NYSE:SLG (MI KEY: 113065; SPCIQ KEY: 364744)

Detail

SL Green Realty Corp., Q4 2017 Earnings Call, Jan 25, 2018

Event Details	
Announced Date	1/2/2018 4:19:00 PM
Period Ended	12/31/2017
Company Name	SL Green Realty Corp. NYSE:SLG
Source	Business Wire, Company Website
Event	Earnings Call
Advisors	NA
Situation	SL Green Realty Corp., Q4 2017 Earnings Call, Jan 25, 2018

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Call Description	NA
Host 1	Marc Holliday,Chief Executive Officer
Host 2	NA
Host 3	NA

Company Details	
Contact Name	NA
Title	NA
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Description	NA

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Description	NA

SL Green Realty Corp. Reports Unaudited Consolidated Earnings Results for the Fourth Quarter and Full Year Ended December 31, 2017; Revises Earnings Guidance for the Year Ending December 31, 2018

Announced Date	1/24/2018 4:05:00 PM
Company Name	SL Green Realty Corp. NYSE:SLG
Source	Business Wire
Event	Announcement of Earnings
Advisors	NA
Situation	SL Green Realty Corp. reported unaudited consolidated earnings results for the fourth quarter and full year ended December 31, 2017. For the quarter, the company's total revenues were $361,342,000 compared to $374,242,000 a year ago. Net income was $38,335,000 compared to $53,970,000 a year ago. Net income attributable to the company was $31,719,000 compared to $47,753,000 a year ago. Net income attributable to the company common stockholders was $27,982,000 compared to $44,016,000 a year ago. Basic and diluted net income per share was $0.29 compared to $0.44 a year ago. FFO per share (diluted) was $1.60 compared to $1.43 a year ago. Funds from operations attributable to the company common stockholders and noncontrolling interests were $161,682,000 compared to $150,759,000 a year ago. Operating income was $204,656,000 compared to $199,466,000 a year ago. Net operating income (NOI) was $173,153,000 compared to $189,287,000 a year ago. For the year, the company's total revenues were $1,511,473,000 compared to $1,863,981,000 a year ago. Net income was $101,069,000 compared to $278,911,000 a year ago. Net income attributable to the company was $101,374,000 compared to $249,896,000 a year ago. Net income attributable to the company common stockholders was $86,424,000 compared to $234,946,000 a year ago. Net income per share (diluted) was $0.87 compared to $2.34 a year ago. FFO per share (diluted) was $6.45 compared to $8.29 a year ago. Funds from operations attributable to the company common stockholders and noncontrolling interests were $667,294,000 compared to $869,855,000 a year ago. Operating income was $863,783,000 compared to $1,174,060,000 a year ago. Net operating income (NOI) was $722,903,000 compared to $1,051,528,000 a year ago. The company's revised earnings guidance for the year ending December 31, 2018 is net income per share of $2.32 to $2.42, and FFO per share of $6.70 to $6.80, increased from the previous guidance range of $2.27 to $2.37 and $6.65 to $6.75 per share, respectively. The company is raising its earnings guidance for the year ending December 31, 2018 by $0.05 per share after taking into consideration a $4.1 million charge taken in the fourth quarter of 2017 related to forfeiture of the Company's 2014 Outperformance Plan awards, which was previously projected to be a 2018 expense.

Transcript

SL Green Realty Corp., Q4 2017 Earnings Call, Jan 25, 2018

SL Green Realty Corp. (NYSE:SLG)
Thursday, January 25, 2018 2:00 PM

Executives
Andrew W. Mathias - President and Director
Marc Holliday - Chief Executive Officer and Director
Matthew J. DiLiberto - Chief Financial Officer
Steven M. Durels - Executive Vice President and Director of Leasing & Real Property

Analysts
Alexander David Goldfarb - Managing Director of Equity Research and Senior REIT Analyst
Craig Allen Mailman - Director and Senior Equity Research Analyst
James Colin Feldman - Director and Senior US Office and Industrial REIT Analyst
John P. Kim - Senior Real Estate Analyst
John W. Guinee - Managing Director
Jonathan Michael Petersen - Equity Analyst
Joseph Edward Reagan - Senior Analyst
Michael Bilerman - Managing Director and Head of the US Real Estate and Lodging Research
Michael Robert Lewis - Director and Co-Lead REIT Analyst
Nicholas Yulico - Executive Director and Equity Research Analyst- REIT's
Robert Matthew Simone - Associate
Vikram Malhotra - Vice President
Vincent Chao - Vice President

Presentation

S&P Global Market Intelligence

Operator
Thank you, everybody, for joining us, and welcome to SL Green Realty Corp.'s Fourth Quarter 2017 Earning 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 filed 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 and 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 2017 earnings.

Before turning the call over to Marc Holliday, Chief Executive Officer of SL Green Realty Corp., I ask that those of you participating in the Q&A portion of the call, please limit your questions to 2 per person. I'll now turn the call over to Marc Holliday. Please go ahead, Marc.

Marc Holliday
Okay. Thank you to everyone for joining us for SL Green's Fourth Quarter 2017 Earnings Call. Before we open the line to questions, I wanted to briefly note some of the important things that have occurred since our Investor Day in December and update our outlook for 2018.

First, as context for today's discussion, let's go back to our Investor Day to set the scene. In December, we presented strong 2017 company operating performance underscored by having met the majority of our stretch goals, and we presented an optimistic outlook for 2018. We talked about the strong underlying fundamentals of the New York City economy, demand for office space exceeding new commercial development pipeline and SL Green's asset value compared to stock price driving our strategy to continue and even increase the share buyback program we put in place last year.

Everything that has happened in the ensuing 7 weeks has only reinforced our outlook on the market and the company moving

into 2018. This week, the city of New York released its preliminary end-of-year jobs numbers for 2017, and the news continues to be quite good. The private sector added 70,000 total new jobs in 2017, with office-using jobs up by 25,000. Job growth exceeded expectations from this time last year with strong acceleration in the fourth quarter and notable growth in the FIRE sector, which accounted for half of those new office-using jobs. We expect similar positive news when the year-end tourism numbers are tallied and released, confirming that New York City is still a magnet for domestic and foreign visitors.

The bottom line is that New York City's economy, the bedrock of our business, continues to thrive. And as I noted at our Investor Day, the high level of office-using job growth will continue to provide sufficient demand for new space that outstrips the new construction supply coming online. This is especially true as we've seen the densification of office space begin to plateau and efficiencies reach their natural limits, evidenced by the number of tenants now looking for expansion space and planning for growth.

For SL Green, there are also a number of positive indicators and opportunities that have emerged over the past 7 weeks that are still too early to quantify but that lead us to be even more optimistic about what lies ahead in 2018. Asset pricing is holding up for well-located office properties. There is an enormous amount of institutional capital looking for deals in Manhattan. Also, there is not a lot of product in the market right now for 100% asset acquisitions, creating somewhat of a scarcity value for good investment opportunities.

Most deals that you see in the market right now are for partial, passive, LP, minority interest capital. We've done some of those deals, and you'll see more getting done in 2018. But for investors who want full building control, full building capitalization, there really are not that many good opportunities in the market. Now we expect more to come, but we expect it to be balanced with the amount of debt and equity capital that is in the market for those kinds of transactions.

So while overall transaction volumes may continue at 2017 levels, supply being down and demand for product is high, I expect prices to remain stable throughout the year. And I think even the most recent deals that have been announced, 1700 Broadway, the deal at One Liberty, it's all further evidence of a very balanced market with a lot of demand being met by good asset pricing. We will, of course, continue to take advantage of this market dynamic by selling mature assets and joint venturing value-add assets in order to generate proceeds for reinvestment and leverage neutral stock buyback.

We are not fearful of the recent modest increase in the 10-year treasury. The vast majority of our long-duration liabilities is fixed at attractive rates, and the recent rise in the treasury is generally indicative of improving economic conditions. With vacancy rates below 10% and unemployment in New York City below 4%, continued economic improvement in New York City should result in 2018 being a better year than 2017.

As stated in December, we've been buying back our stock with funding sources playing out as projected, notably the closing of 600 Lex and the pending second-stage closing of 1515 Broadway. Our leasing pipeline is now approaching 1.2 million square feet, which is already up from December's pipeline. We're fielding numerous inbound inquiries for JV partners and asset sales and are being very selective on what to monetize in the portfolio to fund our 2018 business plan. That plan looked attractive in December and looks even better in light of current market conditions.

Notwithstanding our solid quarterly performance and positive outlook, there are, of course, external factors that influence our share price. As recently reported, the entire REIT sector has gotten off to a slow start this year in trading, and our share price has not been immune to that. The main driver seems to have little to do with underlying REIT performance and more to do with the view that other industries stand to benefit greatly from the federal tax changes and capital has started to flow aggressively in that direction. The irony is that the factors that are driving capital to the other business sectors will serve to greatly enhance the bottom lines of those companies, which are largely our tenant base in New York City, which bodes extremely well for our portfolio.

So we'll obviously field questions about the earnings release we put out yesterday. But before we do that, Matt DiLiberto has a bit of an update on guidance.

Matthew J. DiLiberto
Yes. Thanks, Marc. Last night, we reported FFO for the fourth quarter and the full year 2017 right on top of our expectations that we laid out in December. That said, there were a couple of items in those results that we didn't include in our initial expectations that were highlighted in the press release.

On the expense side, all the awards for our 2014 out-performance plan were forfeited. That has resulted in us taking a $4.1

million charge in the fourth quarter for the unamortized accounting expense related to the plan, which expired completely valueless to the recipients. That amount's included in G&A. The charge was offset by a $3.2 million real estate tax refund that we received at our property up in Rye Brook, following a successful appeal. Kudos to all those who were involved in that process. That amount is included in other income.

Otherwise, the quarter was pretty clean. No real unusual items. And of course, we had the customary accounting cleanups that happen at the end of every year, like you saw in the transaction cost line.

With regard to 2018, we've increased our FFO guidance range by $0.05 per share to $6.70 to $6.80 with a midpoint of $6.75. This increase is primarily the result of the $4.1 million charge we took in the fourth quarter related to the 2014 OPP awards that were forfeited. Our initial 2018 guidance had assumed that we would take that charge between January and August of 2018, which was the final vesting period for the awards.

But in addition, as we look out over the balance of the year, we're definitely seeing opportunities to generate further incremental earnings that could put us above our midpoint and at the upper end of our new guidance range. Obviously, it's still very early in the year so we need to see those things play out a bit. But to be here in January increasing guidance and to already be looking at further positives in our sector-leading FFO per share numbers is certainly a nice place to be.

With that, I guess we can open it up for questions.

Marc Holliday
Operator?

Question and Answer

Operator
[Operator Instructions] And our first question comes from the line of John Kim with BMO Capital Markets.

John P. Kim
I just wanted to follow up on some of your comments, Marc, on your opening commentary on -- especially regarding tax reform and the impact it's had in Manhattan leasing. It seems like many companies have already announced plans to increase hiring but not necessarily in New York, and maybe you saw it as a bit of a turnoff for some. But I was wondering if you could just elaborate on what discussions are like right now.

Marc Holliday
Yes. I don't know that, that's accurate that those plans don't include New York City. I think, Steve Durels, you could probably address, in general terms, maybe sectors or specific tenants, I mean I'm not sure, that are out there with expansion, either those we've done within the portfolio or deals that are pending, not by name, where they contain expansion elements. But I think we've continued to see a very positive and forward position amongst most of the industry groups within our sector that had, over the past 10 or 15 years, gone through some level of densification and tried to take advantage of best practices for creating efficiencies. But having cycled through 10 or almost 15 years of that, we see most of those tenants, as I said earlier, reaching those natural limits. And the combination of bottom line profitability and not much further opportunity to densify is leading towards current-day expansion or much more planning for expansion in leases. Whatever the effects of tax reform will be, that, we probably won't see for maybe another 12 months or so. I think what we're seeing now is just the benefit of corporate profitability in a very strong New York City economy that we've had over the past several years. Steve?

Steven M. Durels
To answer that, of the pipeline of almost 1.2 million, inside that number was almost 400,000 square feet of new tenant leases being negotiated. And I know specifically that at least 1/4 of that square footage is being driven by tenants with expansion needs. I can't speak to whether or not the expansion and the hiring of new employees is currently being driven by tax reform, but I can tell you it certainly reinforced the overall business climate and enthusiasm that our tenants have about the confidence of their business. And that's what's leading to new hires and the leasing velocity that we're seeing.

John P. Kim
Okay. And my second question is on the rising interest rate environment. How do you feel about increasing your DPE portfolio both from an interest rate hedging and an opportunity perspective?

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Marc Holliday
I think our guidance for the year is roughly flat on balances, which entails a lot of origination because we have a lot of payoffs scheduled. We're still seeing good opportunities in the DPE market. And I would say a liquid financing market benefits us and our ability to generate above-average returns. I just think, right now, rather than increasing balances, we're seeing the stock buyback program as a better place to deploy our capital.

Operator
And our next question comes from the line of Michael Bilerman with Citi.

Michael Bilerman
I was wondering -- maybe, Steve, you can just give us an update on One Vanderbilt. 7 weeks ago, at Investor Day, you talked about exchanging paperwork, I think it was on 4 or 6 floors. I'm just curious sort of where things stand today both in terms of those leases that you were negotiating but other incremental demand that may have come in.

Marc Holliday
Well, Steve will address sort of incremental demand, if you will, and give you a sense for how things are going. And they're going -- they were going well 7 weeks ago, and I think they're still going well today. But we'll give you that 7-week update. But as it relates to the leasing that Andrew had put up on the screen, I think they were several deals in several floors that we had shown a high degree of confidence of making throughout the year. We have signed one of those leases, and that is in the quarter-to-date statistics, which I don't think I went through on the call. But we've signed about 190,000 or 200,000 square feet to date in multiple leases, which includes a deal over at One Vanderbilt. We'll be able to share some details of that with everyone very, very shortly, imminently, but not on the call. Beyond that, we've had other good leasing volume throughout the first part of this year. And if you want to add what's incremental to whatever Andrew was -- what we've talked about with...

Steven M. Durels
Yes. We're actively trading proposals back and forth with 4 tenants right now. Sizes vary. They're all for multiple floor type tenancies. The tour activity, the request for proposals, the sort of accelerated advancements of dialogue with prospective tenants is more feverish today than it was 6 months ago and, certainly, more than it was a year ago. So we're very active with tenants. And all of the economics that we're trading back and forth with people are well within our underwriting expectations.

Michael Bilerman
Great. Marc, just as a second question, in your opening comments, you've made mention of things that would make you even more optimistic relative to Investor Day, and I wasn't sure what sort of things you were referring to, whether that was leasing that was done, acquisitions that you are targeting, dispositions that you were doing, financing. I just didn't know what categories we should be mindful of that are making you...

Marc Holliday
Well, I would put probably high on the list -- I mean I can think of a few examples. But I think the tax bill is something that was formulated and passed after our meeting, and I think the expectation is certainly in the near term, the foreseeable near term, that, that could have a very stimulative effect on the financial community here in New York City but also just the general business community. And you're starting to hear about the reports of hiring. And we're starting to -- we're speaking with our tenants about their plans, and it just -- there will be money to be spent. And how it gets spent, where it gets spent, when it gets spent, we'll see. But it looks like that, that is certainly a positive development for our business tenant base and something that I think is not lost on investors.

Michael Bilerman
So it was more sort of the market rather than something specific that you were working on or getting close to?

Marc Holliday
Well, I'm not sure. I mean, yes, there's -- everything -- the leasing pipeline is significant and has grown, so I put that down as a significant factor. We're buying back our stock at prices that were even lower than projected. And while we don't like to see the REIT sector get off to the start that it's gotten off to, just in a pure mathematical sense, that's been -- that translates into more accretion -- earnings and value accretion for the company. The inbound increase that I referenced in my opening comments about just sort of -- which is a gauge of investor demand, worldwide and domestic investor demand, is quite high. And I think you want to go into a year of seeing plentiful debt capital, equity capital, keeping values high, leasing pipeline strong, a tax bill which the business community has translated into potential for job growth. These are all things taken together that I think bode quite well for '18 and probably on the margins, better than where we stood 7 weeks ago.

Operator
Our next question comes from the line of Craig Mailman with KeyBanc.

Craig Allen Mailman
Marc, in your opening commentary, I thought your comments about the transaction market were helpful. I'm just curious, as you kind of look across Midtown, are you seeing any significant differences in neighborhoods from a value or demand perspective?

Marc Holliday
Well, I mean -- could you be -- maybe be a little more specific? I mean, Midtown is already a specific, defined generally as Third Avenue on over the Seventh or Eighth, and -- but the statistics probably do include leasing over on the West Side Yards. So the Midtown -- I think demand for Midtown assets and Downtown -- One Liberty was a pretty -- was a very robust price if you measure price by price per foot. I think that showed strong support for Downtown on that transaction. I think that, certainly, the 1700 Broadway on the West Side, very strong deal, our deal for Worldwide Plaza, our sale of 1515 Broadway, also Times Square. 600 Lex, so coming all the way over to the East side, was a sale that we felt was very good for this company. So I don't think it's limited or targeted in any way by neighborhood per se. I think it's pretty broad-based. Certainly, throughout Midtown, Midtown South continues to be highly attractive, just not a lot of product for sale because it's only a 60 million square foot market to begin with. And Downtown, where the trades have generally been at lower price points, there's been a couple of good deals down there, too. So I'd say broad-based.

Craig Allen Mailman
Great. That's helpful. Secondly, can you just give us an update maybe on how you guys are seeing concessions this year and if you've had any early conversations with tenants about maybe kind of the burden they want to take on now with the tax changes versus what landlord build-out would be?

Steven M. Durels
Over the last 2 years, we've all seen concessions go up, particularly for new tenants' leases. But as we ended 2017 and as we started in '18, our experience and my sense personally is that TIs have stabilized as far concessions go, still fairly rich relative to the rents but have stabilized. Face rents have increased over the past 12 months, and I think there's even been a little bit of a pullback on some of the free rent demands. So hopefully, we're at that moment where the concession increases are over, and we're in a place where they've plateaued.

Craig Allen Mailman
I guess I was getting more at the improvement side of things. I misspoke with concessions. Just from a build-out and what tenants are willing to finance now with the changes versus what landlords typically give, I just was curious if there's any shift in what they'd want to finance versus you guys...

Steven M. Durels
You know what, I don't -- I think every -- I don't have a good answer to that because I think every company has a different set of priorities as to how much they want to finance. And are they willing to pay a higher rent and have the landlord finance it? Do they manage more towards a lower occupancy cost and, therefore, they're putting their own capital? I don't think there's a clear, single answer to that question.

Operator
Our next question comes from the line of Alex Goldfarb with Sandler O'Neill.

Alexander David Goldfarb
Two questions. First, Andrew, just going back to the debt and preferred equity book. Can you just talk a little bit about your guys' ability to maintain the spread? As short-term rates rise, do you anticipate being able to maintain spreads, so the absolute rate that you're average charging folks will rise? Or do you think we'll see compression on the spread that you guys earn?

Andrew W. Mathias
I think we've seen gradual but steady spread compression over the last 18, 24 months in the market. Again, with our program, a lot -- we're originating whole loans and then selling into the senior loan market at those tighter spreads. So we've been able to maintain our spread. I don't -- we don't project being able to generate higher yields on our book based on rising indexes like LIBOR and the 10-year. We're sort of looking to hold those steady in the earnings guidance we've given thus far, and we haven't really found an ability to drive higher all-in rates based on rising rates to date mostly because of that spread compression in the

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market.

Alexander David Goldfarb
Okay. And then the second question is on the buyback program. One -- I mean, it's pretty -- it's awesome to see you guys buying back in the quantity that you have and at the NAV discount. But it looks like you have about $500 million left, and on the Investor Day, disposition, you have about $500 million or $600 million of additional planned. So once you exhaust the current program, is it fair to assume that you guys will reload it and that, therefore, we can see disposition volume rise? Or is that not a good assumption?

Marc Holliday
I don't know that you can assume that. I think the plan that we have in place now takes us through roughly most of the way through the first half of the year. Whether that's May, June, July, I don't know, but somewhere in that time frame, dependent on certain things happening prerequisite. So it's not -- it's just not scientific, but that's -- we feel very good like we're on track for that. And then we'll take stock of where we are at that point. I mean I think that with any decision to continue that program, the factors that exist now would have to exist then or better. And I guess, if that were true, then it will get a hard look, that's for sure. But 4, 5 months is a long time in this market. A lot of things can change, hopefully for the better. Stock prices can rebound, and we can't just sit here today and, with any level of certainty, predict what we would do then. But we like the factors as they lay out right now. We think that the deleveraging that we've gone through, along with the shrinking of the balance sheet and stock buybacks done very accretively and the sales that we've done, which enabled those first 2 things, were done very smartly. So all in all, very good track, and we'll just take stock again. If not on the next conference call, certainly by midsummer's call, we'll have a much better feel and sense for that.

Operator
Our next question comes from the line of Nick Yulico with UBS.

Nicholas Yulico
Marc, just going back to some of your comments earlier about 2018 should be better than 2017 and the tax plan helping office tenants. Does that mean you expect improved rent growth or better net absorption this year for the overall market? Because your stock price appears to reflect some worries that leasing fundamentals in New York are set to get worse and not better, so I'd love to hear your thoughts.

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Marc Holliday
Yes. I don't -- I mean, I don't know. I hear that, and everyone tries to tag what it is that's causing the stock price to be what it's been. Maybe it's leasing concerns, maybe it's some of the things I mentioned earlier about more attractive business sectors. I think we've actually outperformed year-to-date. That's only been 25 days. But -- so I don't know that it can be tagged to a New York City leasing market concern.

I think the sector right now certainly seems to be out of favor. And we are caught up in that as are many of our peers, and we certainly hope that changes. But the leasing market to me, it's a very -- it's a deep market. There's a lot of data points, and I don't look to the stock market as a predictor of how that market is. I look to job growth. I look to tenant demand. I look to the pipeline that we have and the terms that we're seeing. Our portfolio is 95.5% leased roughly, and that's very high. We don't have big blocks of space around the portfolio of existing space to lease. I think we have a pocket of space over at 220. We have a pocket of space over at 45 Lex and a little bit more to go with Tower 46. I mean, that's like it. The rest is -- so the portfolio is very tight. We're trying to obviously retain those tenants in a way where we're still driving mark to market and keeping concessions at a reasonable level. And I think the factors that I set out earlier, to specifically address your question, do I think it will cause rising rates? I don't know that you're going to see rates rise, but I think, to what Steve said earlier, you're going to see concession packages hopefully plateau or maybe even shrink towards the end of the year if demand stays healthy. We are still competing against new competition generally. So as the inventory grows, landlords are out there competing for tenants. That growth is pretty much in balance and has been, as evidenced by the fact that the vacancy rate is still around 9%, 9.5%, and it's been that way for the last couple of years. So there is an equilibrium that has been met. But with improvement in '18, that equilibrium could shift a little bit more in favor of landlords and maybe those concession packages will plateau or begin to come back in our direction. Steve?

Steven M. Durels
So let me just add to that because the sense of the -- that there's some level of weakness in the leasing market, I think is betrayed by the facts. People -- we came off 2016 with new leases of over 30 million square feet, which is 16% of leasing velocity over the prior year. Midtown by itself was 18 million square feet of new leasing, which was 9% ahead of leasing velocity

over the 5-year average. And the fourth quarter was the best quarter since the second quarter of 2015. So you -- in the light of that and then what we see in our pipeline, we have more -- a bigger pipeline today than we did in January of 2017, and we have a wide diversity of sizes and types of tenants in that pipeline. So I'm feeling very good and I think the rest of us are feeling very good about where we stand right now.

Nicholas Yulico
That's helpful. Just a follow-up. I mean, can you dig in a little bit to the higher-end price point in the market and whether that's where there is more aggressive concession packages being offered by other landlords? Or are there any signs of face asking rents getting reduced at the high end of the market?

Marc Holliday
Hold on, Nick. We're getting a ruling on the 2 questions.

Matthew J. DiLiberto
That was 2.5 or 3 questions.

Marc Holliday
Okay. Well, let's...

Steven M. Durels
The high end of the market like One Vanderbilt?

Nicholas Yulico
Yes, that's right. Yes.

Steven M. Durels
Yes. Well, I think Marc mentioned that One Vanderbilt has got an announcement imminent. So the high end of the market is very healthy. There was tremendous number of $100-plus rents signed last year. And I think what's most important is that in that $100 market, the size of the average tenants have increased dramatically. The number of buildings that are getting $100 rents and the size of leases being signed at $100 rents is growing, and that is a very good signal about that part of the marketplace. As a matter of fact, the average $100 rent last year was 25,000 square foot leases.

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Operator
[Operator Instructions] Our next question comes from the line of Jamie Feldman with Bank of America Merrill Lynch.

James Colin Feldman
Can you guys talk about your Emerge212 platform and just kind of your general take on co-working and what you think it means for the market, both in the coming year and longer term?

Marc Holliday
Sure. Emerge has 3 locations right now: 3 Columbus, 125 Park and 1185 Sixth. 1185 Sixth is a relatively new facility, so we're in lease-up phase on that facility. The other 2 facilities are stabilized. We've seen a very healthy demand in that sector. I would say we appeal to a more corporate fractional office user, and that's why we have a lot of tenants that graduate into our portfolio as longer-term space tenants from Emerge. We're not -- we don't appeal to like a tech, very informal sort of open-benching type environment. So the business has been healthy and, I would say, is trending with profit margins pretty stable to where they've been historically. There's no -- we don't forecast any explosive growth with the co-working trends as they're evolving.

James Colin Feldman
Okay. Do you -- I mean, do you expect to convert more space into that platform?

Marc Holliday
We're always evaluating additional spaces. The spaces that we have are profitable and the space works well for the business, but we don't have anything budgeted this year because we're still on lease-up on 1185.

James Colin Feldman
Okay. And then you guys mentioned in the press release that you expect to -- at 2 Herald Square, you expect a transaction later this year. Can you talk more about that, the foreclosure?

Matthew J. DiLiberto
So we're in the foreclosure process, which is a time line that we don't necessarily control and...

Marc Holliday
We can't really comment.

Matthew J. DiLiberto
That's all we can say on it, yes.

James Colin Feldman
Okay. Do I get one more question or that's it?

Marc Holliday
We're a foreclosing lender, and that's it.

James Colin Feldman
Okay. Then for my second question, can you just talk about your plans at 1185 Sixth? I see it's now under construction.

Steven M. Durels
Yes. So we're -- you're talking specifically on the leasing front. So we're in a redevelopment program there that entails a new lobby, elevator cabs, new entrance to the building. That's in anticipation of roll that comes to us of about 170,000 square feet in August of '18 and another 170,000 square feet at the end of 2020. The good news on that story is that we have a number of leases out right now, sizable leases ranging between 50,000 and 100,000 square feet, that will start to knock off some of that early roll. So before it ever goes dark, we're already actively negotiating leases and term sheets for pre-letting a big chunk of the space.

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Operator
And our next question comes from the line of Michael Lewis with SunTrust.

Michael Robert Lewis
You started to address this question in your answer to a previous question, but one of the things investors ask me often is, what type of space is mostly impacted by new supply in Manhattan? Is it high price point because that's in direct competition with Hudson Yards? Is it lower-quality space because now that there finally is some new space, tenants start to move up the quality spectrum? Are there certain areas of the city that are more at risk? So rather than me continue to struggle to answer the question, I thought I'd pose it to the experts.

Marc Holliday
So let's just -- the question is, within our portfolio, which of our space competes most directly against new construction space?

Michael Robert Lewis
New York hasn't had a lot of brand-new supply like this at once. So when there is new supply like this in Manhattan, what space is most at risk from the competition?

Marc Holliday
Yes. Okay. So again, the amount of space that is going to be delivered annually over the next 5 years, I don't have the numbers in front of me, but I thought it was net of about 2.5 million square feet or so and more than what we're accustomed to because we're accustomed to like 0 on a 400 million square foot inventory. And until -- without all the subsidies, new construction was very hard to get done except in isolated instances. So the Hudson Yards opened up an ability to bring on, I think, ultimately 20 million feet but that's over a very long period of time, 2 million to 3 million square feet a year against what, I think, Steve, you said earlier, last year's total was 28 million square feet of leasing.

Steven M. Durels
30 million.

Marc Holliday

30 million square feet of leasing. So I know it gets a lot of headlines, and we'll answer the question for sure, but also recognize we sign about 250 leases a year, one every business day. The vast majority of those are not competing against the new construction projects. I would say out of the 250 leases in any given year, maybe 5 or 10 at most might be looking at the new construction as an alternative, whereas, generally, the competition is other built space in the submarket the tenant wants to be in. So that's a -- we're talking about a very small fraction. So I would say, generally, new construction is going to compete with new construction. Our existing portfolio generally is competing with East Midtown, but there are exceptions. I guess 1185 Sixth, we have 1 or 2 tenants that are going to -- that are sort of West and will be -- 1 tenant that will be going further West. But you're talking about a couple out of hundreds. So it's not something we encounter on a daily, weekly, monthly basis. We're generally competing against other landlords within our submarket.

Michael Robert Lewis
That's helpful. My second question, I just wanted to ask about this Navillus bankruptcy. I don't know if I'm saying that right. But from everything I read, it sounds like they're working as if nothing's happening. But is there potential that maybe that could cause some delays in the time line at One Vanderbilt?

Marc Holliday
No, we have that, I think, completely ring-fenced. I mean, with Liberty now standing behind Navillus, I think they're one of the strongest contractors out there. So what we were able to negotiate and I think has been presented to the bankruptcy court is an appropriate set of protections for the project with their surety standing behind them. And work has continued uninterrupted. And most importantly, I think there's an alignment that both Navillus, the surety and even the creditors want to see those union jobs continue to be in place through the balance of the project. And we've had -- there's been no disruption nor do we expect it. And if there would be, we have contingency plans.

Operator
And our next question comes from the line of Rob Simone with Evercore ISI.

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Robert Matthew Simone
Earlier -- I have a follow-up on the earlier question on buyback. Let's assume just hypothetically that you guys -- in your judgment, conditions are right for additional buybacks once the existing authorization is fully expended, and you thought it made sense to sell a couple -- sell or JV a couple of additional assets. What's like in your mind -- or could you discuss, in your mind, the theoretical limit to doing that? Like how far would you take that asset disposition program vis-à-vis like just your overall portfolio size?

Marc Holliday
Yes. We haven't -- I mean, that's really -- it's a board-level matter when it comes to these buyback programs. We have not played out a scenario of -- that kind of what-if scenario so I just can't answer it. I mean it's -- I understand the question. I just -- I can't answer it because I don't know and we don't -- we haven't projected for that eventuality. I mean, when we approve the buyback programs, they're in a certain amount of share, certain amount of dollars, and everything is generally tied to a plan of funding. So we look at it in terms of funding plan, buyback plan, and we take it very incrementally but in large incremental steps. First one was $1 billion. Second one was $0.5 billion. So I think when we will next discuss, it will be a discussion with respect to the next increment without necessarily taking that future trip all the way to what could it possibly be. If everything stays the same as today because -- as we all know, things don't stay the same. Everything changes. Markets change. Stock price change. Funding sources change. So I think these plans -- or strategies are best planned for in increments of 6 to 12 months, where you have relatively good visibility. Even then, it's not perfect, but let's just call it relatively good visibility. And that's -- these programs are generally executed within that kind of time frame. But beyond that, we'll just sort of take it as it comes. And as I said earlier, when we have more on that, you guys will certainly be the first to know.

Robert Matthew Simone
Marc, that's really -- the color is really helpful. And then, Steve, I just have one quick follow-up on One Vanderbilt. You mentioned that your discussions are kind of falling within your underwriting. Would you guys still kind of stick to your prior comments that '18 is really the year where you'd like to see some meaningful progress on leasing? Or has there been any kind of like slippage on timing into '19?

Steven M. Durels
Yes. We think we'll be on plan with our projection. We're off to a good start with a nice sized lease that you'll hear about shortly. And as we sit in January, we've got a pipeline of transactions that we're chasing. So if those come to fruition, then we feel that we'll hit our targets for the year.

Operator
Our next one comes from the line of Vikram Malhotra with Morgan Stanley.

Vikram Malhotra
Just had a question on sort of expected mark-to-market cadence over the year and into '19. I know you've said sort of 6% to 9% for Manhattan. If we look at sort of the breakout, it seems like you have a nice mark to market in the first quarter but then it sort of really decelerates. Just wondering -- obviously, there are different levers in there, but just wondering if there's any quarter where we, at least theoretically, could see flat to maybe negative mark to market over the next, say, 12, 18 months?

Marc Holliday
Well, we've only forecasted out through year-end, so it's -- I would only look out 4 more quarters. I can't speak to 5 or 6 or more than that. And I would also be -- I would caution that trying to -- the leasing may sound mechanical. The leasing -- and we may even not give enough credit at -- due credit at times to the leasing group and make it mechanical, but the reality is the leasing is tough. And it can trip by a week, a day, a month, and it goes from what we thought it would be in March is April and then trips quarters and everything changes. I really would urge everyone to look at it annually and not read too much into any quarter's results, whether it's volume, whether it's mark to market. I feel confident within -- over the next 11.5 months or 11 months, we'll be in that 6% to 9% range because that's the guidance we've given. When you start breaking it down to quarters, I feel like it's ripe for misses that are -- misses without a distinction. With that said, Matt, I assume we are expecting some of the early pipeline to be higher than the 6% to 9% range; and the back half of the year, lower than 6% to 9% range.

Matthew J. DiLiberto
Yes, that's right.

Marc Holliday
I don't -- I can't speak to whether it goes negative in any quarter. We're not projecting that. It could. And if it does, it doesn't mean the 6% to 9% is any less credible. It's just things have a way of working out timing-wise. But I guess it would be fair to say we've got some big leases rolling, bigger leases expected to be transacted that have lesser mark to market in the back half of the year.

Vikram Malhotra
Got it. And then just on the street retail environment, maybe just give us some updated thoughts on where are we in the correction process and if you can give us an update on 719. I think it sounded like you were imminently going to announce a lease there at the Investor Day. So any color would be helpful.

Marc Holliday
Sure. We were -- 719 is still in process. It's been -- the deal's been a challenge. More -- we acknowledge it was more of a challenge than we expected. And I think the -- we're still in sort of a discovery phase in terms of the market block by block. So we're still definitely showing a lot of tenant space. There's still good activity. There are very few vacancies that we have, but I would say we need some more price discovery in the market in terms of taking rents and values to really assess where we stand at this point.

Vikram Malhotra
So just to clarify, update -- just timing-wise on 719, is it tough to say right now? Or could it be first half or second? Any color?

Marc Holliday
It's tough to say right now.

Operator
Our next question comes from the line of Vincent Chao with Deutsche Bank.

Vincent Chao
Marc, I just want to go back to something you said pretty early in your comments just in regards to the transaction market maybe having a flattish volumes here in 2018 but still seeing good demand for the quality assets and a lack of supply keeping prices relatively strong. Just curious what your thoughts are and why the supply would be constrained if the market conditions are pretty good. Just curious why volumes would be flat.

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Marc Holliday
Well, you've heard me talk about in the past how this market every year gets incrementally more and more securitized, more product in the hands of a concentrated group of landlords. Top 15 is what I traditionally refer to, and I think the top 15 in New York own about half the inventory thereabouts. And that number has been growing. And owners like us and others are just far more judicious in terms of when we feel an asset has -- especially a very valuable, well-located asset, has met its true sort of level of maturity, where it's time to monetize. And very often, even with deals that we have put through a cycle of redevelopment leasing, we still see upside often, as certainly was the case with a deal like 1515 Broadway and others. So in those cases, we go out and bring in a JV partner for maybe, in the case of One Vanderbilt, 27% of the deal; in the case of 1515, 49% of the deal -- or 43% of the deal, sorry. And a lot of the top landlords also do the same type of strategy. So what you have are much more of the product is kind of bespoke transactions. They're not just marketed bid deals. They're longer-term negotiations with domestic and foreign capital partners, where chemistry and terms are much more important or as important as price, and you're creating a partnership that will last years, 5, 10, 15 years or more. So those deals for the bigger assets especially take away from the supply of what would otherwise be available for 100% sale on a bid basis. So when I look at that pipeline, I'd say half of the pipeline we see right now are kind of these 50% interest kind of deals, and they're very interesting. We did one on Worldwide Plaza. It was a very good deal. Us -- RXR and NYRT did a deal just like that on Worldwide, and we did one on -- as I said, on 1515. And Brookfield did one on One Liberty and on and on. I'm not going to belabor all of them. They're out there. But there'll be a lot more of those. And what those kinds of deals do is they shrink the supply of just outright sales. And you have a lot of capital out there. For every one JV partner, there's maybe 100 other investors who want to be a JV partner or a buyer. And they have their own goals and objectives to acquire product in the best market. New York is still considered right among the top of those markets. And it's very hard to buy in New York, especially, I think, in today's environment, where a lot of assets are only partially for sale.

Vincent Chao
Okay. And second question, sorry if I missed it earlier, we've been talking about the leasing pipeline quite a bit on the call, but did you guys share the stats in terms of what the size of the pipeline is today and then the breakdown between new and renewal? And then maybe within renewal, how much of that is 2018 expiration versus beyond 2018?

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Steven M. Durels
Well, maybe a little more granular that I've got, but I'll share this with you. Of the 1,200,000 square feet, we've got over 500,000 square feet of leases that are in negotiation. There's almost 650,000 square feet of term sheets that we think have a high probability of being converted over to leases. The general tenant makeup of the tenants that are -- the leases out for negotiation -- I'm sorry, of the total pipeline, there's over 500,000 square feet that are financial-related firms. There's about 190,000 square feet of TAMI-type tenants. And then the balance of the tenant profiles are everything from engineering to automotive to general business services, so a very wide group of types of tenants. Of the leases that are -- the 500,000 square feet of leases that are in negotiation as opposed to term sheets, 400,000 square feet of that are new tenants coming into the portfolio. So hopefully, that helps.

Operator
Our next question comes from the line of John Guinee with Stifel.

John W. Guinee
SL Green is trading just stunningly inexpensive on a per pound basis, which leaves me to believe that there's a lot of OpEx or tax increases recently. Is that going to -- is that accurate, one? And is that going to abate anytime soon?

Marc Holliday
Well, in terms of OpEx increases, there's been -- other than real estate taxes, it's been quite contained. I think our -- Ed and his whole operations team managing a certain 28 million square foot portfolio gets the most efficiency we can out of this portfolio. And I think our increase year-over-year is generally around 2% for everything, including insurance. But for real estate taxes, which, even our -- the best of our teams and outside counsel were subject to the vagaries of a very outdated and really quite unfair system, where commercial properties and owners like us are bearing the lion's share of the -- of a heavily increasing tax burden that far outstrips any notion of kind of rate of inflation or appropriate rate of increase. If we're at 2% on OpEx, we might be anywhere from 6% to 8% on real estate taxes. And over a period of years, it really is something that warrants a lot of scrutiny by the current administration, which I know has taken it up as something that they will look at during the second term of this administration. So I would say, generally, we are excellent at containing those costs. And that certainly gives rise in part to why we've been able to create such extraordinary value in the portfolio, which, as you point out, John, is wildly disconnected from the stock price.

Operator
Our next question comes from the line of Jed Reagan with Green Street Advisors.

Joseph Edward Reagan
A question for Steve. Steve, you mentioned that face rents have increased over the past 12 months in Manhattan. Just curious if you can talk about the order of magnitude increases you've seen and maybe which submarkets have shown more strength than others.

Steven M. Durels
Well, it's -- the overall Manhattan rents went up modestly. They were up -- I think most of the reports would say they were up in the -- around 3% year-over-year. Concessions went up. So net effect is we're sort of flat over the year. And I think that we're seeing better than -- better execution on many of our transactions than where we budgeted deals. So I think we're just kind of on a trend line to see some additional modest rent appreciation as we go into 2018 as well.

Joseph Edward Reagan
Any sense of kind of which submarkets are doing better than others?

Steven M. Durels
Well, the -- a lot of the demand in the Midtown market, and Midtown was a very active market in Manhattan in 2017. Grand Central was particularly active in the fourth quarter. Sixth Avenue Rock Center was the single most active market in the fourth quarter. But for the entire year, Grand Central was extremely active. And I think you've seen good rent appreciation on the commodity, kind of value part of the market. But then at the very high end of the market on new construction, as evidenced by sort of the later-stage leasing being done over at Hudson Yards, you've seen huge rent acceleration, right? The most recent deals that were done over at Hudson Yards, some of those buildings get to the end of their lease-up program where rents are in the $120, $130 price point. And I'm quite certain that those numbers well exceed the developer's underwritten number.

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Joseph Edward Reagan
Great. That's helpful. And then just one other quick one. It looks like your third-largest tenant, Ralph Lauren, has an expiration next year at 625 Madison. Any visibility at this point into what their plans are? And is there a roll-up opportunity at that space?

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Steven M. Durels
Not a lot of visibility from what they've told us. They've really been focused on other leases that were expiring in their portfolio, some in Manhattan, many of it -- much of it in New Jersey. Where -- we've had some preliminary conversations with them. Obviously, our goal is to keep them. It's a very rent-attractive opportunity for them to save rent by staying. So we're -- we hope to be in front of them with a very aggressive proposal shortly.

Operator
And our final question comes from the line of John Petersen with Jefferies.

Jonathan Michael Petersen
Just one for me. So the leasing volumes this quarter fell a little short of your 2017 guidance. You guys mentioned it in the press release and said it was because some leases slipped to 2018. So I was curious for some more details on that. You keep talking about a large impending lease, I think, at One Vanderbilt. Is that one of the ones that slipped? And also, just kind of a follow-up. Because some of the stuff shifted over into 2018, does that mean your leasing guidance for 2018 is more like 1.7 million square feet instead of the 1.6 million you laid out at your Investor Day?

Marc Holliday
Yes. The -- I would say that the -- some of the leasing that occurred in the first part of January was on account of what we expected to have at the end of December. So I guess we could hold Steve responsible for that 2 weeks, and you'll have to -- there'll be a reckoning for that later on but...

Steven M. Durels
This is where the unappreciated part of lease is.

Marc Holliday

But I guess, certainly, it was not part -- you would say that the guidance for the year is probably up 100 because it would include that which slipped, yes.

Okay. And operator, I think that's all we have time for. So thank you very much for all the questions and for dialing in today. And we look forward to speaking to you on the next round.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a great day.

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