

# VNO Earnings Call Transcript

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**Quarter: 3**

Operator: Good morning, and welcome to the Vornado Realty Trust Third Quarter of 2025 Earnings Call. My name is Joe, and I will be your operator on today's call. This call is being recorded for replay purposes [Operator Instructions]. I will now turn the call over to Mr. Steve Borenstein, Executive Vice President and Corporation Counsel. Please go ahead.

Steven Borenstein: Welcome to Vornado Realty Trust Third Quarter Earnings Call. Yesterday afternoon, we issued our third quarter earnings release and filed our quarterly report on Form 10-Q with the Securities and Exchange Commission. These documents as well as our supplemental financial information package are available on our website, [www.vno.com](http://www.vno.com), under the Investor Relations section. In these documents and during today's call, we will discuss certain non-GAAP financial measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in our earnings release, Form 10-Q and financial supplements. Please be aware that statements made during this call may be deemed forward-looking statements, and actual results may differ materially from these statements due to a variety of risks, uncertainties and other factors. Please refer to our filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2024; for more information regarding these risks and uncertainties. The call may include time-sensitive information that may be accurate only as of today's date. The company does not undertake a duty to update any forward-looking statements. On the call today from management for our opening comments are Steven Roth, Chairman and Chief Executive Officer; and Mike Franco, President and Chief Financial Officer. Our senior team is also present and available for questions. I will now turn the call over to Steven Roth.

Steven Roth: Thank you, Steve, and good morning, everyone. Today is Election Day in America. The spectacle of our entire population all voting on a single day, the first Tuesday in November, has been somewhat diluted by early voting and voting by mail. Nonetheless, today is election day, a critical symbol of our great American democracy. And we all know elections matter. The election in New York City with the prospect of a Democrat socialist Mayor has attracted enormous attention. We almost admit that affordability has become a critical issue and even a lightning rod as is the cost and availability of housing. I'm an optimist and believe that everything will work out for the best. Importantly, with respect to the prospect of Mamdani mayoralty, we have not seen any pullback or hesitancy in space demand from our customers, in fact, the opposite, nor have we seen any canary in the coal mine indication from the stock market. Enough said. Now to the business. Here at Vornado, our business is good, really good and growing stronger. Our performance continues to lead both the national office pack and our New York peers. The market seems to have recognized this as our stock has doubled in the past 2 years. Why? One, we are in New York; two, our leasing stats and our mark-to-market stats lead the industry; three, as does our balance sheet stats. Our net debt-to-EBITDA ratio is down to 7.3x, and our immediate liquidity is \$2.6 billion; four, we are focused. We are a stick to our knitting company; five, we have our PENN District, our city within a city; six, we have the 350 Park Avenue development, and it is in full swing; seven, we have a couple of hundred million dollars in the bag annual growth coming over the next few years; and finally, eight, we have a great portfolio of office and retail assets. We had another excellent quarter. Michael will cover our earnings shortly, and Glen is here to answer questions on our leasing activity. Now let me cover what we're seeing on the ground, along with some

of our recent activity and accomplishments. As the noted journalist, Peter Grant, recently wrote, "New York City's office market is enjoying its biggest boom in nearly 2 decades, leaving the rest of the U.S. in the dust." The rotation from a tenant's market to a landlord's market in the 180 million square foot Class A better building submarket in which we compete, that we've been predicting is now happening and has even become accepted by our doubting [ Thomas analysts ] and the critical press. [ Cut off ] the press, [ CRB ] reports that Midtown core better building vacancy is now down to 6.2%. As I said in the past, we are 90% prime pitch Manhattan-centric company. Tenant demand is robust, companies are expanding. Demand is broad-based across all industries, and available space in the better buildings continues to evaporate quickly. Manhattan office leasing activity is on pace to exceed 40 million square feet for the year for the first time since 2019. Office demand is filling out to all submarkets, sublet availability is shrinking rapidly, and we are in the [ foothills ] of strong, maybe even surging rent growth. By foothills, I'm saying all the good stuff is just in the third inning, and the best stuff is yet to come. Obviously, deal activity and values will follow. Here is our industry-leading leasing scorecard. We expect our 2025 leasing volume for Manhattan office to be our highest in over a decade and our second highest year on record. Please take a look at our leasing and mark-to-market statistics. Our performance continues to be industry-leading. During the first 9 months of 2025, Vornado leased 3.7 million square feet overall, of which 2.8 million square feet was Manhattan office, leading the marketplace in not only leasing volume during that period, but also with the highest average starting rents in the city and with impressive mark-to-markets. Excluding the 1.1 million square foot master lease with NYU at 770 Broadway, the remaining 1.7 million square feet of leasing during the first 9 months was at \$99 per square foot average starting rents with mark-to-markets of plus 11.9% GAAP and plus 8.3% cash. This includes over 1 million square feet of leasing in PENN 1 and in PENN 2. During the third quarter, we executed 21 New York office deals totaling 594,000 square feet at robust starting rent of \$103 per square foot. Mark-to-markets for the quarter were plus 15.7% GAAP and 10.4% cash, and the average lease term was more than 12 years. Michael and Glen will cover specific tenants and deals in a few moments. In the PENN District, at PENN 2, our leasing this quarter included 325,000 square feet at average starting rent of \$112 per foot. In October, after quarter end and not included in those leasing statistics, we completed 2 more large leases totaling 188,000 square feet. We have now leased over 1.3 million square feet at PENN 2 since project inception, putting us now at 78% occupancy and easily on track to hit and exceed our year-end guidance of 80%. Based on signed leases and activity that we are seeing for the remaining space, we plan to increase our published projected incremental cash yield of 10.2% at year-end. At PENN 1, we leased 37,000 square feet during the quarter at an average starting rent of \$100 a foot. Since the start of physical redevelopment at PENN 1, we have leased 1.6 million square feet there at average starting rents of \$94. At PENN, we are handily exceeding both of our initial underwriting and our increased underwriting. It's clear that the tipping point for the PENN District, our 3 block long city within the city, is now behind us. Tenants and brokers are wowed by our transformation, which is reflected in our leasing activity. We sit on top of the nexus of Pennsylvania Station and the New York City subway system, adjacent to our good neighbors to the West -- Manhattan West and Hudson Yards. The three of us combined represent the new booming West side of Manhattan. As I said before, the PENN District will be a growth engine for our company for years to come with rising rents and future development projects. At our PENN 15 site, we are now responding to requests for proposals for substantial blocks of space. We are now well along in the planning process for a 475-unit rental residential building on our own 34th Street site [ caddy-corner ] to Moynihan Train Hall. We plan to begin construction next year. It is time, and we will now transform the entire old, may I even say, junky retail on both sides of Seventh Avenue and along 34th Street that we inherited into attractive, modern and exciting retail offerings. This is the gateway to our PENN District, and a transformation year will have a big impact. We also continue to add to our already impressive food offerings in the district with our newest restaurant, Avra, at the 33rd Street and 9th Avenue corner of the Farley Building, which recently opened to crowds and great reviews. The space is spectacular, sits right in the heart of the new West Side and really ties us all together. Our New York City office leasing pipeline remains strong with more than 1.1 million square feet of leases in negotiation and various stages of proposal. We are growing in Manhattan and growing smartly. In September, we added to our prime fish portfolio with the acquisition of 623 Fifth Avenue. This building originally built to the highest standards

by Swiss Bank Corporation sits on top of Saks Fifth Avenue flagship store, [ store ] like a trophy on top of a podium. So our lowest floor is the 11th, 175 feet off the ground with 25 column-free 15,000 square foot floors above. The location is pretty amazing being nearly a block west of both JPMorgan Chase's new heroic headquarters and our 280 Park Avenue. Our 623 Fifth Avenue has unique light and air and views, being setback from Fifth Avenue on the east side of the Saks landmark with the Cathedral to the north and the Channel Gardens and the skating rink of Rockefeller Center to the West. The best and unique part of this deal is that the building is 75% vacant, with the few remaining tenants on relatively short leases. Ironically, the vacant building is a big plus. Let me explain. We will not be penalized by a gaggle of low-rent, longer-term obsolete leases and will not have to wait 5 to 7 to 10 years for them to roll off. We will redevelop this building into the very best, elite boutique office building, sort of the 220 Central Park South of office. We will begin to deliver space by year-end 2027, so in 2 years, well less than half the time it would take for a new build and importantly, at half the cost. Here's the math. We acquired the building for \$218 million, so \$570 per foot. We will invest another \$600 a foot in the development. So call it \$1,200 a foot for the finished project, which will be every bit as good as a new build at half the cost. The team is budgeting 9% yield on cost for this project. I am pushing to crack double digits. There is high demand for and a shortage of this product, we couldn't be more excited. Our 1.8 million square foot 350 Park Avenue new build with Citadel as our anchor tenant and Ken Griffin as our 60% partner, continues right on schedule. The City Council unanimously approved the final [ year ], and I did say unanimously. We will commence demolition in March 2026. We remain very excited about the prospects for this new Forrester Partners-designed, best-in-class 1.8 million square foot tower, as is the brokerage and tenant communities. We are already getting incomings for spec space from clients seeking the very best and for whom our delivery date fits their needs. The Manhattan retail market also continues to show growing strength, and the best spaces are in high demand again. Tenants are recognizing that rents are moving up and availability is declining on the best streets and are beginning to approach landlords for early renewals to lock up their spaces. Importantly, we are achieving rents consistent with historical highs at our Times Square properties. We are the largest owner of signage in New York City with our unique cluster of premier [ signs ] in Times Square and in the PENN District, and that business continues to grow. Signage revenue for 2025 is projected to be our highest year ever. You should note that all of our sites are attached to buildings which we own, which gives us perpetual control, a unique competitive advantage and the highest margins in the business. There were some news a couple of weeks ago regarding the loan on 650 Madison Avenue going into default, which I should comment on. We were 20% of a group of institutional investors, who purchased the [ 600,000 ] square foot building in 2013 with an \$800 million nonrecourse mortgage. The primary play was to capitalize on the below-market retail rents and upgrade the retail tenancy. What was the retail apocalypse? The fear that e-commerce would obliterate all physical retail and the pandemic just didn't work out. 3 years ago, in 2022, we recognized this asset impairment and wrote the asset off entirely to zero. Bad stuff happens every once in a while, even to us. Three days ago, the court came down with a ruling vacating the arbitration panel's 10/1 ground lease rent reset. We were surprised and disappointed. We are optimistic that this will be reversed on appeal. Lastly, turning to San Francisco. At our 555 California complex, arguably the best building in town, we continue to lead the market. During the quarter, we signed 224,000 square feet of leases at triple-digit average rents and 15% mark-to-market. This includes a lease with UPenn's Wharton School for the Cube. We said 2 or 3 years ago that San Francisco would recover, given that it is the capital city of the world's greatest tech and innovation centers, and that is what's happening. Thank you all. Now over to Michael.

Michael Franco: Thank you, Steve, and good morning, everyone. We had a very strong quarter as office demand in New York City remains robust. Third quarter comparable FFO was \$0.57 per share. compared to \$0.52 per share for last year's third quarter, meeting analyst consensus by \$0.02. This increase was primarily due to higher FFO resulting from the NYU master lease at 770 Broadway and higher NOI from our signage business, partially offset by lower NOI due to asset sales and capitalized interest beginning to burn off the PENN 2. We have provided a quarter-over-quarter bridge on Page 2 of our earnings release, and on Page 6 of our financial supplement. Same-store GAAP NOI for our New York business overall was up 9.1% for the quarter while same for cash NOI was down 7.4%. Let me

explain. GAAP, which smooths everything, is more relevant to earnings given the cash number is hit by a free rent from a significant amount of leasing in recent quarters as well as the adjustment in cash rent related to the PENN 1 ground lease. Given all our activities to date this year, we now expect 2025 comparable FFO to be slightly higher compared to 2024 accountable FFO. While we are still in the process of finalizing our 2026 budget, as we've previously said, we expect 2026 comparable FFO to be flattish compared to 2025 as we are anticipating some noncore asset sales and taking income offline to effectuate the [ 34 and Seventh ] retail redevelopment. As we indicated on our previous calls, we expect 2027 to be the inflection year, and there will be significant earnings growth in 2027 as the full positive impact of PENN 1 and PENN 2 lease-up takes effect. New York office occupancy increased this quarter to 88.4% from 86.7% last quarter, primarily due to leasing activity at PENN 2, comprised of a 200,000 square foot headquarters leased with Verizon and new leases signed with FGS Global in [ Pernod Ricard ]. If you factor in the additional 188,000 square feet recently signed PENN 2, occupancy increases further. We continue to execute on our leasing pipeline and still anticipate that our occupancy will increase into the low 90s over the next year or so. While our retail occupancy also improved this quarter based on leases we signed, you will note a further jump in occupancy resulting from taking the retail in Manhattan Mall out of service this quarter. Turning to the capital markets. The financing markets for New York City assets are liquid, with CMBS spreads hovering at year-to-date lows, and even the banks are beginning to selectively return to lending on higher-quality assets. The unsecured bond market remains robust and has become much more constructive for office credits, with new issue spreads over 200 basis points tighter and all-in yields over 300 basis points lower than 2023. In the past quarter, we have been active in refinancing our near-term maturities, and we have several other deals in the works. The investment sales market has also heated up significantly in the past few months, as indicated by the many recent deal executions. The market is active for quality product, irrespective of size, and there is ample liquidity in the debt capital markets to facilitate deals getting done. Capital sources of all types are beginning to return to investing in New York City office, given the strong leasing fundamentals. As we have previously discussed, focusing on delevering the balance sheet has been a priority for us. Since the beginning of the year, we have generated \$1.5 billion in net proceeds from sales, financings and the NYU deal, paid down \$900 million in debt and increased our cash by \$500 million. Our cash balances are now \$1.15 billion. And together with our undrawn credit lines of \$1.44 billion, we have immediate liquidity of \$2.6 billion. Our net debt-to-EBITDA metric has improved to 7.3x from 8.6x at the start of the year, and our fixed charge coverage ratio, as expected, is steadily rising. We expect these ratios will continue to improve as income from PENN 1 and PENN 2 comes online. Please see Page 23 of our financial supplement for detail. With that, I'll turn it over to the operator for Q&A.; Thank you.

Operator: [Operator Instructions] And up first, Stephen Sakwa from Evercore ISI is on the line with the question. Please proceed.

Steve Sakwa: I don't know, Glen, maybe you could just start. It obviously sounds very promising, given the activity levels at PENN 2. I guess I'm curious, how are you sort of changing kind of the leasing strategy with, I guess, only 20% of the building left? How are you thinking about tenants kind of in the pipeline? And maybe talk about how rents are maybe changing for the remaining space.

Glen Weiss: Hi, Steve. So rents have changed. You heard the script, average rent is quarter over \$112 a foot of PENN 2. So the rents keep moving up, up and up. We keep repricing the space almost on a daily basis. In terms of the remaining space, it's a lot of single floors, mainly in the tower. So we feel really good about that, confident in our approach. We have a lot of deals in the works right now. As we've said in the script, we expect to be at or above our 80% goal by the end of the year. And if you look at the tenant roster, the credit profile is excellent, the mix of industry sectors is really good. So we're pleased, and we expect to continue that strategically.

Steve Sakwa: Okay. And then maybe as a follow-up, Steve, on your comments around 623, how do you sort of approach the leasing of that building? Is that something that you'd sort of start to pre-lease? Or do you kind of wait until early '27 until there's more of a product to show people? I mean, how do you sort of think about the timing of that and the rents for that building?

Steven Roth: Steve, we're going to do that pretty much on the same as we did 220 Central Park South. At 220 Central Park, what we did was we had complete designs and they were spectacular, knockout

designs, even as we started construction, and we did an awful amount of selling of 220 from those designs. We're going to do very much the same at 623 Fifth Avenue. So we're going to get it designed. Our objectives are to make it the most interesting, high-end boutique office in the city. And once we get that done, then we'll go into the market with very high aspirations.

Operator: Next is Floris Gerbrand Van Dijkum with Ladenburg.

Floris Gerbrand Van Dijkum: Michael, maybe this is for you. I was trying to get a sense of what is your current signed, not open pipeline in terms of basis points and then also in terms of dollar value, if you can give us a sense of the scope of rents that are going to come online over the next 2 years?

Michael Franco: Floris, I don't know if I follow you on the basis points. I think Steve, in his opening remarks, sort of alluded to a couple of hundred million dollars sort of in the bag over the next couple of years or so. And I think we looked at our signed, not commenced number. That's what that is, right? So -- and we've talked about what the ramp is when the bulk of that comes in, in 2027. There will be a little bit next year. But the bulk is really 2027, and it'll slip over into 2028. But Steve's comment on a couple of hundred million dollars, I think, is a pretty good proxy.

Floris Gerbrand Van Dijkum: Just to make sure, a couple of hundred million, is that \$200 million? Or is that \$300 million?

Michael Franco: Floris, we're still finalizing. Let's use more than 200 right now, okay, in terms of the -- over the next 2 years or so.

Floris Gerbrand Van Dijkum: Okay. Fair enough. But in terms of percentage, do you have the percent the difference between what's occupied and what's actually leased right now?

Michael Franco: You're talking from a physical versus what's on the line, I mean, I think the occupancy numbers, we believe, what's reflective of actually what's been signed, right? So that's -- those are signed leases. Not all those tenants are in place yet. I can't tell you what the physical is relative to that. We have to come back to you on that. That [ GAAP ] rent has not started yet on many of those leases.

Floris Gerbrand Van Dijkum: Right, right, right. And that's the more than \$200 million that's coming online. My follow-up, if you don't mind, I was just curious on -- you talked a little bit about -- or Steve talked a little bit about the billboards business being at record high. Can you talk a little bit about the opportunity that you have in the PENN District. ?Because I don't -- I believe you own 100% of that as opposed to the Times Square, where you're in a JV. How much room do you see to expand that?

Michael Franco: You're right, we do own 100% of all the signs in the PENN District. And I think what's unique about the PENN district relative to Time Square, which Time Square is still probably the most important signage marketplace in the country, maybe the world; is we own the dominant signs there too in that retail joint venture. But at PENN, because we basically control the district, other than I think one sign, we have all the signs, right? And so that allows us to market them in a variety of ways. We can -- we do -- and I think when you were over there recently, we can market one by one, we can market entire takeover where you can take over the district for a period of time, different slice of an hour or something more extended. So it allows us to optimize the income we can drive out of that. Historically, I think if you look over an extended period, the signage business kind of goes up 4% to 5% a year in terms of revenue. Some years are greater, some years are lesser, but I think it's a decent annual run rate. And when you put a new sign in, the payback period is pretty quick. 12, maybe 18 months max. So we continue to see organic growth just coming from revenue naturally going up every year as it's historically done. And there's probably a little bit of signage we can add as we -- there's definitely some signs we can add as we build additional buildings in the district over time, but that will take some time. So there'll be some signage that comes back online next year. And at the same time, we're going to rebuild the different signs, so that sort of cancel each other out. But as you said, very healthy business that tends to have pretty steady growth, if you look at it over a period of time.

Steven Roth: What I tried to do in my remarks was to talk about the strategic benefit that we have in that business. So the first thing is that we own [ clusterings ] in exactly the right place for Time Square and the PENN Station area. The fact that we own the buildings and the signs are attached to us, we don't have leases, we don't have the expensive leases, we don't have the renewal risk of leases. So basically, we have perpetual control over this inventory. So that's the first thing. The second thing is that because of that, we have the highest margins. So we have the best signs and the best districts in quantity, and that creates a very important strategic business. At Times Square, we have our -- we

have -- obviously, we have the best -- the 2 best blocks the bow tie, we have the best signs. And so that's fine. In PENN Station, I don't think that we scratched the service to the amount and quantity of signs that we can develop there.

Operator: John Kim from BMO Capital Markets is up next with the next question.

John Kim: I wanted to go on the commentary of flattish earnings in '26, which I think you foreshadowed a little bit last quarter, but it seems like it will be impacted by noncore asset sales. So I was wondering if you could talk about the timing and the dollar amount of the dispositions. And also what you think the trajectory of occupancy will be next year? I know, Steve, you mentioned in the past that it could go to the mid-90% range, and I was wondering, how next year shapes up?

Michael Franco: John, hope you're well. Flattish '26 is like, I think we've been consistent last couple of quarters in terms of '26 and '27. In terms of magnitude of noncore sales, I can't be specific on that because there's a number of things that could drive that. But I would say it's at least in the \$250 million, \$300 million neighborhood, it could be more than that. And timing, just depending on when we execute on those. So I can't give you much more specificity just because you're dealing with counterparties and things take a little time and some things are still on the drawing board. But I think, by middle of the year, my guess is much of that is probably done. But again, we've got a track record of certain things we had it planned, we end up executing on, and that may well happen again. On the trajectory of occupancy, like -- I think as we look at Glen's pipeline, I think there's a reasonably good probability we're going to get to 90% in the next quarter or 2. And then beyond that, we'll continue to build occupancy. And we think over the next couple of years, we'll get that into the -- back to sort of the historical levels, whether that's 94, give or take, if not higher. So I think as we sit here today, that's probably as much specificity as I can give you.

John Kim: Okay. And then my follow-up is, any insight you can provide on the PENN Station transformation project? How involved Vornado will be as part of it, if there's any impact to commercial development opportunities going forward? And any views on whether or not MSG will relocate?

Steven Roth: So I think that it's highly unlikely to impossible that MSG is going to relocate. So that's that one. So with respect to the PENN Station project, we are absolutely in favor of anything that makes PENN Station and the PENN District better, more user-friendly, more transformational. And that's the -- the best thing for us is constant improvements. And the fact that the government is involved now with a large budget, that's a very good thing. We will be involved in the process with one of the bidding groups, primarily with respect to the retail that we dominate in the station and in the surround. Barry, do you have anything to add to that?

Barry Langer: No.

Steven Roth: Thank you. But we're on -- this process of improving PENN Station, we are the biggest rooters for that, that there are.

Operator: Dylan Burzinski with Green Street is our next question.

Dylan Burzinski: I guess just sort of given the significant demand backdrop that you guys are seeing, obviously, continuing to push rents across the PENN District. I know one of your peers, when they reported earnings, talked about, call it, a 20% to 25% cumulative net effective rent growth expectations over the next 4 to 5 years. So just wondering if you can sort of put any of your thoughts around that? I mean, are you guys expecting sort of significant rent spikes as space continues to get tight, especially for the quality of you guys in the portfolio?

Michael Franco: I think 20% to 25% over 4 to 5 years, I think we'd be disappointed if it's not quite a bit more than that. You look at all the dynamics...

Steven Roth: Agreed, agreed.

Michael Franco: Okay, I mean you look at all the dynamics in the marketplace, and I think this is a favorable backdrop as we've had in decades, right? There is scant supply, the demand is broad-based and very strong, companies are expanding here. And there's just -- and the vacancy factor, I mean, it's -- I think Steve referenced in his opening remarks, the better buildings in Midtown, we're now talking about 6% vacancy. That's almost frictional, I think, particularly on large spaces. So I think it's going to result in two things. I think one, you're going to see renewal probabilities start to go up in the next 2, 3 years because there's just no place for a lot of those companies to move to. And then secondly, to rent space, it's become a landlord's market, as Steve said. So when these cycles happen, if you look at

history, it can go up 15%, 20% in a year. And I'm not telling you that's going to happen, it could happen, it's not a 0%. But we think that the probability of the numbers you talked about is much higher on the upside than the alternative.

Steven Roth: There's another way to look at this also, and that is the elasticity of demand on the part of the marketplace and our customers. So not that long ago, \$100 was a top, top, top tick rent. Because of the increase in costs, because of the shrinkage of supply, because of the increase in interest rates, rents like overnight went into the mid hundreds of dollars a foot or something like that. Interestingly, we found that there was no pushback from the marketplace. If a growing, expanding, important client need in the space, they paid what it took to get the space. So what I'm saying is that the marketplace is able to pay for the space. And the dynamics in the marketplace will determine what the rents are. But clearly, the rents are going to go up. And we think they're going to go up. Obviously, we think they're going to go up more than you do.

Dylan Burzinski: That's helpful commentary. I really appreciate that. Maybe just one more, if I could. You guys mentioned noncore asset sales. And I know you guys don't necessarily give a number. But as you guys sort of think about redeployment of that proceeds, I mean, is it likely to go into asset acquisitions? Are you going to hold it to delever? Just sort of curious, plans with that capital that you guys expect to come in next year.

Michael Franco: Got it. I think it could go into a number of places, Dylan. Like if you look at what we've done to date, whether it's noncore, general asset sale, which has been quite significant; we've delevered the balance sheet meaningfully. At the same time, we made a, we think, a very attractive acquisition. And that's not something that we program, right? We don't sit around here in our counsel room saying we're going to buy x amount for a year. If we find the right opportunity, we'll act on it. If not, we're perfectly content to bide our time until the right thing comes along. So I would tell you that, as we look at capital, we're going to continue to strengthen the balance sheet. And if we find something compelling externally, obviously, we'll look at that. We have some internal capabilities or requirements in terms of we've talked about developing the residential. We've got 350 Park in the [ out ] year. So we have a number of users. And by the way, and I'll let Steve jump in here as well, I mean our stock still, we think, trades at a huge discount. So I think everything is on the table.

Operator: And our next question will come from Alexander Goldfarb with Piper Sandler.

Alexander Goldfarb: So two questions. You definitely piqued my interest in PENN 15 that their conversations ongoing. Would you say that the tenants that you're speaking to are willing to pay the rents necessary for you guys to go forward on an economic basis? Or are they not quite there at where rents would need to be?

Steven Roth: Oh God, I don't know how to answer that. Clearly, there are a significant number of anchor-type tenants who are in the marketplace that are looking for new builds. We're not the only opportunity, there are other opportunities. All of us need approximately similar risks to have an economic new build. And the tenants that we're talking to, they understand the math, their advisers and brokers understand the math. So the rents are available, it's just a matter of making a deal, having the tenant select the site, et cetera.

Alexander Goldfarb: Okay. And then the second question is...

Steven Roth: What I'm saying is this is not just kicking the tires. This is serious business.

Alexander Goldfarb: No, no. That I understand. It's just the size of the building, like these are big rent checks. It's not like at the Saks tower or some of the boutique buildings that are being undertaken. I mean 2 million-plus square feet, those are big rent checks. So that's why it's just impressive that tenants are willing to actually engage because that's a serious rent, as I say. The second question is on the litigation on the PENN, the courts can drag things out forever, people appeal, appeal, and lawyers love to run up the meter. So the two-part question on this is, one, are you guys booking the economic impact based on sort of the most punitive? And second is that when you say that the yields on the PENN District have improved is that at what you think the ground rent should be or at the sort of the worst-case scenario in the ground rent?

Steven Roth: Well, the first thing is the PENN 2 yields have clearly increased dramatically. The PENN 1 yield, we're pretty happy with what we projected. With respect to the litigation, what had been a known number is now subject to some uncertainty. In our minds, we have parameters around that. We are

booking a number which we think is a realistic number. And we will see. But with respect to this litigation, I don't really have a lot to say about it.

Operator: And our next question will come from Jana Galan with Bank of America.

Jana Galan: Maybe another one on dispositions. Following up on your prior comments on the willingness to maybe part with 555 California or the mark, anything you can share on the amount of incoming interest and/or valuation? Or given the improvements in San Francisco, are you thinking differently strategically about those assets?

Steven Roth: Not really. I thought we were pretty clear in sort of, how would I say it, suddenly advertising those 2 assets last quarter. We don't have very much to talk about in terms of specific pricing or bad news or whatever. I can tell you that we think that the 555 California complex in California is the eighth wonder of the world. As you can see from our remarks and our documents, the leasing there is extraordinary. Even going back a year or 2 in a chaotic declining market, the rents that we were able to get for that unique best in the marketplace building were rising. So we think that, that's a great asset. We're delighted to own it. And for the right price, we're delighted to sell it. And I think I'm pretty well known as not being an easy seller. With respect to Chicago, that's a different story. The market there is not as strong. And opportunistically, we'll see what happens.

Jana Galan: And then just in terms of developing future residential, just curious, your thoughts around for-sale versus for-rent components, given kind of different changes going on in New York City.

Steven Roth: We have multiple land -- pieces of land that we could build either office or residential. We do the math and the analytics as to which is more favorable constantly. We are putting our big toe. Actually, we're putting our whole foot up to our ankles into doing a 475-unit rental project, rental project, not for-sale project; at the corner of 34th Street and eighth Avenue. We think it's a very good site. It's caddy-corner to the Moynihan Train Hall. And it also benefits for all of the renewal that we're doing in the neighborhood. So we're excited about that. And we'll see how that goes, and we'll make decisions going forward.

Operator: And our next question will come from Seth Bergey with Citi.

Seth Bergey: You mentioned in the opening script, easily exceed the 80% and the 1.1 million square foot leasing pipeline, I believe. How has that leasing pipeline kind of split between PENN 2 and other leasing? And kind of where do you think that 80% could kind of land by year-end?

Glen Weiss: It's Glen. So the 80% is specific to PENN 2, just want to make sure you're clear on that. As it relates to the pipeline, it's generally 50-50 in PENN District versus others in our pipeline right now, which is generally the balance we've and able to achieve quarter-to-quarter as we've been on this big leasing run over the past bunch of quarters, so basically 50-50.

Seth Bergey: Okay. And then as a follow-up, you mentioned that's highly unlikely or impossible for MSG to relocate. How do you kind of see the permitting process playing out just with your knowledge of kind of how that process works in New York? And then, do you see that kind of creating any additional opportunities for Vornado kind of outside of the PENN 2 station transformation?

Michael Franco: Like -- I think Steve talked about this a bit, right, that the government is -- they've issued an RFP and they're going to run a process to select the group to redevelop and complete the remainder of PENN Station improvements. We expect there'll be a retail component in that, which is our interest. But our main interest is, as Steve said, being a cheerleader for something getting done because that inures to the benefit of our holdings there. So look, they've issued the RFP. We're being told that they'd like to start the project by the end of '27. And from there, I assume it will take a couple of years to get done. But we'll see whether the timeline sticks, but that's generally what we've been told.

Operator: And our next question will come from Michael Lewis with Truist.

Michael Lewis: So I apologize, I'm going to ask a question that was asked earlier, but ask it a little differently. The New York portfolio is 87.5% occupied. So I take that to mean there's a tenant in there paying rent. How much of the New York portfolio is leased? Is it close to 90% of the space that's leased? Is it less than that? Is it more than that?

Michael Franco: No, the occupancy figure we gave you is what is leased.

Michael Lewis: Okay. I understand that. So I guess that speaks to -- has there been any change in free rent period? So a lease least that's already signed but not paying rent until 2027 feels a little long to me. But you have -- you sometimes have very long leases, so maybe that's not long at all. Has there been

any movement in free rent or other concessions?

Glen Weiss: It's Glen. So there's a movement in two ways in that regard. One is downtime is less. So companies are making decisions much more quickly than they were previously, which is important. And then once that happens, the free rent periods are declining. So I would say, downtime is lower and free rent is lower. As it relates to your comment, you're right, a lot of our leasing has been 15 to 20-year deals, which is why you're seeing free rents longer than you might have otherwise on 5 to 10-year leasing. But certainly, on balance, downtime free rents coming down as the market improves.

Michael Lewis: Okay. So good to see that moving in the right direction, as you might expect. And then lastly for me, this is a small one. But in going from NAREIT FFO to FFO as adjusted, I saw there was 6.7 million of other, looks like gains that were backed out. I was just curious, it's a few pennies, but I was wondering if there was any anything interesting or notable in that 6.7 million of other that was deducted and get into your core FFO?

Steven Roth: Yes. It's made up of several items. I can get you to lift offline if that's something you want me to follow up on.

Michael Lewis: No, that's okay. If there was nothing material that stood out. I was just curious.

Operator: And our next question will come from Vikram Malhotra with Mizuho.

Vikram Malhotra: I guess just maybe, Michael, if you can just remind us, you've talked a lot about the flattish FFO, but do you mind just going over some of the big sort of building blocks you've shared in the latest on those just as we think about kind of the big puts and takes that get you to flat for next year?

Michael Franco: Yes, yes. It's -- I think I referenced a couple of things, right? We've got some income we're taking offline. Steve referenced the retail redevelopment on 34th and 7th. We're going to take a little bit of signage off-line to rebuild one of the signs, which we think will produce greater returns once that's back online, but it will probably affect us [ for 4 ] months next year. We've got -- we talked about some asset sales that are producing FFO, but assuming those will get sold in the first half of the year, most likely or certainly for the end of the year. So all that has an impact on FFO. At the same time, we've got other items that are positive, which gets us sort of flattish. And the big growth is in '27 where we've got significant income. I mean like it's signed, right? We know everything that's talked about on PENN 2, that probably everything outside of MSG won't really start to a large extent until back -- or end of '26 and really in '27, right? So you're going to see significant growth in '27, but we don't really get the benefit from that on a GAAP basis in '26. And I think the same goes for a number of the other vacancies. We've had a lot of success back building, the 1290 and 280s and so forth. And some of that's hit, but a lot of that won't hit until the end of the year of '26 or '27.

Vikram Malhotra: Okay. And then I just wanted to understand sort of the comment you made about rents, and, you've been happy about a lot more rent growth than was referenced. But we used to talk a decade ago about how many leases signed were \$100 rents or more. Now in multiple pockets, we're talking \$200 rents. And I want to take like that fifth revenue acquisition maybe as an example, but just your perspective on what are the pockets where you can -- and types of buildings where you can see those \$200 rents? And then similar to the Fifth Avenue acquisition, like is there a pipeline of assets you're exploring with similar unique opportunities like that for Vornado?

Glen Weiss: It's Glen. I think what Steve was referring to think about what's happening quarter-to-quarter, we have been printing on average \$100 average rents across or activity, very strong. In the market, there are deals being printed in the newer stock at 150, 175, 200. So there's a lot of runway for us from here forward in our existing portfolio. So we think those \$100 numbers are going to go up, up and up as the market continues to strengthen, which we're very confident it's going to strengthen. And we're already seeing that, as you can see from some of the things we've said this morning about our average rents. 623 is a great example of what we really believe is going to happen. That's a 5-star building. We're going to make it great, there will be nothing like it in the market. It is perfectly located to achieve rents higher into those ranges, for sure. We're already getting great tours, great responses from the marketplace. So that is that an example of where you'll see higher rent in our portfolio.

Steven Roth: So the tightening of the market creates multiple benefits, as you can imagine. Rents will rise. And we're about going to greatly push rates, we just follow the market. We don't make the market. We're important in the market, but we don't make the market. So rents will rise, and then inducements

will come in. So I don't know and I don't think Glen agrees or is projecting that tenant improvement allowances, which is money they use to build their space, is going to come in because the cost of building the space is not coming in. But for sure, free rent is going to come in. Free rent is very important, and it could come in a lot. So those are all -- very [ concerned ]. I want to spend a minute on 623 Fifth Avenue for a second. Think about the math. So I've already said that we're budgeting at least a 9% return on cost unleveraged on that asset and that we're going to deliver that as in the next 2 years to a waiting and prime marketplace. It's going to be the best asset in the best building, and there's a shortage of supply in that. We're already getting indications from the marketplace, and there's a shortage supply. So if you take \$1,200 a foot times almost 400,000-foot building, that gives you the better part of \$500 million of cost on that building. If we can achieve what I think, which is 10% returns, you can calculate what the income will be. Now what's the exit, what's the value? I believe an asset of that quality in this market will be -- will have an exit value, let's say, in a 5% cap rate. So if that math turns out to be, we will double our money on that asset in a very short period of time, and this is not that hard. The key to it is, is we have to turn that asset into something that's unique in the marketplace, which is exactly what we did with 220 Central Park South.

Operator: And our next question will come from Nicholas Yulico with Scotiabank.

Nicholas Yulico: Just I guess going back to the FFO flat commentary for next year, Michael, can you just maybe touch on interest expense and how to think about that trending next year and capitalized interest burn off? I don't that's also something we should be thinking about for next year.

Michael Franco: I think a lot of the capitalized interest has -- will have burned off by next year. There might be a little bit left, but not a lot. And Tom, do you want to give specifics on that?

Thomas Sanelli: Yes. So on the capitalized interest, as it relates to PENN 2, that's obviously going to burn off. So keep in mind, 623 Fifth Avenue and 350 Park, when that comes offline, both of those will have capitalized interest. So you won't really see '26 as we compare it to '25, but PENN 2 will obviously be burning off.

Michael Franco: I don't think it's that meaningful in '26. So it affected 350, there's a difference relative to this year. 623 is obviously a new one. Nick, there was another part of your question?

Nicholas Yulico: No. I mean just on a high level, if there's a way to think about capitalized interest as -- is it flat next year? Is it net, it comes down a bit and that weighs on interest expense next year?

Michael Franco: Yes. I would say it's probably going to be higher principally because of 623, and that's shifting in the bond -- it's going to be higher because of the items that Tom mentioned. But net-net, I would say the principal difference will be from 623. The interest expense overall, I think we've generally hit, assuming the forward curve is accurate, I think it's peak or close to peak of where we're at. We absorbed some pain over the last couple of years ago, we're now rolling over a lot of debt. Generally, when you sort of blend it all together at same or lower rates, SOFR is coming down. We delevered. So even when there's higher coupons, we've got -- given the fact we've got less aggregate debt, the overall interest expense line item is certainly no worse than flat. So we'll see. It depends on how we deal with some of our upcoming maturities in '26, whether we pay those off, whether we pay them down, whether we just roll them over, all that will factor into what the interest expense is for '26. But I think just in terms of the impact from rates, I think it feels like the worst is behind us on that front.

Nicholas Yulico: Okay. That's helpful. And then I just...

Steven Roth: While we're on the topic of balance sheet, I think you have to -- we all have to focus on the fact, first, I am unbelievably proud of what our organization has done over the recent past in terms of getting our debt ratio down from much higher into the 8s and now into the 7s heading into even lower. So that's number one. Number two is the -- I'm also extremely proud that we prefunded all of the massive development that we're doing at PENN and loaded in our balance sheet a couple of years ago, getting all the cash, so that we had the capital already on balance sheet to complete our massive development program. Number 3 is that we did all that keeping the major PENN assets unencumbered, so that we have a huge store of value there in the future. So I think that we -- I think Michael and his team and maybe me a little bit, Glen a little bit, even Barry a little bit; we get a gold star for how we've managed our balance sheet, and we're not done with that yet.

Nicholas Yulico: Okay. And then just the second question is maybe any latest thoughts you can share on Farley. As you're thinking about as a source of capital, whether it's putting a loan on the asset or

selling an interest in the building for -- to create some funds for some of the future development capital you're talking about?

Steven Roth: Well, Farming is a unique, unbelievable interesting asset, It's a double block-wide space. It's one of the very few blocks in Manhattan that is double wide. It's -- we leased it in the middle of COVID to -- all of it, 730,000 feet, I think, to Meta. The feedback that we get from Meta is they think it's like the single best of their real estate installations in the country, probably just second to the Menlo Park headquarters. The lease has probably another 11, 12 years to go -- has 12 years to go. There's an option to renew at the market. So if we were to compare what the incumbent rent is to what we think market is now versus what we think market will be at the expiration of that lease, it's very, very, very significant. So that's a fact. Based upon that fact, we would not consider selling that asset or selling a piece of that asset. Now chronically, it's interesting, we did an analysis of this recently; we basically don't do lots of partner deals based upon capital. We do some partner deals based upon if somebody controls a site or do something together in real -- we do real estate partnerships, we don't really do capital partnerships. Although we think about it. So the -- one hand that you -- the Farley which you're referencing, we think it's substantially under market. We think the future of it is great. We think it's a unique piece of space. We would never -- we were not considered selling it, nor would we consider taking it apart. Financing it is a whole different story because you're basically just borrowing money on the credit and the tenant.

Operator: Our next question will come from Ronald Kamdem with Morgan Stanley.

Ronald Kamdem: Just two quick ones. Sticking on the 2026, if I can ask about same-store NOI, I mean, I think on the cash basis, it sounds like there was a reset this year, there's some free rent. Presumably, some of that burned off in '26, maybe a lot in '27. So just mechanically same-store NOI, is it somewhat positive next year and then really positive in '27? Or how do we think about that?

Michael Franco: So you're talking about the cash front?

Ronald Kamdem: On a cash basis, yes.

Michael Franco: I think like GAAP, we still think of continuing positive cash, just given the timing of the free rent, whatnot, I think it towards the end of '26 that, that will turn positive and then obviously, significantly so in '27.

Ronald Kamdem: Great. And then the -- my second one is just adding to the dispositions questions. Maybe can you talk about sort of the Hotel PENN land site at maybe even sort of more retail monetization? Just what's the interest and how are you guys thinking about those?

Michael Franco: Hotel PENN site, we don't have any plans to dispose off that at the development that Steve mentioned in the script and talked about in terms of some of the incoming tenant interest. But that's a long-term hold and well unbelievably well located across from PENN 1 and PENN 2 core holding. On the retail side, we obviously sold UNIQLO, their store. And I would say the interest from retailers to purchase assets remains actually pretty strong. I would say, generally, we're seeing very good activity across the portfolio retail-wise. And Times Square feels like it's picked up quite a bit here recently. So good demand there, good demand Time Square. Obviously, we've been active in PENN. And tenants are really responding to everything we've done at PENN 1, PENN 2, which is going to lead into our redevelopment on 34th and Seventh. But retailers understand the dynamics, the market heartening as well, which is why they're approaching to renew early in many cases and I would say, in some cases, looking to potentially buy is a space they're in or look to buy another space. So I think you'll -- like it's been episodic. You can point to a few things a couple of years ago, you can point to a couple of major transactions recently on the retail side. I think we'll continue to see those. And we're open to being a participant in that to the extent that we get rewarded with the right value. So stay tuned and maybe something will occur there in the future.

Steven Roth: While we're on the topic of retail on 34th Street, let me just say a little more color around it. So on 34th Street, both sides of Seventh Avenue and then down Seventh Avenue to 33rd Street is basically now populated with retail that we inherited, which is really, I used the word in my script, lovingly junk. We are in the process of canceling all those leases, and we will basically redevelop all of that space and to modern, exciting, sought-after retail offer, obviously [ trained ] at our office occupiers and the market. Now the 34th Street and Seventh Avenue corner has been historically the second or third most active subway station in the city -- in the whole city. 34th Street, not that many years ago,

was the second best shopping street in the city. It has deteriorated over time. We intend to bring it back, and we think bringing it back is not a difficult thing to do. Macy's, which is across the street, fluctuated volume close to \$1 billion, and it comes down, it goes up. But it is clearly the highest-volume department store in the United States. So we like the real estate. The real estate has deteriorated. We're going to rejuvenate the real estate. In addition, that's the gateway to our entire PENN district. So we think it's very important, and we think it will have an enormous effect on the PENN District overall values. Pardon me for advertising just a little bit.

Operator: Our next question will come from Brendan Lynch with Barclays.

Brendan Lynch: Just one question for me. A follow-up on the PENN axis project and bringing Metro North into to PENN specifically, it's been delayed. It seems there is a coordination issue between Amtrak and MTA. To what extent are you involved with the various government agencies? And is there any prospect of getting that project timeline back on track for completion prior to the current 2030 target or even preventing it from slipping further?

Steven Roth: Barry and I will take that question. And then Michael and I will add it.

Barry Langer: So as you can imagine, we're intimately involved with the MTA through all of the work around PENN Station, a great partnership there. If you speak directly to the MTA, what you'll hear is that they plan on running service on Metro North starting in 2027 utilizing the existing 2 tracks that already connect PENN Station straight up to Westchester to Boston. The part that was delayed is the construction of the 4 new stations in the Bronx and adding 2 new tracks, which allows them to run Express service. So we expect that service will begin in 2027 on the New Haven line in the PENN Station.

Operator: At this time, there are no further questions remaining in queue.

Steven Roth: Thank you, everybody. We actually are very proud of the results that we delivered this quarter in terms of the scale of our leasing and the price, the rental rates and the value creation. The occupancy is easily going to be over 80% this year in PENN 2, and we think we had a great quarter. We are very proud of our balance sheet activity, and we love the 623 Fifth Avenue acquisition. So with that advertisement, we'll sign off. And we are excited to talk to you again episodically and also in the fourth quarter. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect your lines.