S&P Global
Market Intelligence

SL Green Realty Corp. NYSE:SLG

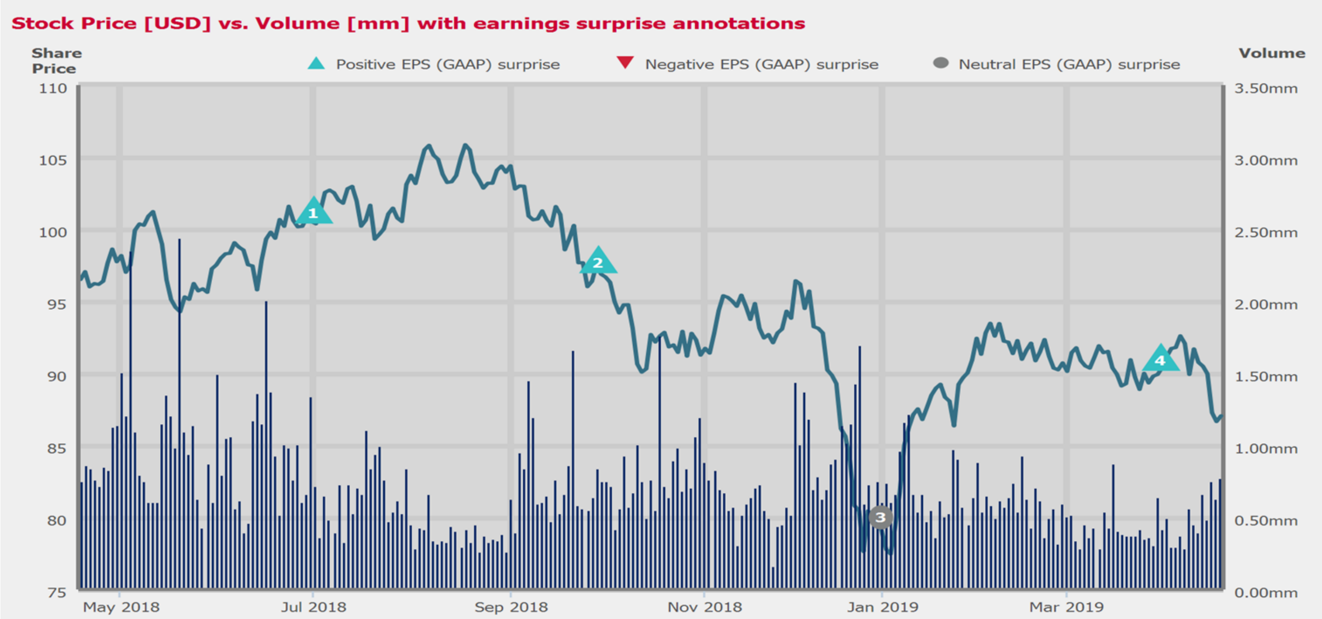
FQ1 2019 Earnings Call Transcripts

Thursday, April 18, 2019 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.39	0.52	▲33.33	0.37	1.59	1.61
Revenue (mm)	244.08	240.12	▼(1.62 %)	244.84	966.66	961.33

Currency: USD
Consensus as of Apr-18-2019 4:16 AM GMT



- EPS (GAAP) -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.39	1.19	▲1 205.13 %
FQ3 2018	0.39	1.03	▲2 164.10 %
FQ4 2018	0.28	(0.73)	NM
FQ1 2019	0.39	0.52	▲3 33.33 %

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Call Participants

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
Sandler O'Neill + Partners, L.P., 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
BofA Merrill Lynch, Research Division

Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

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

Nicholas Philip Yulico
Scotiabank Global Banking and Markets, Research Division

Piljung Kim
BMO Capital Markets Equity Research

Presentation

Operator

Thank you everybody for joining us, and welcome to SL Green Realty Corp.'s First 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 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 first quarter 2019 earnings.

[Operator Instructions] Thank you, and I will now turn the call over to Marc Holliday. Please go ahead, Marc.

Marc Holliday
Chairman & CEO

Okay. Thank you. Good afternoon, everyone, and thank you for joining us today. The first quarter of 2019 was another strong period of performance for SL Green and for the New York City economy that continues to drive our success. Yet again, SL Green was far and away the most active player in our market, signing significantly leases, hitting major milestones in our development portfolio, moving swiftly to originate debt and preferred equity opportunities and contracting to dispose of mature and non-core assets that fund our aggressive share buyback program, thereby capitalizing on the unprecedented discount in our stock.

At our Investor Conference in December, we detailed 18 specific goals and objectives contained within 7 broad categories of performance. In the leasing category, Q1 is typically our slowest leasing quarter, however, we executed over 400,000 square feet in Manhattan office leases, more than doubling our internal expectations for the quarter. And to start April, we have already inked another 235,000 square feet of leases in the Manhattan portfolio and still have over 680,000 square feet of deals in pipeline.

The 3 new leases announced yesterday is further evidence of a market moving in the right direction as each of them represented organic growth in space leased. Clearly, the confluence of a strong New York City employment growth, along with the winnowing supply of suitable office inventory, is driving improvement in net effective rents and increasing average asking rents.

Notably, our mark-to-market for the quarter was 4.5%, above the high end of the range we provided to you in December. And there is 20 million square feet of active tenant searches that we are closing to tracking.

In the area of investments, the market continues to demonstrate good support for the deals priced at the market. There were several sizable deals consummated in an -- the otherwise typical quiet first quarter: 30 Hudson Yards sold for $2 billion; 237 Park completed a partial sale at $1.25 billion valuation; and 250 Church sold for in excess of $860 per square foot, a fairly attractive price for a downtown asset. And of course, SL Green participated in this market by entering into a contract to sell 521 5th Avenue for $381 million, a price level that was above our own internal NAV for this asset.

During the first quarter, there was $39 billion of private capital raised for global real estate investment, $8 billion more than the prior quarter, and it is now estimated to be at $338 billion of total dry powder for real estate, representing almost $1 trillion of potential buying power for real estate around the world. And certainly, New York City will continue to garner more than its fair share of that dry powder as it did in 2018 with over $50 billion of commercial transactions.

Obviously, the public market concerned with New York City stands in stark contrast to views and actions of private market investors, who are targeting the exact type of product that we invest in and know better than anyone. These investors are typically looking to invest in assets with global appeal and strong credit tenancy in a market with enormous depth and liquidity. We think private investors, which make up the vast majority of the real estate investment market, have the market analysis right, and we trust that the public market will eventually recalibrate and return to a fair valuation for our highly sought-after assets. Through all of this incredible work, we remain true to our core mission of investing, managing and developing world-class properties in New York City.

We continue to demonstrate our ability to undertake complex development projects with over $7 billion worth of assets now or soon to be in development or redevelopment. At One Vanderbilt, construction progress has been just as vigorous as our leasing activity. As of April, the building superstructure reached the 60th floor, which is just above the height of the ob deck and steel is projected to top out in October of this year, months ahead of the original plan. So far, this year, we signed expansion deals at One Vanderbilt with The Carlyle Group and McDermott Will & Emery, along with a new lease to KPS Capital Partners, bringing the project to 57% leased with more leases pending, so we are well on the way to our upsized goal of 65% leased by the end of 2019.

Building on the success of One Vanderbilt, we announced plans in December to reassemble the same design and development team, KPF, Hines and Gensler, for a sweeping redevelopment of 1 Madison Avenue, the Class A office tower across from Madison Square Park. We are excited to break ground in this project in 2020 as we believe 1 Madison will transform Midtown South in the same dramatic way that One Vanderbilt has already done for East Midtown. We commenced our leasing program for the redevelopment of OMA and are getting very strong response from tenants, confirming the excellence of the design of our development plan.

When you put all these pieces together, you can see that we have a comprehensive plan in place to outperform our peers and stay at the top of our game. But that we know is not enough. Our entire executive team is deeply invested in our stock, and we share your laser-focus on doing everything in our power to restore the connection between our share price and the underlying value of our assets.

In 2019, we will continue to monetize assets and redeploy capital into share buybacks because every time we buy a share, we're buying more of a better portfolio. And we know it's only a matter of time before the public market follows the private market in recognizing that New York real estate remains a stable, profitable and desirable investment.
So with that, we'll open it up for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Emmanuel Korchman with Citi.

Emmanuel Korchman
Citigroup Inc, Research Division

Marc or maybe it's more appropriate for Andrew, we're looking at your DPE business. You've had a few assets specific to retail that you've repossessed over the last couple of quarters. Can you just talk about how you envision the rest of the assets within that book performing? And also just maybe an update on the retail environment overall?

Andrew W. Mathias
President & Director

Sure. I think we've -- as of the end of Q1, we have 6 retail DPE positions remaining after 106 Spring came on board as part of the portfolio. We anticipate repayments in 2 of those over the next 60 days or so. So we'll be down to 4 assets remaining. So I think that in terms of retail assets coming back from the book, we're probably towards the end of that unless we find new distressed assets to acquire, which I definitely wouldn't rule out and we did in the case of 2 Herald. Generally, the retail market, we think most of the major submarkets have bottomed out. And we've seen -- if you take, for example, 106 Spring, we're going to be reducing asking rents on that property from where our borrower was asking to where we're going to ask as the new owner of probably an excess of 30%. So you'll see, we think that'll generate activity at that property, and you see activity in other properties where owners are able to meet the market on rents. There are tenants active in all the major retail submarkets in Manhattan. So I think it's -- we think, most of the submarkets have bottomed out.

Emmanuel Korchman
Citigroup Inc, Research Division

Great. And then -- and Marc, in your prepared remarks, I think you said there's 20 million square feet of active tenant demand in New York. Could you break that down for us into maybe how much of that is maybe more musical chairs and how much of that is tenants either expanding or looking for new space in the market?

Marc Holliday
Chairman & CEO

No, I can't offhand, Manny, but I can tell you that a good chunk of it is growth space for sure. I mean you're seeing, in our portfolio and elsewhere, enormous growth in the market, which is driven by employment growth. Last year was another big year for employment growth in the city. We're off to a good start. Private sector job growth is over 20,000 jobs I think from February of this year already. So as long as there is new jobs and office-using jobs, there's going to be growth in that segment. First Republic lease that we announced yesterday is a great example of that, where that most, if not all of that, Steve, I believe is growth.

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

Correct. Yes.

Marc Holliday
Chairman & CEO

So I mean that's just enormous and enormously favorable. And that's why financial services have reemerged as one of the leading sector for both tenant re-leasing but also growing. And that's I think contrary to what certainly people we've spoken with in the past had thought would be the case a year or

2, 3 years ago. There's significant growth obviously in the technology industry, and that's -- so that's -- there's a big -- I'd say most of the technology demand within that 20 million is almost entirely growth because they're new to the sector. So when you see technology taking down in a given year, let's say, 15% of 30 million feet for -- in annual, between 3 to 5 million square feet of space, that's all growth because they're not really -- or mostly growth because they're not rolling legacy leases. It's -- they're new to the market. So I can't give you an exact number of the 20 million, but I'd hazard to say at least 20% to 25% of that represents growth. But I just want to caution, I'm giving you sort of an off-the-cuff answer based on just extrapolating from the experience in our own portfolio.

Operator

And our next question comes from the line of Alexander Goldfarb with Sandler O'Neill.

Alexander David Goldfarb
Sandler O'Neill + Partners, L.P., Research Division

So 2 questions. First, on a modeling perspective, Diesel came out, so I'm guessing that, that will get offset later this year by PUMA coming on, but then you have the Ralph Lauren expiration at the end of this year, which would leave a $30 million NOI hole in next year. So maybe you could just provide some perspective on how we should think about the Diesel and PUMA interchange this year? And how we should be thinking about what you guys are doing to backfill that $31 million of Ralph Lauren NOI that's going away at the end of this year, so the impact to next year?

Matthew J. DiLiberto
Chief Financial Officer

I'll cover the first part on Diesel and PUMA. I -- the Diesel outcome is not yet certain, so we have to see that play out over the next couple of months before we know the impact. On the numbers, I expect it to be nominal. The charge we took in the first quarter was really to write-off of straight line. That's a noncash adjustment that we have to take because of the uncertainty of the future depending on what happens. I don't expect there to be a big impact for that deal. And of course, PUMA coming on is important, not so much for '19 so -- because it's probably the back half of the year, very late in the year, but more so for '20, so we'll highlight that in December. And I'll let Marc address the 625 situation.

Marc Holliday
Chairman & CEO

Well, I mean at 625, Ralph Lauren, I think, I have the number here somewhere, it's about 385,000 square feet. Every year in the portfolio, we have anywhere between 1.25 million, 1.5 million square feet that rolls. Polo seems to get a lot of attention. I think if it goes in the paper, it gets a lot of attention. If it doesn't go in the paper, it doesn't. We had a very large tenant at The News Building that rolled, and then we backfilled with VNS. And I can -- and we can go on and on. We had vacancy at 10 East 53rd, now it's a leased building. We had vacancy at Tower 46, now it's a leased building. So we'll have vacancy at 625 Madison. We'll lease it. It'll be leased soon. So we say how are we going to deal with it. I don't see dealing with it in a different fashion than we deal with all of the roll in the portfolio. We have 30 million square feet that we own and manage. In any given year, as I said, about 1.25 million, 1.5 million square feet roll. So in 2019 -- at the end of '19, Polo will be a part of that. I don't think it's exceptional or notable in its size nor how we'll deal with it. Our typical approach for any building and certainly for 625, which has been an earnings source for 15 years, will be to go through some level of redevelopment of that building and then long-term lease that space to replace Polo. But again, I don't know -- I don't see it different and notable than what we've done over the decades in any building we have when we have a tenant roll out of, what I'll call, a space that needs to be upgraded because Polo was in that space for I think 15 years, Steve. So the space and the building itself is probably in need of a revisit, and that's kind of what we do, Alex. It's just -- is reposition, turn and then re-let the building, which is why we're 96% leased, and I don't think we've really ever been below 94% leased in the history of the company.

Alexander David Goldfarb
Sandler O'Neill + Partners, L.P., Research Division

Right. No, Marc, I understand. I'm just thinking from the perspective that a permanent, long-term tenant or rehab is on hold until you guys reset the ground lease. That's why I was asking if there's a separate stack method.

Marc Holliday
Chairman & CEO

Not -- yes. I wouldn't say necessarily. I mean, we feel very confident in our position in 625. I think I said that on the last call as well or maybe at the Citigroup. So I said that -- maybe it was at the Citi meeting that we had. But in one of those 2 venues, I mentioned that we are very experienced as both a leaseholder and a fee owner. I think we've had probably in the aggregate more experience in those 2 as almost any other owner in the city. And we have an expectation of where rents will land on a revaluation, and we're going to be actively marketing the space in 2020. But you can't really market this kind of space, which -- so you can elaborate on until you have possession, you white-box it and you have a redevelopment plan. But I could say that about 20 other buildings. So we're not going to really treat this any different, and we think we have a manageable plan for the rent reset, which we fully anticipated when we originally bought the building, and now the date is here, and we'll deal with it. But I don't know, Steve, do you want to add anything to that?

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

Well, I mean as we sit here at this point of time, we've -- we're deep into design development for the repositioning of the space. Polo has the majority of the building. The building's bones were obviously great. It's got one of the best locations in the city. It's pricing will be extremely competitive relative to other large blocks of space in that part of town. And we think we've got a very appealing capital program for the -- that we're designing for the lobby, elevator cabs and entrance to the building.

Alexander David Goldfarb
Sandler O'Neill + Partners, L.P., Research Division

Okay. And then second question is just with the recent passage today of the Energy Act that the City Council did to upgrade all the buildings, you have -- the commercial rent control discussion, Marc, as you know, is still in discussions. Have you seen any change in the way people are underwriting commercial real estate or NOI profiles or anything that would go into how you guys look at buildings, given what's been passed by City Hall today and what potentially could be passed?

Marc Holliday
Chairman & CEO

Not our buildings because our -- we've been -- what's being passed or potentially being passed by City Council or was being proposed in any case is something along the lines of what we've been doing for 10 years. And a lot of the major owners are on this, being good corporate citizens and making their buildings as green as possible and lowest carbon emission with very smart building management systems today and materials that are extraordinary at preserving electricity and conservation and everything that goes along with it. So we -- I think 63% of our portfolio is LEED certified. We have something like 24 ENERGY STAR labels, where another -- again, in 2018, EPA ENERGY STAR Partner of the Year. We ranked very high on a number of the rating scales that are published and that shareholders see. So like the Bloomberg index, I know for one, I think we're one of the top performers in our sector. So this is -- if you own older buildings that you haven't been investing in and the bill passes as contemplated, there'll be certainly some onetime cost to renovate. The benefit of that is your operating costs are lowered. But for buildings like ours that I think are already at the leading edge, there'll be some additional compliance, but we would have done it anyway because that's the path we're on. I mean you've heard me speak many times about wanting to be a lead partner in the administration's goal of reducing energy emissions 80% by 2050. And we have our own internal goals that are more accelerated than that. So look, there are elements of the bill that I think badly do need to be massaged and revisited because, one, they've taken, in some cases, a one-shoe-fits-all approach, which isn't appropriate. So there are details of the bill that we're hoping to get changed in the final hour to reflect more fully the input that we've had with the Urban Green

Council and other owners have had. And we hope City Council doesn't turn a blind eye to some of those recommendations. But in the general spirit of having a framework within which to continue down a path of making our buildings more sustainable, I feel like we're already on that path.

Operator

[Operator Instructions] Our next call comes from the line of Craig Mailman with KeyBanc Capital.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

Just going back to the DPE book, you guys had a big origination quarter in 1Q, but I know the target for the year is to kind of shrink it by $75 million. So could you maybe just give us how you guys see the trajectory for the balance -- through the rest of the year?

David Schonbraun
Co-Chief Investment Officer

Sure. It's David. I don't think there's any change in our guidance. We can't 100% control when we get payoffs and when we find attractive originations. So I think you'll have probably, as you're seeing, higher front-ended originations. And we expect to get more payoffs starting the next quarter. And by the end of the year, we'll be at the level that we set.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

And then just on the sales environment, you guys got 521 done. Just curious kind of what the depth of the buyer pool was there. And maybe just update us on what you guys currently have in the market. And maybe what else may be marketed here in the near term.

Andrew W. Mathias
President & Director

Sure. It's Andrew. We had great demand for that asset, both foreign and domestic. There were -- we went to contract on that asset without a due diligence period, so there were still hard offers, which is kind of unique to the New York market, and I felt very strong about the process there. Second part of the question?

David Schonbraun
Co-Chief Investment Officer

What do we have out in the market near term...

Andrew W. Mathias
President & Director

Out to market, we're sort of -- other than the Suburban portfolio, which we have discussed, we're evaluating next steps and which asset will be most appropriate to roll out next to meet the healthy demand.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

That's helpful. And what was the cap rate on 521?

Andrew W. Mathias
President & Director

4.6%.

Matthew J. DiLiberto
Chief Financial Officer

4.6%.

Operator

And our next question comes from the line of John Kim with BMO Capital Markets.

Piljung Kim
BMO Capital Markets Equity Research

On your DPE, looking at 2020, I know you don't want to give guidance on that now, but you do have $1.3 billion of maturities next year. And realizing there's a lot of expansion options in this portfolio, can you just discuss your ability or willingness to replenish this amount of capital?

David Schonbraun
Co-Chief Investment Officer

Yes. Look, I think we originate well over $1 billion a year, and we're very active working with existing borrowers on extending loans. So I think our average kind of life is usually somewhere between 2 and 3 years in general. So I don't -- maybe it's a little larger than it has been in some prior years. It's probably because we provided some chunkier positions, but we're working with borrowers right now to do some extended deals. And given the historical pipeline we have, I think we'll have no issue having the levels end up exactly where we want them to be.

Marc Holliday
Chairman & CEO

Yes, just -- I would also just add to that. There's always this kind of push/pull we hear from shareholders: is the balance too high, can you keep the balance size; is it balanced too high, can you keep the balance high. And so it's always confused us over the years, so we just sort of manage it to roughly that 10% mark. And it's been a great business, obviously, a hugely profitable business. In this year, it's yielded a number of very interesting and compelling investment opportunities for us, which is -- doesn't -- isn't always the case, but over the years, we can probably rattle off a dozen or more properties that the DPE program led to direct ownership. So the program's great. I think we have very good management of it. But in this sort of unique moment in time, as yields on this paper hover around 9%, and I think the FFO yield on buying back our own stock is probably close to 7% or 8% that the conversion of structured finance investment balances that we don't reinvest for any reason into either further debt paydown but also on a leverage neutral basis into equity -- into the -- buying our own shares is almost to push earnings-wise. So it's a very interesting time for us where -- you mentioned that $1.3 billion of money coming back now, we expect to be very active in the originations front next year as is this year. But again, next year is next year, and we'll have to gauge the market and things could change, in which case, maybe we're not. But with the stock where it is and the yields almost at parity, we certainly have a very interesting alternative if we choose for whatever reason not to put out the same levels into DPE next year.

Piljung Kim
BMO Capital Markets Equity Research

Okay. And Marc, you've referenced in your prepared remarks the public market will eventually recalibrate to private market valuation.

Marc Holliday
Chairman & CEO

Yes. I think so.

Piljung Kim
BMO Capital Markets Equity Research

Can you just -- what the catalyst will be for that? Because I think a lot of us thought the catalyst would have been selling assets and buying back your shares, and it hasn't happened yet.

Marc Holliday

Chairman & CEO

Well, I think, then we just continue, right? I mean, taken to its extreme, yes, we've got assets worth what they're worth. I mean, again, 521, we put out -- we talk about NAV at levels much higher than I guess $87 a share, much, much higher. The NAV underlies that, and 521 went, for us, north of NAV. So again -- and that's just -- and that's the same as 3 Columbus, and that's same as 1745 Broadway, so -- when we sold those assets last year. So we have a high degree of confidence in being able to properly value or I would almost say conservatively value our portfolio. And as we just keep realizing it's not a theory, it's -- when you sell it, you actually get the cash at or above the NAV and then buy back the shares at a very discounted value. So that, taken to its limit, is almost self-fulfilling. So whether or not that'll be a catalyst for people to come in and buy the shares, we hope so, and we would expect so. But if not, we certainly can continue our program of doing that and fully expect to because this is, as I've said before, probably one of the greatest investment opportunities we've seen in our 21 years as a public company.

Operator

And our next question comes from the line of Jamie Feldman with BoA Merrill Lynch.

James Colin Feldman
BofA Merrill Lynch, Research Division

Matt, it looks like on some of your portfolio metrics, you're trending ahead of where your full year guidance would be, like same-store NOI, leasing spreads. Can you talk about how those -- how you expect those to trend for the rest of the year? And it looks like you maintained guidance, but just what your thoughts are around that?

Matthew J. DiLiberto
Chief Financial Officer

Sure. Yes. After 3 months, actually across-the-board, we were ahead FFO. We were ahead of our expectations: leasing volume, mark-to-market, same-store occupancy, same-store NOI growth, everything was ahead. But it's 3 months in, so we're encouraged by that but not in a position to adjust at this point any of our guidance or goals that we set out back in December but happy to see trending ahead, of course.

James Colin Feldman
BofA Merrill Lynch, Research Division

Okay. And then maybe for Steve, can you talk more about just tenant discussions and what types of tenants you might think might be interested in 1 Madison and even for the rest of One Vanderbilt?

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

Sure. I'll start with One Vanderbilt. We've got active discussions with several tenants at One Vanderbilt that are all financial services-related or in the case of one good-sized tenant, call it, a business services-type tenant. But I would think, as we finish off the podium of the building and focus our attention towards the upper third of the house, it'll almost be exclusively financial services. The signing of KPS. We've got another lease that we're well down the line with a private equity firm. And we're doing tours over there of the -- site tours and then boardroom presentations almost on a, if not daily, every-other-day basis. So it's just the momentum is really feeding on itself at this point. With regards to 1 Madison, the obvious tenant base there is TAMI. But having said that, we've received RFPs from a large financial services business. So I wouldn't be surprised for sort of a fintech-type tenant to be a likely candidate for that building. But we've been in front of maybe 12, 15 tenants at this point. People are really enthusiastic about the development plan for the building because it's bringing brand-new, large-scale, state-of-the-art product to a submarket where that opportunity doesn't exist, and we're sitting right on top of a subway line across the street from a park. So it's -- it checks all the boxes whether you're financial services or whether you're a TAMI-type tenant. But that building I think is going to be a wild success from a leasing perspective.

James Colin Feldman

BofA Merrill Lynch, Research Division

And you think it's a full building user based on discussions?

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

I think it'll be large-space users. So whether that's full building or it's 300,000, 400,000, 500,000 square foot tenants, I don't think it'll be one off leasing the way. One Vanderbilt is going to finish off its leasing program.

Operator

And our next question comes from the line of Derek Johnston with Deutsche Bank.

Derek Charles Johnston
Deutsche Bank AG, Research Division

Just on pricing power and trends, could you separate out concessions and leasing trends with your in-place portfolio versus the development, redeveloped assets and give us any significant differences that are notable?

Marc Holliday
Chairman & CEO

Steve?

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

Let's see. Let's go sort of broad structure on that. That's a mouthful. Certainly, on new construction and redeveloped buildings, which you could put the vast majority of our portfolio into the camp of redeveloped buildings, there has been a flight to quality over the past year or 2, where there's been a lot of tenant demand for better-quality buildings. Now we're the beneficiary of that because we have a portfolio where we've reinvested into the buildings, and we continued on new acquisitions, like 460 West 34th Street, to make heavy capital investments in those buildings and as evidenced by the First Republic lease, finding a strong tenant demand for it. As far as concessions go, there's this odd situation where new construction actually carries a slight TI savings. I don't think we have given a tenant at One Vanderbilt, by way of example, more than $95 a square foot with all the leasing we've done in that building. Yet, you can go to other buildings or more commodity buildings where you sometimes have to spend more than $100 a foot in order to land a tenant paying a lot less in rent. But I think, that's a function of supply and demand where the best quality product is in high demand and TI doesn't have to be as fulsome in that case.

Derek Charles Johnston
Deutsche Bank AG, Research Division

Okay. Great. And just switching gears. Any update on the suburban markets and interest in the marketed portfolio that you have out there?

Andrew W. Mathias
President & Director

Sure. It's Andrew. Isaac's not with us today. The capital markets are significantly more challenging in the suburbs. We continue to work through the portfolio and generate decent leasing activity, including our recent renewal with Skadden, Arps at 360 Hamilton and White Plains, which is a big deal for us. But we're trying to be patient because we don't want to accept kind of distressed prices for the assets, if you will. So we expect, over the course of the year, to execute some different strategies and wind up the resolution of the portfolio.

Operator

And our next question comes from the line of Nick Yulico with Scotiabank.

Nicholas Philip Yulico
Scotiabank Global Banking and Markets, Research Division

Just turning back to the stock buyback. Marc, you talked about willingness to do more over time if that's what's needed to do to close the valuation gap. But can you just remind us where you're at in terms of whether there's a tax issue or REIT roll issue that would prevent you from doing a larger buyback once this current program ends?

Marc Holliday
Chairman & CEO

No, there's nothing that prevents us that I'm aware of. We have Andy Levine here, and he'll correct me. So that's -- some of the -- it's a question of source of funds, and we have source of funds that's completely tax efficient, partially tax efficient, in some case, tax inefficient. But at the moment, we have a $2.5 billion authorization. I think, we're about $1.8 billion or so into that authorization, maybe $1.50 billion. So at least for the foreseeable future, we have sources of revenue that we feel we're more than comfortable that can finance those acquisitions in a debt-neutral way to get to that $2.5 billion. And then when we get there, we'll evaluate going further, but somebody on the call earlier referenced a -- I mean, I guess taken to its extreme, $2.3 billion of cash that we have invested in high -- in the DPE portfolio, which just -- I was just making the point coincidentally, has a yield that's not too differentiated from the FFO yield on share repurchase. So clearly, that is another formidable source that could go well beyond the $2.5 billion. So I mean -- we don't -- we haven't taken it much further than that nor do we need to sitting here in 2019 with a plan that we think is executable for the balance of this year and probably a fairly obvious plan for next year. But beyond that, we have other strategies. We have developed, have not yet deployed, which would enable us to go further. But I don't want you to get ahead of yourself. I think as -- our goal is to see that price reach its natural level, which would be equal to the value of the assets. And if that happens, then there'd probably be no more buyback program once that occurred. And certainly, we hope in the next year or 2, we'll see that kind of increase occur as it should.

Nicholas Philip Yulico
Scotiabank Global Banking and Markets, Research Division

Okay. Second question. You mentioned 30 Hudson earlier, I'd like to hear a little bit more. What you thought about the pricing of that asset? And we heard it was around a 5% cap rate, 20-year lease, long-term credit deal. I guess I'm wondering, is that indicative of what, a long-term credit deal would trade in the market? Or is -- the condo within a building, did that affect the valuation there?

Andrew W. Mathias
President & Director

I think, certainly, the -- it's a very large transaction, so it makes the universe of buyers smaller, given $2 billion of aggregate size. And I think, given that it's not multi-tenanted and you have sort of this bullet expiration, if you will, the whole -- the entire space expiring, it takes a certain type of buyer. So I think in terms of cap rate on 1745, David, we achieved around the same or were we inside of that?

David Schonbraun
Co-Chief Investment Officer

We were inside of that.

Matthew J. DiLiberto
Chief Financial Officer

We're in the 4s.

Andrew W. Mathias
President & Director

So I think between 4.5% and 5% cap, depending on the circumstances. The per foots where the rents stand versus market is a good estimate for sort of large, single-tenant, credit-tenant leases in the city right now.

Operator

And our next question comes from the line of Jason Green with Evercore.

Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

As we look out over the next 2 or 3 years, are there any other kind of early renewals similar to Viacom that we should be taking into account from a cash NOI perspective?

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

Well, we have several larger leases when you go out in time, but those are 3 to 5 years out. And most of them have significant mark-to-market increase expectations. In the case, for instance, at 753rd Avenue, where we have Advance Magazine and Fairchild Publications, that's part of Condé Nast, all that space has been -- was subleased years ago to a variety of different subtenants. The prime lease in that case, tenants paying us sub-$50 a foot. So we're going to see a big uptick in rent on there, and we're already trading paper on big chunks of that space. So I think there's going to be a couple of big opportunities for us to have a very positive outcome.

Jason Daniel Green
Evercore ISI Institutional Equities, Research Division

Okay. And then at One Vanderbilt, you guys had a goal for being 65% leased by the end of the year. You deliver the asset in Q3 of next year. I guess how long after delivering should we expect the asset to be stabilized?

Andrew W. Mathias
President & Director

Well, we put numbers out there I think at the last 2 or 3 December conferences, which had the full lease-up schedule right through the end. I don't have that at my fingertips. I thought it was '21 or '22, but I just don't remember.

Matthew J. DiLiberto
Chief Financial Officer

I don't recall it.

Andrew W. Mathias
President & Director

We'll have to get back to you on that, well, because -- unless, Matt, do you have it?

Matthew J. DiLiberto
Chief Financial Officer

I think it wraps up in '21, and you're probably in a stabilized year, starting '23 on a full year basis.

Andrew W. Mathias
President & Director

All right. '23, full year, I think is stabilized that -- I think that's what was on that schedule.

Matthew J. DiLiberto
Chief Financial Officer

Right. But for revenue recognition purposes, the standard is when the tenant space is ready for its intended use, you start to recognize revenue. So looking at its earliest, we start turning space over to tenants later this year. And the building opens in August of 2020 with space then, so it should be ready for its intended use with some of its tenants. So you could start to see at the base of the building revenue recognition as early as late 2020.

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

Yes, 1/4 of the building, we turn it over for tenants to start their construction by the summer of this year. So a year in advance of completing construction of the building and having a TCO in hand. So all of those tenants will construct their space and move in probably within 30 to 60 days of the TCO date, which means we'll be recognizing revenue at that point.

Operator

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

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

First, a quick one for Matthew DiLiberto. If you look at the right for use of the asset, the operating lease is about $400 million of value. Do you think that's a good assessment of value to the ground lessor of that -- those ground leases?

Matthew J. DiLiberto
Chief Financial Officer

Not -- no. So the simple answer is, no, that is the new lease accounting for our ground leases finally coming out of the balance sheet. The decades-long odyssey that all the accounts have gone through to get to this point. That is not an indication of value. You put it on the balance sheet using discounted cash flows at some assumed rate, and you put it on the balance sheet, it just grosses up assets and liabilities and is no indication of value, and it's probably of no value to the readers of the financial statement either.

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

Okay. Thought so. Okay. And/or I'm not sure who, but if I look at 1 Madison, and if this is in your Investor Day slide deck, just direct me that way, but what's the gross and net rents in place now? What's your total net rentable square feet going to be when you redevelop it? And have you come -- have you created the development budget yet and figured it out who's going to come in as the JV partner? Or how are you going to finance it?

Andrew W. Mathias
President & Director

The question is 1 Madison, yes? Okay. So on 1 Madison, I don't -- what's in place now, I mean, it's 1.1 million square feet now. It's going to 1.5 million square feet as redeveloped. The in-place escalated rents around $82 a foot.

Matthew J. DiLiberto
Chief Financial Officer

Gross.

Andrew W. Mathias
President & Director

Gross. And the redevelopment budget is probably, what, the actual construction cost alone, order of magnitude, $600 million plus or minus. The redevelopment budget obviously will be higher than that to include -- we'll work it up and have probably by this December's meeting everything with TI, marketing, deficit ops carry. When we give a budget, I'd like to think everyone gives it this way, we give a fully loaded soup to nuts interest, land at cost with whatever market JV partner comes in at, all the TI commissions and everything. So -- but the actual physical work for completely reimagining the podium and adding the tower for which we've spent an extraordinary amount of time over the past 12 months, designing and estimating, we think will be somewhere in the range of about $600 million of hard cost.

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

And do you have a sense for what sort of gross or net rent you have to hit for this to be sort of value creative -- creating?

Marc Holliday
Chairman & CEO

I'd say weighted -- the answer is yes. We know up and down. I think we're going to sort of -- we're going to unveil it all in December as we did with One Vanderbilt because I think having pieces of it without the whole picture can lead people to confusion. So I -- we want to give people a very good sense of those rents, which obviously are much, much higher than $82 gross if that's where the current escalated is, even for the podium alone, let alone the new tower. So the average rents with much higher price point than that, but still, for a product that we expect to deliver in 2023, middle of '23, we're going to have a rent point there for what we think will be among the most desirable buildings in all of Midtown South or the downtown markets at rents that are being achieved daily, today, in 2019. So we're not pricing in inflation. It doesn't mean we don't expect there to be rent inflation. It just means we are modeling this building based off of a rental market that exists today, not one we hope to exist in 2023, although we hope it's higher. So this deal underwrites extremely well, like One Vanderbilt did. In some ways, it's a little bit of an easier exercise because the building exists and it's a large-scale redevelopment at its base. But it's new construction, a very attractive construction, and it's a tower, but it's not a high-rise tower, it's a medium-rise tower. So the cost is less, the timing is more efficient. And I think when we unveil the financial metrics both in terms of costs, returns, rental points, et cetera, the deal will certainly hold its own with any deal we have in the portfolio.

Okay. Operator, I think that's the last question, yes?

Operator

Correct, sir.

Marc Holliday
Chairman & CEO

Okay. Good. Well, listen, we finished up 10 minutes early today, so tremendous. Thank you for your questions. It was a great quarter. We look forward to more of the same in Q2. And most importantly, everybody have a very happy holiday -- upcoming holiday season this week, and Happy Easter and Good Passover. And see you and speak to you soon.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.