04-Jun-2024

SL Green Realty Corp. (SLG)

Nareit REITweek Conference

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OTHER PARTICIPANTS

John P. Kim
Analyst, BMO Capital Markets Corp.

MANAGEMENT DISCUSSION SECTION

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.

Good morning. 10:15, yes? Good morning, everybody. I am Matt DiLiberto, Chief Financial Officer of SL Green. Thanks for joining us this morning. To my right – and pardon my voice. I don't typically sound like this, but three-year-old at home has infected me with whatever she's carrying this week. To my right here, our Chief Investment Officer, Harry Sitomer. Yeah. Far left, our Head of Leasing, Steve Durels. And because we like to make most efficient use of everyone's time and make sure that we hit the topics that are on investors' minds, rather than present, we thought a moderated panel was more appropriate. So we've brought John Kim from BMO, who was gracious enough to moderate for us.

With that, I will turn it over to John. We're trying to make one awkward mic work.

QUESTION AND ANSWER SECTION

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

Thanks, Matt. My job is to move the mic around for answers. But why don't we start off with 2024, how that's shaping up. First of all, SL Green, largest commercial landlord in New York City, best performing REIT year to date. But when you look at the year and the goals we had for 2024, what goals are you ahead of pace? What goals are you behind pace, or basically on track?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.
A

Yeah. It has been a fantastic start to the year on all fronts. We reported our first quarter, which was ahead on all of our metrics, leasing, earnings, and the like. We'll touch on leasing. I know more as we go through. We do at our December investor conference lay out roughly 20 goals and objectives for the year. That's what you're asking about, and we are a pace on virtually all of them, some slightly ahead, some right in the target range as to challenging ones. We'll talk about casino offshore as we get into the presentation. That process has been delayed until 2025 by the state, so we cannot accomplish that in 2024. So we'll take a what we call a sideways thumb there because we didn't cause that.

Everything else, tracking, as we would have expected to, we do set those goals as stretch goals relative to guidance. So things like same store NOI is well – our goal is well in excess of where we guided same store NOI. So that would have to be a big push to get there. There are other similar goals, but feeling very good. Our goal is to get 75% or so of those accomplished each year out of 20. That's pretty good and it's trending very well, five months in.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

I guess two of the goals that I want to question you on is then occupancy goal by year-end, 91.6%, releasing spreads going positive, 2.5% to 5% first quarter was negative. What are some of the assets that have positive mark to market opportunities and are you still on track to achieve your occupancy target?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.
A

Yeah. The occupancy goal is a notable one. We closed out last year. We saw the bounce off the lows in occupancy in the third quarter last year, ended the year at 90% occupancy, 1,000 basis points better than the market and then expected a dip in the first quarter which we saw better performance than we had expected. Off of that, we expect to increase occupancy from the end of the first quarter through the end of the year by over 200 basis points to 91.6%. Sounds like a lofty goal. So you need to see a pipeline and Steve Durels will talk about our pipeline. You need to see a pipeline that is in the buildings that drive occupancy. Park Avenue is a very tight market where tenants are competing for space and we are pushing rents. Where you need to see real occupancy pick up is on Sixth Avenue and Third Avenue and Lexington Avenue. And that is where we see a large portion of our 1.55 million square foot pipeline. And so with that filling vacancy, we feel very good about achieving the 91.6% goal.

As to mark to market, you won't see big mark to markets on Lexington and Third and Sixth, you'll probably see negative mark to market. So why do we assume positives? Because of our portfolio on Park Avenue, in particular, 245 Park, where we are marking rents significantly higher than previous ownership. And we have a significant amount of leasing pipeline there at 245 Park.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Can I just ask Steve for more color on your pipeline? I guess it's 1.55 million square feet that – I had written down 1.6 million, but how many of these leases in your pipeline address expirations for this year or vacant space currently? How much of this is for development? Just more color on your leasing pipeline.

Steven M. Durels
Executive Vice President & Director-Leasing & Real Property, SL Green Realty Corp.

A

So of the 1.55 million of pipeline, most notable in that stat is there's over 800,000 square feet of leases that are out in negotiation. So that pipeline is not just term sheets that are likely going to lease, but in this case, the vast majority of the pipeline or half the pipeline is actual leases that are in negotiation that have a 95% probability or better of signing. I think that 800,000 square feet likely grows to 900,000 square feet by the end of this week based upon conversations that we're having with tenants. So we have a target for the year of 2 million square feet of leasing. We've done 700,000 square feet year to date. So add that to the 900,000 square feet of leases out. And you can see as we're five months into the year, why we feel so positive about leasing prospects for the year.

Financial services, largely driving the market right now. Certainly, for our portfolio, it's the nature of the buildings that we have there, particularly the Park Avenue buildings, 450 Park, 280 Park, 245 Park, all ideal financial service buildings, and that's where we've seen pricing power. We've raised rents four or five times over the past six months. And if this next round of leases that we have out to negotiation in those buildings, I expect we'll be raising rents again on the Park Avenue assets. Sixth Avenue, similarly, you're seeing some overflow benefit. That's the other submarket in Midtown that's seeing a lot of velocity. But it's also where you've seen landlords do a lot of big redevelopments and spend a lot of capital over the past three or four years. So we're seeing our fair share of tenant demand for our 1185 Sixth and 810 Seventh, which is sort of feeds off that Sixth, Seventh a quarter. And it's similar, it's financial services, a little bit of law firm, and then balance of our pipeline is a mixed bag. A little bit of government, it's little bit of healthcare, a little bit of technology, even.

Tenant demand beyond that, a lot of law firms in the market right now, thankfully, technology firms are back in the market. There's 5.5 million square feet of known tech tenant demand right now. That's twice what it was a year ago. So it's great to see that sector come back to life, some driven by big brand names that everybody would know, looking for some big requirements in the 300,000 to 600,000 square foot range. And then the balance a little bit of AI-driven and the balance sort of that 30,000 to 50,000 square foot type tenant, that's out searching for space. So it's all good news about for the overall Midtown and Midtown South market.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Can I just follow up on the tech demand because there was the big drivers back pre-pandemic. Any more that you could share as far as the tenants looking for space and how much of that is AI, and also, what submarket's the most attracted to today?

Steven M. Durels
Executive Vice President & Director-Leasing & Real Property, SL Green Realty Corp.

A

Well, tech, I think, still prefers that Midtown South corridor, from east side to west side along the 23rd Street spine. You'll see a little of it come into Midtown. I don't see any of them searching Downtown. Downtown is still a very tough submarket for the overall leasing marketplace. Midtown is really where the vast majority of leasing demand has been. There's been moderate pickup in Midtown South, but sort of in the smaller to midsize type tenant. Some of the big names that are out there, right now, Amazon's looking for space. Apple's looking for space. Intuit's looking for space. There's OpenAI who's finally searching the market. There's been a rumor that they were out in the market to earlier this year, which wasn't true. But over the last couple of months, they've come into the market. So these are all big names and a lot of the requirements, I think, having AI component, that's helping drive this demand as well.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

And why do you think they're more active in New York than they are in the West Coast markets?

Steven M. Durels
Executive Vice President & Director-Leasing & Real Property, SL Green Realty Corp.
A

Well, I think, that's – a lot of their clients are here. They all made beachheads, since a lot of their – for the technology guys, a lot of it is about their workforce, where there is a workforce who want to live. And New York City is still the preferred destination for the quality of life. What it has to offer, the commute ability of it. No, it's not affordable but these are well-paid people and these people have come out of school and searching for jobs. They have power in the marketplace to sort of dictate where they want to live and work. And New York City, without a doubt, is the driver of these tech firms looking for talent.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

Switching gears a little bit to capital raising activity, that's [indiscernible] (10:39) SL Green this year. Any update on the billion-dollar debt fund that you're looking to raise, and how much of that can you deploy this year and 2025?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.
A

Let's see if I can speak loud enough – or that. There you go. So we launched our fundraising process for our credit vehicle in mid-February, right after earnings call – around earnings call. And we've been on the road for the past three months on the fund – in the fundraising process. We have about 10 or 11 groups right now that we're in fairly advanced negotiations or discussions with through our fundraising documents. We're expecting a first close of that, which won't be the full billion, but a portion of that sometime this summer, and then a final close of that fund through the end of the year. And our expectations now based on investor demand, is that we should be out surpassing that $1 billion goal that we set for ourselves. So I wouldn't be surprised to see that number be higher than a billion just based on the feedback we had received.

In terms of investor demand and what we're seeing for this vehicle, I've personally been on the road for six, seven years, meeting with our LPs, meeting with co-investors. I think right now is the most optimistic I've heard from investors about New York City specifically, and the differentiation of New York to the rest of the office markets throughout the country, and that demand has really led investors to looking at New York as a safe haven and a place to invest. And we're pretty optimistic about the feedback that we're receiving so far.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

And what about deployment of capital? Like, how quickly can you deploy capital?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. So right now – do people hear me if I don't have a mic? Okay. Right now, we have about $300 million to $400 million of pipeline. I mean, really, where this fund is targeting is investing at that intersection between fundamental performance. All of those assets that you're hearing Steve talk about earlier that are have leasing demand, have pipeline, can get back to full stabilization and underlying credit dislocation. So we're just trying to find that intersection. We're not making bets on assets that are outside our core markets, outside of our core competency. It's really targeting assets that we know are going to stabilize again. And we know have leasing pipeline and finding lenders and creditors today that want to remove some of those positions from their books, don't want to put additional capital into the assets to stabilize the assets and really investing at that intersection. So our pipeline today is about $300 million to $400 million and hopefully close out a large portion of that through this year and to the first half of next.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. So first half closing summer this year. What about 245 Park Avenue joint venture sale and the One Vanderbilt stake? Are you still on track to do that in the upcoming months?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. So to break those into two pieces. One Vanderbilt, we are very actively negotiating on right now, hopefully, some more to come. But right now, there's a clear path to the economic deal. We're working through some of the joint venture rights that partners are looking for. But we see a clear path to hitting our goal for this year. In terms of 245 Park, we've always slated that as a second half execution after getting some of our leasing done. That leasing is in pipeline. As soon as that's executed, we'll be out in the market speaking with many of our institutional partners for that asset.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

The 245 Park sale was the sale of the century so far. That's how we labeled it. But how would you say the valuation has changed since the original 50% stake or 49% stake?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah, we see some increase. I mean, we think they made a great deal. On a long-term basis, that's a very long term investor. They're not a short term interest rate focused investor. The debt was fixed through 2027, which gave them the flexibility to not have to worry about short term rates. And we see price appreciation as we go out and think about that additional 25% interest. We haven't tested the market yet. That's our view of the asset. We're definitely outperforming underwrite on the leasing so far. And so we're optimistic about that. Obviously, rates, as we get closer to that debt maturity, we'll have a say in where valuations sit but long term, we think asset appreciation will be there and we see price appreciation for that 25% interest.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Matt, I have to ask you a question because the microphone just seems so painful to move around. So that you are on target to have $1 billion debt reduction plan. Where does the leverage go to? And also, what are the best use of proceeds on the sales?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.

A

Sure. My favorite topic, leverage. Where does it go? Lower. So we've taken our debt load down from roughly $12 billion that's consolidated, plus our share of joint ventures by the end of this year will be $9 billion, if you include our alternative strategy portfolio assets and $8 billion if you take those out, that's about as dramatic a debt reduction program as I've ever seen. And that puts us in a great spot. So where does it go to? Significantly lower from our perspective. And I won't debate the debt to EBITDA or LTV, whatever metric people want to use, we tend to use LTV. We've always said 50%-ish is a very comfortable place for us to be, depending on your math, we're either slightly below that or slightly above that after we close out the program this year and more importantly, it puts us in a position to go back on offense.

So as you talk about capital deployment, the focus has been much more defensive for the last couple of years by design in the interest rate environment. And what had happened to the balance sheet from a leverage perspective, we were just focused on every nickel going towards debt reduction. We had shut down the share buyback program, hadn't done any DPE investing, hadn't done any real new real estate investing of any material nature except our ongoing development and redevelopment projects. This is the year we pivot and you're already starting to see that pivot well, there'll be opportunities to invest in the fund, $100 million, we'll go there. If we can find incremental liquidity above our program, the stocks look – still looks very attractive. It's had a great run over the last 12 months, but it's still deeply discounted.

We still have an active share buyback program that we haven't utilized in a couple of years, but there'll be an opportunity there. We have our own projects that are still ongoing. We're going to reinvest in 245 Park. We're finishing out 760 Madison, which is going exceedingly well, and we'll start to get proceeds in from the condo sales later this year. And we are looking at other new opportunities that are out there. The DPOs, that's a discounted debt extinguishment. We've executed just short of $200 million worth of gains. Those are something less than a par repayment of debt. Our most recent at 280 Park was $0.50 on the dollar. There are still other opportunities for that. That's an accretive use of capital as well. So opportunities will present themselves. Once we get through the $1 billion debt repayment, we are going back on offense.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

I was going to ask you how many of those opportunities are available, whether it's joint venture equity stakes or some kind of opportunistic pricing on assets. And I also wanted to follow up on the share repurchase program because you've done a lot of it so far. I think you've proven your point on share repurchases. Why is that on the table going forward, just given how much you've already done?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.

A

I'll let Harrison answer the first part of your question. Just on share – I mean, we did $3.4 billion of share repurchases. We took our equity base down by roughly a third. Every nickel of that was accretive because it was asset sales done at market and buying into a discounted share price.

Whatever the share price was, it was discounted relative to the asset that we sold to fund the share buyback. That's money made. If that arbitrage is still there, we can sell an asset and invest accretively into the stock. You should take that opportunity. It's investing in the assets that we know perfectly because we own and operate them every single day. There is no, call it, easier investment opportunity for us, but it does need to be taken into consideration relative to the other things that are out there.

We are real estate company, we're real estate investors. There are debt opportunities, there are equity opportunities, there are DPO opportunities, there's the fund. There are other things we can use the money for, but that share price at this discount is still a very attractive opportunity.

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.
A

Yeah. I would add to that. I think we're at a very interesting point in the cycle where we're seeing equity interest in getting into this market right now and riding the upside at the same time that we're seeing credit retrenching and lenders retrenching. I think that presents a very interesting situation for us where we can raise equity around existing assets as you'll continue to see us do and as we've done over the past few years. And also, use proceeds to deploy into taking a real advantage of the opportunity that's in front of us in the credit space, whether that be deploying capital through the credit fund, restructuring existing secured property debt or DPO-ing or discount purchases of existing property debt. So it's a great opportunity for us in this market. We're extremely active. Our team is mining for opportunities in every aspect of that spectrum and we're going to keep trying to bring deals to the table.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

I wanted to ask about another goal that you mentioned for 2024 that caught our eye was the expansion of Summit, making that a global entity negotiating potentially a couple of targets in international cities. Can you just tell us or update us, update us on the progress of those? And if that's still on the cards for 2024?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.
A

It is definitely still on the cards for 2024 working towards something. We're very close on something internationally. We set a goal for two. So I think one is obviously leading the other and progressing very well. The second one would be later in the year if we can get there. But we're exploring multiple geographies that's international. That's also some domestic and on varying scales. So for those who haven't seen Summit, I'll start with a promo. Go see it. You'll love it.

What we're talking about doing internationally is not necessarily just a replica of what we do here. The concept is similar. We can do it in a larger scale. We can do it at a smaller scale. We can do it in a differentiated scale depending on the geography we're talking about. So we're looking at large global cities, Paris, Tokyo, London, as well as some smaller installations. The response has been fantastic. Certainly from sponsors and developers in each of those areas and definitely feel good about getting two done this year.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

And does it have to be in a One Vanderbilt type asset in these other cities? New development?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.
A

It doesn't. It suits best for that. And most of the traction that we've gotten in, particularly a couple of cities I referenced, has been in new development because you can create whatever you want at the top within reason, of course. But you have a blank slate, but it's not exclusive to new development as we go throughout all of the geographies we're talking to people about.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

And just one more on that, the EBITDA target, you had $70 million to $80 million at One Vanderbilt was the target this year, are you on track for that? What do you need to do to accomplish that goal?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.
A

Yeah. Summit has actually been outperforming expectations this year. The first quarter was very strong and that's actually our slowest quarter of the year. It's the only time of the year where we actually closed the facility for two weeks just for maintenance purposes. It's a high, high touch facility that we keep open all year round. But for those two weeks to service mirrors and infrastructure, it did outperform our expectations and has continued to since. We are at capacity in terms of attendance, self-imposed capacity. So it's really about tickets. That's how we generate incremental revenue. So on target for our goal for this year and the growth internationally is where we see the next leg of the real monumental growth in Summit.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

Matt, you talked earlier or you referenced Caesars Palace, Times Square. From the outside, it's just a black box as far as the process, like how long it's going to take and where we go from here. What can you share with us as far as next steps from here? And the ultimate end goal of getting the license?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.
A

Yeah. We've kind of been ready to submit our initial application round one for probably a year because we thought it was going to go in sometime second quarter or early summer 2023. That got delayed until 2024. We came out in December and said, I would expect that we'll submit the application late 2023, early 2024 for a decision in 2024 and then the state said, it's probably 60 days ago or so. That process is a 2025 process. It's a big revenue generator for the state, will be both for the upfront fees and the revenue share over time. It's just not part of their program right now.

So for us, the process, it doesn't really do anything but delay the process, doesn't change our strategy. We continue to be out there drumming up additional support. We have incredible support from all of the theaters and restaurants and hotels that are in the area that want us here, another revitalization of Times Square, which is desperately needed. We're the first to market. We are the, I call the greater good bid because we are bringing jobs and restaurant meals and nights – hotel nights to Times Square in Midtown that we can't service ourselves versus other bids that are bringing everything into that one location and kind of taking away from the surrounding areas. So we're getting a lot of traction as a result of that, and we'll continue to drum up that support until such time that the state says submit your [ph] end one (25:29) application.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

What's the feedback been from local officials and people who are ultimately the decision makers for this license?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.

A

It's definitely more positive than negative. There's – as with everything, there's resistance. But I'd say the resistance that we've seen is much more limited than others, other bids, which is what gives us the conviction feel good about our bid. But this is in New York at the end of the day. And there are a lot of voices in the room. But I think we're doing better than average.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. Any questions from the audience? If you don't mind getting a microphone to ask?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.

A

You want to use this one? Here.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

I can just repeat it.

Q

[indiscernible] (00:26:28-00:26:43)

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. I think the question was two parts. One was regarding an update on Worldwide Plaza. The second, I think, is how do we handle conflicts with respect to leasing. I'll let Steve speak to that. But on the first piece, which is an update. It's an ongoing litigation right now with a partner. That partner is I think a publicly traded REIT as well. We own 25% of that asset and not much to discuss given the ongoing litigation. I would say just from a corporate perspective, it's in our [ph] ASP (27:18) portfolio, gives us the flexibility to figure out the best deal and continue to execute on the strategy to create value there. In terms of conflicts, that's a broader question about leasing. I'll let Steve speak to that.

Steven M. Durels
Executive Vice President & Director-Leasing & Real Property, SL Green Realty Corp.

A

It's a simple answer. The governance of our JV agreement requires that if one of the JV partners is entertaining a negotiation for one of their other assets, then they have to recuse themselves from negotiating with any of the tenants or prospective tenants at Worldwide Plaza. So we see that right now. We are in discussion with Nomura. They're out searching the markets. One of our partners is speaking to them with about one of their other buildings they've recused themselves, [ph] SL Green to solely (28:14) negotiate prospective terms with Nomura or – and then similarly, if another tenant came along and with similar facts, the same thing would happen.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Any other questions? I wanted to ask about multifamily conversions. At 750 Third Avenue, you have an opportunity or you identified this as a conversion play. What are the returns and the potential cost of this, and do you plan to do more conversions within your portfolio?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

That's great. I think it's the most important topic of the day in the sense that how seismic residential conversion bill that just passed the state is to the New York City office market. And we're seeing it on the private side in terms of the number of investors that are appreciating how seismic it is to the office space. Not sure we've seen it yet in the public markets yet. Based on our estimates and what we're sort of widely hearing now in the market, it could be nearly 40 million square feet of office space converted to residential.

Right now, I think the latest figure is 10 million square feet of buildings have already either pulled permits or have filed for permits. So we're nearly 25% of that 40 million square foot estimate. That's seismic. I mean, that's 40 million square feet coming out of the denominator when calculating vacancy in this market. And it will drive significant demand changes to this market. So just think people should spend more time learning about it. We're happy to discuss it after this as well.

In terms of 750, that's the asset that we've identified as the most – is the most attractive candidate for this bill. We have no debt on the asset. We have no partners on the asset. It gives us extreme flexibility in terms of how to capitalize that deal, how to bring in partners. We're just started the process of capitalizing that for a potential – for the resi conversion. And I think more to come in terms of numbers and what the projections look like. But it's a very exciting prospect and as we'll see there, that bill is going to have a tremendous impact on the market as a whole in terms of conversion of office assets to resi.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

I think we're basically out of time. But I will ask one final question, Matt. What is the number one – we're all going to be sitting in a lot of meetings today. What's the number one thing you want investors to take away from NAREIT regarding SL Green?

Matthew J. DiLiberto
Chief Financial Officer, SL Green Realty Corp.

A

The corner has turned. We feel in New York, we've been progressively more encouraged by everything we're seeing, whether that be leasing, investment opportunities, either with us as investors or people investing in us. We are feeling like the corner has been turned as a market. And now, we're ready to really take advantage of it. So I said earlier, say it again. We are going to pivot. You'll see us pivot from defensive to offensive over the course of 2024 and into 2025. And I think there is a ton of opportunity for us to invest and create shareholder value for the next several years out of the environment that we're currently in.

John P. Kim
Analyst, BMO Capital Markets Corp.

That's great. Thank you, Matt, Harrison, Steve. Thanks for attending. Bye.