S&P Global
Market Intelligence

SL Green Realty Corp. NYSE:SLG

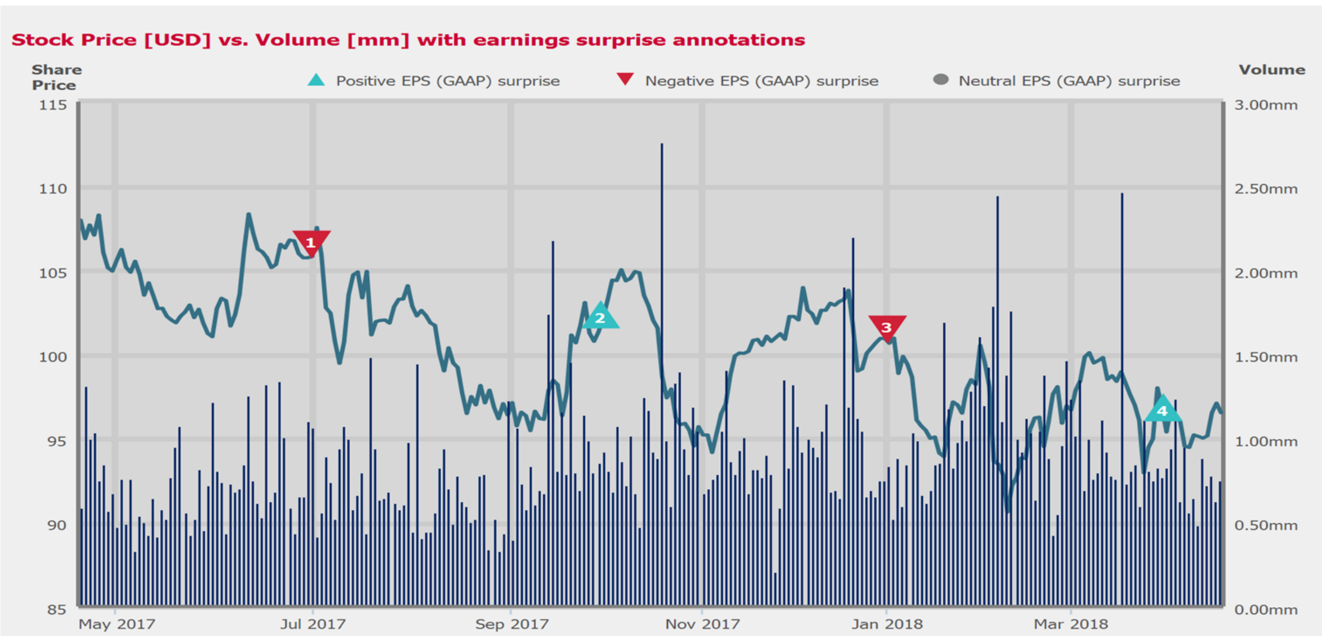
FQ2 2018 Earnings Call Transcripts

Thursday, July 19, 2018 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.39	1.19	205.13	0.40	2.22	1.59
Revenue (mm)	241.47	238.42	(1.26 %)	245.95	980.18	1000.08

Currency: USD
Consensus as of Jul-18-2018 11:11 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	0.57	0.08	(85.96 %)
FQ3 2017	0.03	0.40	1233.33 %
FQ4 2017	0.42	0.29	(30.95 %)
FQ1 2018	0.45	1.12	148.89 %

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Call Participants

EXECUTIVES

Andrew W. Mathias
President & Director

Marc Holliday
CEO & Director

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

Blaine Matthew Heck
Wells Fargo Securities, LLC, Research Division

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

James Colin Feldman
BofA Merrill Lynch, Research Division

John P. Kim
BMO Capital Markets Equity Research

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

Michael Bilerman
Citigroup Inc, Research Division

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

Stephen Thomas Sakwa
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Thank you, everybody, for joining us, and welcome to SL Green Realty Corp.'s Second Quarter 2018 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 second quarter 2018 earnings.

Before turning the call over to Marc Holliday, Chief Executive Officer of SL Green Realty Corp., [Operator Instructions]

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

Marc Holliday
CEO & Director

Okay. Thank you, everyone, for joining us for SL Green's Second Quarter 2018 Earnings Call. As I believe was evident from our reported results last night, we are off to another very good start through the first half of this year, and it was an excellent second quarter.

It was similar in many respects to our first quarter, where our results were pretty much in line with expectations and guidance, but once again, in line -- that term, in line, I think materially understates the extraordinary effort and execution that went into producing these results and going into the kinds of results we produce quarter-over-quarter, year-over-year. A lot goes into it. It gets summarized into 8 to 10 bullet points, but we'd be happy today as part of the Q&A section to talk about each of these individual items that make up what I think were a quarter that was very much in line with our prior guidance and talk about the kinds of activities we see in the third quarter that'll continue to help us achieve our goals.

Notably, in this quarter, we had 71 leases signed in New York City and the suburbs, covering more than 570,000 rentable square feet of office space. We closed or contracted for 7 discrete property dispositions, representing a gross aggregate asset value of over $1.5 billion. We acquired the leasehold interest in 2 Herald Square following foreclosure of the asset, a foreclosure that was consummated in under a year's time from start to finish. We originated or acquired $541 million of new debt and preferred equity investments, deals that were originated during the quarter at a retained yield of about 9.5% on average between mortgage and mezz.

There was also substantial construction and leasing progress at One Vanderbilt. We'll talk a little bit about that later.

And notably and obviously, a continuation of our share repurchase program, totaling an additional 3.5 million shares acquired in the second quarter alone.

So all in all, I think a very respectable 3 months for the company. And it should be obvious that most here have not yet begun to take their summer holidays, so maybe after the call.

But at its core, our business strategy remains unchanged. Property dispositions and joint ventures to fund targeted acquisitions and the largest stock buyback program in the commercial REIT sector and we do this in a way that is predominantly leverage-neutral, and we do it in a way that maintains our liquidity in the range of $1.5 billion to $2 billion. So that while we're pursuing this strategy of growth and accretion and optimization, we're also doing so in a way that is very protective of the balance sheet.

The capital market environment for this strategy remains favorable as private sector values remain well above the implied net asset value of the company, and we have been able to execute this program in a tax-efficient manner, thus far avoiding the need for any special dividends.

You should expect to see a continuation of this program in the third quarter as we have already identified additional assets for disposition in the suburban and Manhattan portfolios, and we still believe that the repurchasing of our shares at current prices to be the best large-scale investment opportunity that we are presented with.

Also, of note, leasing velocity accelerated in the second quarter both in the market and in our own portfolio. And this was consistent with our expectations and puts us on track to meet or exceed our leasing goal for the year. Notably, the current pipeline stands at 1.3 million square feet, and this is pipeline that is roughly consistent with the pipeline as it stood in the last quarter, notwithstanding 540,000 square feet of space leased in just Manhattan in the second quarter.

So the business narrative in New York City right now, the narrative amongst businesses and amongst our tenants is fairly positive, and we see a lot of activity and expansion taking place in the market. This activity has not yet resulted in any observable spike in rents, but concessions do seem to be leveling. And we are making substantial gains in leasing up our previously vacant space as is evident by the 40 basis point improvement in our occupancy.

I'll save any further market commentary for the Q&A portion of the call as it relates to the leasing market or the property investment market.

But before opening up the lines for those questions, I do want to state how absolutely pleased I am with the progress at One Vanderbilt. Construction continues at pace. And as I've alluded to in the past, the prior gains we've made in scheduling now has been solidified as the completion date under our GMP contract for the project has been moved up by 5 weeks from September 30, 2020 to August 25, 2020, a date where the building will be open just a little over 2 years from today. So very exciting and credit goes to our entire construction team and staff that has carefully coordinated every facet of the job and the 500-plus hardworking men and women that are on the site day after day, moving this project along at a pace that even exceeded our ambitious timeline at the outset.

If you haven't already seen the progress, I would encourage you to stop by next week and view the first installation of what will be over 8,140 panels of terra-cotta curtain wall. It's going to be extraordinarily impressive as we begin to apply the curtain wall to the building.

And the leasing, as you know, from prior announcements, now stands at about 31% pre-leased, with this quarter's announcement of the McDermott Will lease, and we expect to have additional announcements between now and December as we continue to actively market and negotiate with tenants for additional space at the building.
So with that, I'd like to go right into Q&A.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Craig Mailman with KeyBanc Capital.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

Just curious, there's been some news reports about interest in 245 Park. Just curious if you could comment at all about your interest level either from an equity position or debt position.

Marc Holliday
CEO & Director

Unfortunately, we can't comment too much on that particular project. We have talked about 245 Park, I think, on prior calls in response to questions. In terms of the quality of the asset, location of the asset and what we perceive as an upside in that asset, be one that could benefit pretty substantially from moderate redevelopment, sort of playing off the heels of the success we've enjoyed at 280 Park and in line with the other construction and redevelopment improvement that's taking place on Park at buildings like 425 Park, that announced-to-be new world headquarters for JPMorgan and obviously just a few blocks north of One Vanderbilt. So the building itself is a very substantial building, I believe it's about 1.7 million or 1.8 million rentable square feet located in an extraordinary location right at the base of Park Avenue near Grand Central. And that asset is something that we've followed very closely, underwritten carefully, and in the second quarter, made a phase 1 investment that basically is a structured finance investment. It's in the DPE portfolio. It gives rise, I guess, to what you might see as a tick-up in the DPE portfolio in the month -- in the quarter that just finished, and that's really where we stand at this point. We already had an existing mezzanine investment in that project. And we've stated that earlier, so really this was in addition to that previous investment. And where we go from here as part of a phase 2 and something that may be more equity-like, I think, is yet to be seen and something that we may be able to comment on, on future calls.

Craig Allen Mailman
KeyBanc Capital Markets Inc., Research Division

Great. And then just curious as a second question. You had mentioned you guys have been pretty tax-efficient so far funding the buybacks with sales. Just curious of what you guys have kind of in the till here, if you guys still -- what kind of cushion you have left to continue to sell assets on the buyback without any tax implications?

Matthew J. DiLiberto
Chief Financial Officer

Craig, it's Matt. Yes, we've been -- as part of the kind of 5 primary criteria to fund buybacks, thus far, have been very tax-efficient, not requiring any special dividends, using a lot of tax protections and strategies to create that and plan to do so for the next 500 as well. As to how much is left, I mean, there's a whole host of things that goes into that. There's not a number that I'm going to quantify for you to say how much tax efficiency we have left except to say that we certainly have planned for the next 500 to be tax-efficient, and there is certainly room for much more. But how we go about doing that is part of a multifaceted exercise in evaluating the assets to fund it, the returns, the liquidity, the leverage, the earnings and tax efficiency.

Operator

And our next question comes from the line of Manny Korchman with Citi.

Michael Bilerman
Citigroup Inc, Research Division

It's Michael Bilerman here with Manny. I just had a question on the debt and preferred equity originations you did in the quarter. I don't know who wants to talk about it, but can you just give a little bit more color on sort of the number of transactions, the type of the transactions? Were they refis or sales, the type of borrowers? And just sort of give a little bit more detail about -- because it was a pretty big origination quarter so just trying to get a little bit more color around it.

Andrew W. Mathias
President & Director

Sure. I think Marc highlighted, obviously, that an additional investment in 245 Park was part of the activity in the quarter. And then we additionally had a large structured deal we did where we originated a mortgage and mezzanine position, and then we'll probably ultimately sell a piece of that mortgage, but for now, we still have it on our balance sheet. They're across sectors, office and really multifamily, and we haven't really changed any of our underwriting criteria. It's kind of standard for our structured finance book.

Michael Bilerman
Citigroup Inc, Research Division

And, Andrew, how do you think that's going to go through year-end in terms of repayments that you're expecting versus what's in the pipeline now from an origination standpoint? Where does this DPE book sit at the end of the year?

Matthew J. DiLiberto
Chief Financial Officer

Michael, it's Matt. So this is the high watermark for the year. As we provided guidance back in December, we said overall the balance would be down average and absolute. This will come down over the balance of the year. Just looking at it over the next quarter, I'm looking at north of $400 million of repayments with very little incremental origination to offset that. So definitely the high watermark of the year, consistent with how we planned for the year to go because the originations ebb and flow and repayments are a little less predictable, but that balance will come down over the balance of the year.

Michael Bilerman
Citigroup Inc, Research Division

Right. So $400 million repayments and selling down positions that you originated this quarter, we could be in the $1.5 billion range by the end of the year.

Matthew J. DiLiberto
Chief Financial Officer

That's really low, I wouldn't go that low. But down year-over-year is our expectation, and we're maintaining that.

Marc Holliday
CEO & Director

I thought we have guidance, specific guidance on this.

Andrew W. Mathias
President & Director

Down $100 million.

Matthew J. DiLiberto
Chief Financial Officer

It'd be down about $100 million. Yes.

Marc Holliday
CEO & Director

Down $100 million. So we're not changing guidance at this moment. So I would say the best proxy if you're trying to look at what we -- how we think about it through the end of the year would be last year's balance minus $100 million. Now you can't -- it's a living breathing portfolio, and it's a lot of activity, so you can't be that specific. But that's a very good estimate.

Operator

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

John P. Kim
BMO Capital Markets Equity Research

Your leverage today is above 9x net debt to EBITDA if you'd included a portion of debt and presumably, this will be going higher with One Vanderbilt, your buyback, possibly 245 Park Avenue. So can you remind us what leverage levels you're comfortable with and how this compares to the target of 7x, which is defined by Fitch, though maybe calculated differently?

Matthew J. DiLiberto
Chief Financial Officer

John, it's Matt. So we are at 6.8 as against our 7.0 goal on Fitch's math. That is the balance sheet leverage. Including off-balance-sheet, we are at 8.8, so 2x higher factoring the sales we just closed. On an LTV basis, we are exactly neutral in the low 40s. And our expectation is over the balance of the year, ex One Vanderbilt, that stays flat to even down based on growth in EBITDA. So sure, leverage is affected by a large-scale project going on where you have no EBITDA, but the underpinning of our share buyback program of it being leverage-neutral certainly on an LTV basis is maintained.

John P. Kim
BMO Capital Markets Equity Research

So the main difference with Fitch is they exclude development CapEx as well as they only look at balance sheet debt versus...

Matthew J. DiLiberto
Chief Financial Officer

Well, they -- most of the rating agencies use balance sheet, not off-balance-sheet. They all calculate it differently. So one of the greatest or one of the hundred flaws with debt-to-EBITDA is everybody calculates it differently. So we use 1 of the 3 agencies as a standard, but they have a calculation that includes certain things, excludes certain things that maybe other rating agencies or other equity investors don't. But we had to create some standard so as not to create just our own math.

John P. Kim
BMO Capital Markets Equity Research

Okay. And then with the sale of 724 Fifth Avenue, is this a one-off transaction? Or do you expect to sell more of your retail assets in New York?

Andrew W. Mathias
President & Director

Well, we've sold some retail. So I don't know about one-off. I think we showed a slide in December that showed over $2 billion of sales on the retail portfolio, and this is a continuation where we buy opportunistically, we stabilize and then depending on sort of the growth profile of the asset, we'll look to exit.

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

Two questions. First, just going on your JV side at Worldwide Plaza, your partner in New York REIT just had -- or, well, the CEO, Wendy, just left. So curious if that changes anything as far as the partnership goes or strategy for the building? Or if this means that New York REIT may accelerate their sale, and if that -- if you guys have any view of whether you'd increase your ownership or you'd stay as is?

Marc Holliday
CEO & Director

Well, I think the only thing we can comment on, the only thing we know is that Wendy has moved on. We'll be -- we had been dealing with this investment both with Wendy and at a board level, so I think there is some continuity there. And there were colleagues of Wendy who were with us every step of the way of underwriting and making the deal who are still with the company and, I guess, will continue to be our counterpoints at NYRT for the asset. So we and RXR, we operate, we lease, we handle all the day-to-day management and activities of the building. So in that regard, there's no change at a building level. We have a midterm plan, about a 3-year plan of making certain improvements of the building, capitalizing on some near-term leasing opportunities, which include some recapture of space, which actually has been going on this year. On a smaller scale, the bigger opportunity out there is to focus in with Cravath on their lease roll, but that's not until 2024. And there's also some opportunity to upgrade retail, which we're working on with RXR along Ninth Avenue. Is that right, along Ninth?

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

Yes. You're right.

Marc Holliday
CEO & Director

Along the Ninth Avenue frontage. So all of that is sort of in the works. We look at that as kind of a 3-ish year business plan. At which point, we'll reevaluate the building at that point, so I don't think anything's changed there. As far as what NYRT -- what their intentions are with the interest they own, that's not something we can shed any light on.

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

Okay. And then the second question is for Matt. Matt, just curious if you have a sort of framework for what you think the change in FASB accounting for internal leasing cost is going to have on you guys for next year or maybe the way you guys do it already. You already expense it, so it's not had an impact.

Matthew J. DiLiberto
Chief Financial Officer

Yes. I hate to announce it on the call, but we're going to eliminate Steve and his entire group, so I don't want to take any other charge for that. I'm kidding, obviously. We are going through the process right now of evaluating the impacts and alternatives. I don't view the impact to be meaningful. There will be an impact, of course, because you can't avoid it entirely, but there are strategies to mitigate it, and we're working through those right now.

Operator

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

James Colin Feldman
BofA Merrill Lynch, Research Division

Marc, I want to go back to your comments on rents and concessions. And just hoping you can provide a little bit more color or maybe Steve provide more color on where are rents rising in any types of assets right now? Any submarkets -- or declining? And then same thing with concessions? Like, is there a way to dig a little bit deeper into the types of assets or submarkets that might be different than the overall market trends?

Marc Holliday
CEO & Director

Yes, it's very hard to go through, whether it's submarket by submarket, building by building, a rent that's coming up for renewal, whether there will be a large mark-to-market or not because it depends what vintage year the lease was signed. I think that, in general, and we can talk about some specific submarkets in a second, and Steve can do that, but in general, we take our pulse from the vibe we get from our tenant base. And remember, we house almost 1,000 tenants in New York City, maybe more. And it covers the entire gamut of industries and sectors. And we are -- since this is our only market, I would say we cover this tenant base as good or better than any REIT covers their tenant base because we are in front of them 365 days a year, management-wise, leasing-wise, marketing-wise, early-renewal-wise. And Andrew and I meet with them, and we get a sense of the level of business optimism that's out there in terms of expectations of growth in revenues, expansion, M&A activity, et cetera. And I would say -- and what I said in my comments was that, that sentiment right now is really fairly positive. We see -- we're dealing a lot right now in a portfolio that doesn't have that much vacancy, trying to create space in buildings to accommodate the needs of tenants that want to consolidate or want to grow. And we're only in Midtown, Jamie, so that commentary is really condensed into submarkets that would include Third Avenue for sure, Grand Central Park, certainly Fifth and Sixth Avenue we have a big presence. I can't really differentiate submarket to submarket, I'd say it's fairly consistent, and it's evidenced by a couple of things. One, I'm looking at a CBRE report in front of me right now where the headline is highest midyear leasing activity since 2015. So that's a fairly positive commentary from Midtown Manhattan, strongest quarter of leasing activity since '15, exceeding 5 million feet and it's almost 10 million feet for the half year, which if you extrapolate, would be 20 million feet for the full year, which would almost be a record year. So clearly, the velocity is there. And the rents, which is 1 of the 2 prongs you asked about, the rents, we see a firming of rents, but we don't see what I'll call a spike. So we're moving rents where we can, but I think we're moving them responsibly. We're maintaining a mark-to-market, which right now, I think, for the first half of the year has averaged about 7% or in that range, which is within the range that we wanted. We'd like to see it higher, but it's solid and it's right where we would have expected it to be. And it's a result of a fairly significant amount of demand, not only that's taken place in the first year but also within the pipeline. We have pretty good visibility into the leasing for the next 6 months both in our portfolio and the market. And it should be -- this will end up being quite a good year in the leasing market with concessions that have generally leveled off, and Steve can give a little more insight as to where are they dropping and where might they still be rising and rents that are firm and rising a touch. What I had said previously is in the second half of the year, hopefully, we can start to push those rents and see the market respond to a tightening. And all of this is notwithstanding the additional inventory in Manhattan West and Hudson Yards. We've always said that there's enough employment growth in this market, and we only have the numbers through May. June numbers are actually coming out for New York City today, ironically. But through May, the employment growth was very, very good, very much on track. And that's driving this demand and I think this level of optimism, notwithstanding what we hear out there in terms of reasons to be nervous. We want to be nervous in a macro sense, but in our micro New York City economy, everything is pretty much operating at full tilt. So, Steve, I would see if you want to add to that.

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

Well, I'd just add a couple more data points just to reinforce what Marc is saying, which is Midtown is really the big part of the leasing story this year. We said it on the last earnings call where within Midtown, last year was about the leasing that was taking place in the far west side with Hudson Yards and Manhattan West. This year, it's all really focused back to Midtown core, and within that, Grand Central Terminal, Park Avenue and Sixth Avenue have been the dominant beneficiaries of that. Grand Central, in particular, which has been 52% of the leasing activity year-to-date. So contrast that to last year and we've seen over 2 million square feet of positive absorption this year in Midtown. So the fundamentals of the market are very strong, and we're seeing to the extent that we see rent appreciation, it's been more -- I think it's been more on the lower end of the price point spectrum. There's continued strong demand for high-quality product, but it doesn't feel like that rental rate has been increasing. It feels like to the extent there's been rental rate appreciation, it's been at the lower end of the spectrum.

James Colin Feldman
BofA Merrill Lynch, Research Division

Okay, that's very helpful. And then, I guess, on the concession side, do you think -- you said leveling. You think they can come in at all? And is it more on the free rent or construction cost side or TI side?

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

I think tenants are more willing to -- I think they're less willing to sacrifice concessions as opposed to pay a little more in rent. There's still a few landlords that are out there -- that are with outsized concessions that are buying deals and it skews people's perspective of the market.

Operator

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

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

Matt, can you give us the other 99 flaws to net debt-to-EBITDA?

Matthew J. DiLiberto
Chief Financial Officer

Yes, I'll write them all down. I'll distribute them in a mass email. No problem.

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

And talk a little bit about what it costs to build new product these days in the core of Manhattan around One Vande and the Plaza District versus what you think it might cost at Hudson Yards? Any sense for that?

Andrew W. Mathias
President & Director

Well, are you excluding land or...

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

All in. To the extent, you guys have that kind of number at your fingertips. If you don't, it's not a big deal.

Andrew W. Mathias
President & Director

I think exclusive of land, it's probably $1,200 a foot or so wherever you're building it to get to finished space. And obviously, land is far more valuable in Midtown East than it is in the west side of Manhattan, so you have to adjust. But there's no difference appreciably in construction costs between East and West and South.

Marc Holliday
CEO & Director

Yes. And I would -- the $1,200 a foot, everybody defines it differently. We like to be very comprehensive when we give a number. That's everything. I mean, that's hard, soft, tenant improvements, marketing, deficit ops.

Andrew W. Mathias
President & Director

Leasing conditions.

Marc Holliday
CEO & Director

Leasing conditions, everything. So that's, we think, the right way to look at it. The actual hard cost of physical core and shell construction might be in the $600, $700, $800 a foot range, but that's not a meaningful answer and -- at least we don't think. So to deliver soup to nuts, that's probably the number Andrew gave you. Land cost could be anywhere from 3 to -- I don't know, $800 a foot on top of that. So you're looking at sort of all in $1,500, $2,000 a foot in that range. One Vande falls right within that range. That's probably as good a proxy as any. And the only real variable, if you will, from location-to-location will be the lay-in component.

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

And then second question -- third question after net debt-to-EBITDA. Do you -- have you formulated any plans for One Madison Avenue, the big Credit Suisse space?

Marc Holliday
CEO & Director

Yes. We have fairly exciting plans that have been formulated with much of that having crystallized in our minds and in our plans over the past 3 to 5 months. And we are looking forward to unveiling glimpses and -- of what that'll look like and what our strategy is in December. But even though we probably won't elaborate in much detail until then, we have a fairly comprehensive and set plan as we sit here today.

Operator

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

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

I wanted to ask about street retail both in terms of fundamentals, what you're seeing? And then also kind of more strategically, I know you answered a question about, obviously, some sales you've done and maybe some opportunistic buys you're always looking for. But is there any thought to kind of changing your exposure to street retail or would that be kind of a knee-jerk reaction?

Andrew W. Mathias
President & Director

Well, we have a very active leasing quarter on the retail side. I mean, we signed Coty at 719 Seventh, which was the kind of credit tenant we were looking for, for that asset. And we signed PUMA at 609 Fifth Avenue in the largest deal to be done on Fifth Avenue in some time. So we're getting, we feel, more than our fair share of tenancy. And in terms of the percentage of retail as a percentage of our gross or our net, I think we're fairly comfortable with that number. We've been continuing to maintain or reduce that percentage over time as I answered to the earlier question. And as we sit today, we're having some exciting retail conversations on 2 Herald. We have a lot of activity in other retail areas of our portfolio. We still view it as a business we're active in and want to continue to be a first mover in for sure.

Marc Holliday
CEO & Director

We also see some opportunity coming out of that sector. I mean, as -- the question was asked before about the sale of 724 Fifth and the redemption of 720. Andrew referenced $2 billion of other sales over the past few years. But while that's taking place, you have things like 2 Herald, and we would expect imminently to announce another small deal on the Upper East Side, retail residential, just sort of things that will be an outgrowth of a market in which is going through some -- is going through change, going through some dislocation and repricing. And whenever you have that, you have a -- you sort of have a period of paralysis, if you will, and then an inertia. And then once you get past that, that usually -- then the next phase of that usually represents opportunity. And I would hope and think we'll be best positioned selectively. I don't think in any kind of large-scale and certainly nothing that'll materially alter the percentage of retail we own in the portfolio. But it's -- for us, it's not about percent of retail. It's about the profitability of what we own, trying to move out of mature investments and move into value-add investments where we can continue to push earnings, value creation and the like.

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

My second question maybe for Matt. I realize guidance was left unchanged. I wanted to ask a little about the components of guidance, maybe more dispositions, obviously, maybe more buybacks than you'd planned at the beginning of the year. I was just curious if there's any other components that are kind of moving? It looks like G&A is running pretty well versus your original guidance. Is there anything else kind of worth talking about?

Matthew J. DiLiberto
Chief Financial Officer

No. I mean, you hit on the things that are if there are any real variances -- or variables, I should say, that's them. But the sales, we've talked about a buyback program that is earnings-friendly. And so the next leg of the buyback program, the 500 is engineered to be that way as well. It is more than we expected to do when we came out with our initial guidance. But it keeps us within the range based on how much we expect to do and how we expect to fund that. G&A, yes, running ahead of our expectations. That's a good thing. And the other ins and outs, whether it be the debt portfolio, interest expense basically wash themselves out, so keeping us right in our range.

Operator

And our next question comes from the line of Blaine Heck with Wells Fargo.

Blaine Matthew Heck
Wells Fargo Securities, LLC, Research Division

Steve, just on One Vanderbilt. You guys got a nice lease there this quarter, and I know you talked about the bulk of leasing coming in late 2018 and 2019. But can you just give us an update on the pipeline there, maybe the number of prospects and the aggregate square footage of deals you guys are kind of actively working on?

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

We have 4 active proposals that we're discussing with prospective tenants. We've got at least 2 more that we think are prospective tenants, who are diligencing the building. And we think they're likely to submit RFPs to us. Whether we land any of those tenants is too early to really tell. But based upon the amount of tours, the amount of presentations, the enthusiasm from the brokerage community, the reception that we're getting from prospective tenants, we're very confident that we're on plan, if not ahead of plan.

Blaine Matthew Heck
Wells Fargo Securities, LLC, Research Division

Great, that's helpful. And then, Matt, just following up on the guidance question, I think your original guidance for other income was around $24 million. You guys have done $28 million thus far this year. Can you just give a little color on what's being included in that number and driving it higher than expectations and maybe your outlook for the rest of the year?

Matthew J. DiLiberto
Chief Financial Officer

Sure. It's actually not ahead of our expectations. It has to do with classification of items on the face of the income statement. We present our guidance for other income net of the expense for our service corp, which actually run through operating expenses on the face of the income statement. So all in all, as I look out for the balance of the year, I expect to be within a few million dollars of our original guidance. So it's really just a classification issue. As for the quarter, the biggest item in the other income line item on the face of the income statement are about $6 million of tax refunds we got up in the suburbs. Those were in large part in our guidance. It's just a matter of timing. We didn't have them all baked into the second quarter, but that's when they rolled through. But all in all, largely on track with our full year other income guidance.

Operator

And our next question comes from the line of Steve Sakwa with Evercore.

Stephen Thomas Sakwa
Evercore ISI Institutional Equities, Research Division

Marc, I guess, you quickly touched on kind of the One Madison. And I guess my question really related to kind of the Credit Suisse lease in 2020 and the Ralph Lauren lease in 2019. Are there any kind of comments you can make about those 2 large expirations?

Marc Holliday
CEO & Director

Well, Credit Suisse lease is up in 2020, and we have a very robust redevelopment and development plan for that building that, as I mentioned earlier, we're going to go into a deep dive on probably in December when we get to -- some real time to meet with everyone and present some visuals. So in terms of status of lease, I mean, what exactly do you mean by status of lease? They're in through 2020. Do you mean are we going to be taking back the lease early?

Stephen Thomas Sakwa
Evercore ISI Institutional Equities, Research Division

Well, I just didn't know if they were renewing for a piece of it, if they were going to give you back all of that, if that was going to completely vacate? I was just looking for a sense for some portion of how much they may stay, how much they may vacate?

Marc Holliday
CEO & Director

Well, that was never the plan. And again, I just want to -- because we've -- I want to make sure it gets -- it's looked at the right way. This building is a 100% redevelopment and development candidate so that a renewal of the lease or a portion is not -- was never expected nor is expected nor do I think it's really physically possible. So the commencement of that work will begin in 2021. If your question was earlier and by making some kind of deal with CS, that's to be seen, but that's not a now moment. But the -- this building, in our opinion, is sort of the next great -- not good, but very great opportunity within this portfolio to create extraordinary value in a part of the market that today has the lowest vacancy rates and is achieving the highest rents. And we want to deliver a product that is -- both appeals to the tenant base that wants to be what really I would say is the best submarket in the USA right now, this Midtown South submarket, certainly in New York City by far. And then make sure we have the right tenants who can create the kind of excitement and pay the kind of rents that are consistent with that level of development. So the CS lease is not really a part of that exercise per se. I can't say whether they'll be the tenant or not, I guess that's possible. But before you get to that juncture, there's -- there'll be a couple of years of physical work to do with that building. So I hope -- and we've talked about that. And that's still the path we're on. There's no change in path there.

Stephen Thomas Sakwa
Evercore ISI Institutional Equities, Research Division

Okay. So just to be clear, we should assume that, that building basically goes dark, the rent goes away and you commence some sort of large rescale redevelopment project that takes several years to unfold.

Marc Holliday
CEO & Director

For sure.

Andrew W. Mathias
President & Director

Yes. The lease is up December 2020.

Marc Holliday
CEO & Director

Yes. So starting 2021 for sure. And remember and I don't want to sort of preempt, but the whole -- the major value paradigm here is, there's somewhere between 250,000 and 450,000 square feet of unused. And the bulk of that is as of right -- air rights that can be used on a building, which was built as a podium. So it's very -- I think the best way you could say it is, let's table that conversation for a few months and we'll have more to come on that. But this will be a very exciting redevelopment, not only for the company, but I think for New York City.

Andrew W. Mathias
President & Director

And then on 625, I would say it's too early to comment on any conversations ongoing there.

Operator

[Operator Instructions] And we have a follow-up question from the line of Jamie Feldman with Bank of America Merrill Lynch.

James Colin Feldman
BofA Merrill Lynch, Research Division

Can you just provide more color on 2 Herald Square and the JV that you guys announced there and just kind of leasing challenges or leasing plans there?

Matthew J. DiLiberto
Chief Financial Officer

Well, it's Matt. So Andrew alluded to leasing progress over there on all fronts, particularly the retail side. As to the JV, we expect a JV and financing later in the year. We'll provide more details at that time. Be a little bit premature to go out with that at this point, but a JV and financing are our expectations in the second half of the year.

Operator

And that concludes our question-and-answer session for today. So with that said, I'd like to turn the call back over to CEO, Mr. Marc Holliday, for closing remarks.

Marc Holliday
CEO & Director

Okay. Thank you, everyone. And we're back to work, everybody.

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.