given the dispositions this quarter, how do you plan to reuse the proceeds? And what will the split be?

Steven M. Durels
Executive VP & Director of Leasing & Real Property

Well, by dispositions, are we talking about...

Matthew J. DiLiberto
Chief Financial Officer

We actually -- it's Matt. We didn't -- yes, we didn't dispose a lot in the fourth quarter. In the first quarter, we expect to close 220 and that will fund the combination of share buybacks and debt repayments so that we maintain leverage neutrality.

Operator

Our next question comes from the line of Nick Yulico from Scotiabank.

Nicholas Philip Yulico
Scotiabank Global Banking and Markets, Research Division

I was hoping you could just talk a little bit more about how the conversation is going at 625 Madison where you mentioned you have a ground lease reset you're dealing with. Any updates there?

Marc Holliday
Chairman & CEO

Well, no updates. And in -- on past calls, we've gotten that question and it's going to be increasingly tricky because it's -- there will be a fair market value reset. I think it's in '21 or second half of '21, so it's still a ways off. Was that '20 -- well, '22 is the effective date.

Steven M. Durels
Executive VP & Director of Leasing & Real Property

The reset is effective...

Marc Holliday
Chairman & CEO

But the determination will be in '21. So we get to work in '21, the effective date is '22 and it's still a ways off. But to the extent it becomes subject of any kind of dispute or procedure or anything, we're going to probably not say a whole lot about this other than, from our standpoint, it's a pretty straight, down-the-middle FMB reset. We've dealt with them before and myriad of other lease -- space leases and ground leases, and we think we have a fairly good handle on where it should come out. And on that basis, we feel confident that we'll be in a position to have the rent reset, execute a modest building repositioning program and relet the Polo space at the right time.

In the interim, we are actively pursuing interim leases on a short-term basis and getting some traction there to create some ancillary revenue that actually wasn't really included in our 2020 guidance, but notwithstanding that, we're hopeful that, that will be some upside in 2020.

Nicholas Philip Yulico
Scotiabank Global Banking and Markets, Research Division

Okay, that's helpful. And then maybe a question for Andrew or anyone. In terms of all the tech leasing that has happened last year, there's more in the pipeline, has that yet translated into any change in buyer sentiment in the market or in terms of more assets -- larger assets come into market in New York City because of some of this confidence in the tech leasing in the market?

Andrew W. Mathias
President & Director

Yes, I think the short answer is yes. I mean, I think there's an understanding there's going to be an enormous amount of hiring to fill a lot of the space that's being committed for 2023 -- let's call it, 2022, 2023, 2024 delivery. And that, obviously, has a multiplier effect. So generally, investors, other than public shareholders, are extremely positive on New York City and its prospects. And we showed that analytically at the Investor Conference and we continue to hear it more and more in our travels as people are very bullish on New York and they love the occupancy statistics and they love sort of the makeup of the growth in the market.

Operator

Our next question comes from the line of Aaron Wolf from Stifel.

John William Guinee
Stifel, Nicolaus & Company, Incorporated, Research Division

Great. I think this is John Guinee here. You have another lease -- ground lease coming up. It's not for 20-odd years Avenue of the Americas, but you've got some big tenants in that building, 1 million square feet. When do you start having discussions with the ground lessor? And when do you start being reluctant to put money into the building, knowing that you've got this down the road?

David Schonbraun
Co-Chief Investment Officer

John, it's David Schonbraun. I think any lease like that we're -- it's so far out. I think it's a little too premature. I think as you get a lot closer to the expiration and you have to make leasing decisions where you don't have enough time to maybe get a lease and kind of give extension options, that's when those conversations more ripen. Right now, it's just too early and there's too much term on it. So it really doesn't make sense to do it at this time.

Andrew W. Mathias
President & Director

We did. We just completed a pretty significant repositioning in capital campaign at that building in advance of the vacancy that you see now. So we did a lobby renovation, some systems work and sort of improved the curb appeal of the building quite a bit. So we invested that capital in contemplation of getting long-term leases that will sort of lead up to that revaluation, but beyond that, we'll see.

Steven M. Durels
Executive VP & Director of Leasing & Real Property

We're trading paper with some of that -- the nearest-term lease expiration, we're already trading paper with prospective tenants.

Operator

Our next question comes from the line of Craig Mailman from KeyBanc Capital Markets.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

Just curious, Greenberg signed another lease at 420. Does that affect at all kind of the lease at One Vandy and the space needs? Could they transfer that or vice versa?

Steven M. Durels
Executive VP & Director of Leasing & Real Property

No, no, no. That was always part of their game plan from day one was to have a split operation where part of their people would be over at the Graybar building. The amount of space they took at Graybar was a larger amount of space than they originally contemplated, so that was good news. And a number of the tenants at One Vanderbilt have elected to split their operation, putting some of their support people in surrounding buildings, and we've been a beneficiary of that as well.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

That's helpful. Then just to go back to the slide you guys had at the Investor Day on the bridge and the CapEx associated with the NOI coming online, just 2 questions -- follow-up questions to that. One, kind of what's the threshold on probability for a tenant staying versus going for some of the bigger kind of tenants you guys have here that have expirations in the next couple of years that we don't already know about? And then how much capital, if any, is in there for complying with the first phase of the carbon emissions in 2024?

Matthew J. DiLiberto
Chief Financial Officer

It's Matt. So your first question was what's our probability of retaining tenants? I mean, generally, our historical average is 60% to 70% retention rate. And for the leases that we know or the tenants that we know are leaving or known vacancies, we put in assumptions there. I mean there's -- I can't get into specifics as to how we do it, but obviously we take those into consideration.

Carbon emissions, we've said and shown, we are compliant through the known compliance period. So if there is any incremental capital that is needed there and we feel our portfolio is well ahead as evidenced by our scores of the New York City requirements and the other portfolios in the city, we always have things in there ahead of regulatory requirements and safe to assume there's some in there in that capital plan as well. But as for what happens beyond '24, those rules are not out yet and so we don't have a large number or any specific number in there for that.

Marc Holliday
Chairman & CEO

Yes. For what we know through 2030, the cost is de minimis.

Matthew J. DiLiberto
Chief Financial Officer

Yes.

Marc Holliday
Chairman & CEO

So I mean, for the next 10 years, we -- based on what we do know, we know it to be de minimis. If you're asking 2030 and beyond, those standards will be set, and then we'll have a better sense of things. But when I say set, they'll be revised and modified from what came out. And there's committees and task forces that have been set up to do that. So it is being actively attended to, even though it's very early. But the '24 hurdles, I think we did a whole segment on that in December showing that we were almost entirely compliant today for '24.

Operator

Our next question comes from the line of Jason Green from Evercore.

Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

Just a question on the Suburban sale. Are you able to provide a cap rate on that sale? And also generally, how deep the buyer pool was?

Andrew W. Mathias
President & Director

Cap rate, we're not in a position to give. The buyer pool, I would say, it's a light buyer pool in the suburbs, much lighter than in the city. That's part of the time that it's taken us to divest that portfolio. We still have the 2 assets remaining, as you know, in Stamford, Connecticut. And we were very pleased to be able to come to a resolution on those assets in White Plains.

Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

And I guess, just a follow-up, just what the activity level is in the remaining Suburban assets?

Andrew W. Mathias
President & Director

For lease or sale?

Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

For sale.

Andrew W. Mathias
President & Director

I think one of them was going through a rent revaluation process on a ground lease, which is now complete. It resulted in no increase in ground rent, and that asset is now, in our view, ready for sale, given the rent is set and that uncertainty is taken away. And the other asset is Landmark Square in Stamford where we continue to manage and lease and collect significant income. But I'd say, for this -- at this moment, we're sort of taking a pause on the marketing process there, completing some leasing and other activity at the building, and then ultimately look to reintroduce that building for sale.

Matthew J. DiLiberto
Chief Financial Officer

And Jason, just to be clear, we did not include the sale of Landmark Square in our business plan for 2020.

Operator

Our next question comes from the line of Vikram Malhotra from Morgan Stanley.

Vikram Malhotra
Morgan Stanley, Research Division

Just with the news that WeWork sort of slowed down and potentially maybe giving back some space, can you just sort of update us broadly on your thoughts on sort of how this may evolve from a demand perspective, but more specifically on 609 Fifth where WeWork did find leads, like where are we in that process? Are they already cash paying? Or is that yet to commence?

Marc Holliday
Chairman & CEO

Well, on 609 specifically, I think WeWork commenced its rent payments, I want to say April?

Matthew J. DiLiberto
Chief Financial Officer

Payments? Yes.

Marc Holliday
Chairman & CEO

Yes. So they're close to but not quite at their rent commencement period. They just gave us an updated construction schedule. So they seem to be going full bore ahead at this moment to complete their base building work and installation. How long that will take them? I'm not quite sure. But based on the scope of the work, I'd say at least until the end of this year. But in all respects, there's nothing notable to note on 609 or the WeWork lease there other than they are in the process of doing their work.

As it relates to the market generally, the coworking companies have definitely -- they downed their demand in New York in the fourth quarter pretty sizably, but that certainly didn't seem to have an effect that we saw in the fourth quarter.

Andrew W. Mathias
President & Director

Yes. I don't know, giving back space, I haven't seen...

Marc Holliday
Chairman & CEO

Well, I haven't -- I mean, I'm not referring giving back...

Andrew W. Mathias

President & Director

No, the question was -- he referred to giving back space.

Marc Holliday
Chairman & CEO

No, no.

Andrew W. Mathias
President & Director

I mean they have contractual obligations. We haven't heard of them walking away from any contractual obligations. So I'm not sure.

Steven M. Durels
Executive VP & Director of Leasing & Real Property

So just to add to that. We've had a number of discussions with them. And what they have consistently said to us is that the focus of their business plan is on their core cities, New York City -- New York, London and the like, being -- they're just hyper-focused on. And they realized that their outer-borough cities, that's where you may hear about them pulling back from. But New York City, they expect to continue to be expanding as the years to come and certainly not retracting on any of their current commitments.

Marc Holliday
Chairman & CEO

Yes. I mean I know a lot of the focus is on WeWork, but Knotel is out there also as someone who is going through a lot of the same things that we hear about and see and have had experienced where they seem to be pulling back from deals, not giving up space, if that was the question, but certainly downsizing their demand greatly and laying off employees. So I think you're going to see it within that sector. And -- but the market, both in terms of what we achieved in the fourth quarter and the pipeline we have in front of us, doesn't seem to be meaningfully affected by that pullback because the tenants that might otherwise have gone into those facilities just seem to be back to -- coming to landlords direct. And so maybe that's even a -- either way, whether it's derivatively through a coworker or direct, the leasing space, as I always said, is a good thing for us, and we support any company that's leasing space, whether it's directly or as part of a coworking community aggregator, if you will. But the important thing is the job growth is there, the underlying demand is there, so space will get leased directly or through one of the coworking companies.

Vikram Malhotra
Morgan Stanley, Research Division

Okay, that's helpful. Just last, just to clarify on the income NOI from -- cash NOI from the retail properties. Anything from any of the leases recently signed, whether it's PUMA or anything, in terms of like a bump up in the cash NOI? And can you give us an update on the McDonald's space?

Matthew J. DiLiberto
Chief Financial Officer

As it relates to PUMA, they started -- we started income recognition late last year when they opened. They opened in August, September time frame, they and Vince. So you'll have a full year effect this year versus just a partial year last year, but that's the most material on the retail side.

Andrew W. Mathias
President & Director

The McDonald's space is demoed and prepped, looks beautiful and is formally on the market as of about 30 days ago. So we'll look forward to activity this year, again, that space leased up. But McDonald's is still paying rent on that space for several more years, as you know.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Marc Holliday for closing remarks.

Marc Holliday
Chairman & CEO

Okay. Well, thank you all for a somewhat abbreviated call, but we appreciate the questions and look forward to a very ambitious and productive year in 2020 and look forward to speaking to you again in 3 months.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.