



Vornado Realty Trust (VNO)

Updated February 13th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$25.00	5 Year CAGR Estimate:	-0.8%	Market Cap:	\$5.16 B
Fair Value Price:	\$16.66	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/13/2024 ¹
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.8%	Dividend Payment Date:	12/27/2024
Dividend Yield:	2.8%	5 Year Price Target	\$19.31	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Vornado is a fully integrated REIT and one of New York City's most prominent landlords with a portfolio of mainly office buildings concentrated in Manhattan. Amongst other smaller investments, its interests include 20.4 million square feet of Manhattan office space in 30 properties, 2.4 million square feet of Manhattan street retail space in 50 properties, and 1,662 units in five Manhattan residential properties. Further, Vornado owns a ~32.4% stake in Alexander's, Inc. (NYSE: ALX). The company generates around \$1.8 billion in annual revenues and is headquartered in New York, New York.

On December 5th, 2023, Vornado's Board declared a dividend of \$0.30 per common share. Together with the \$0.375 per share common dividend already paid in Q1 of 2023, this resulted in an aggregate 2023 common dividend of \$0.675 per common share. Management anticipates that its common stock dividend policy for 2024 will be to pay one common share dividend in Q4.

On February 12th, 2024, Vornado reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues fell 1.1% to \$441.9 million. Companywide same-property NOI fell 1.6% year-over-year, as NOI growth of 0.4% in its New York properties and NOI growth of 8.9% in its 555 California Street properties more than offset by the 32.5% NOI decline in its "theMART" property.

FFO/share came in at \$0.62, down from \$0.91 in Q4 2022, with profitability being further negatively impacted by higher interest rates. For the year, FFO/share declined to \$2.69. Management did not provide specific guidance, but based on its current property and leasing profile, we continue to forecast FFO/share of \$2.38 for FY2024.

Based on management's comments, we have set our dividend estimate for the year at an arbitrary \$0.70, assuming a single Q4-2024 payment. Nevertheless, the actual amount is entirely speculative.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/shr	\$4.83	\$5.48	\$7.66	\$3.75	\$3.82	\$5.25	\$3.93	\$2.97	\$3.30	\$2.59	\$2.38	\$2.76
DPS	\$2.92	\$2.52	\$2.52	\$21.23	\$2.52	\$4.59	\$2.38	\$2.12	\$2.12	\$0.68	\$0.70²	\$1.13
Shares³	187.6	188.4	188.8	189.5	190.2	190.8	191.1	191.5	191.8	191.9	191.9	195.0

Vornado has produced relatively solid results over the past decade, with its NYC properties enjoying high demand consistently. With NYC attracting some of the greatest talents globally, including ultra-high net worth individuals, and historically being a state that enjoys great real estate appreciation levels and rental rate hikes, Vornado has recorded gradually improving performance. The fluctuating FFO/share is partially attributable to various asset sales through the years.

However, following the pandemic, the company's New York properties have struggled to recover. At the end of FY2023, occupancy in Vornado's office and retail properties stood at disappointing rates of 90.7% and 74.9%. Clearly, the

¹ Estimates dates based on past dividend dates.

² Speculative dividend rate reflecting the possibility of a dividend payment in Q4-2024.

³ Share count is in millions.

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underlying demand for Vornado’s core properties remains soft. With interest rates at elevated levels, the company’s profitability is also set to keep suffering year – hence our reduced FFO/share estimate. We retain our FFO/share growth estimate at 3%. We have also embedded the potential for the dividend to gradually toward an arbitrary annual dividend rate of \$1.13 by 2029. This is a highly speculative assessment based on management’s comments that a dividend will be paid by the end of the year. Still, it is all speculation, as the dividend could be a combination of cash and scrip too.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	17.2	13.7	10.1	19.7	20.2	11.4	13.5	14.8	10.6	8.3	10.5	7.0
Avg. Yld.	3.5%	3.4%	3.3%	3.5%	3.3%	4.4%	4.5%	4.8%	6.0%	3.2%	2.8%	5.8%

Vornado features a decade P/FFO average of around 14, which reflects the industry’s average. The valuation multiple currently hovers well below its historical levels as its properties have failed to meaningfully improve occupancy rates following the COVID-19, pandemic while rising interest expenses should continue to compress profitability. We maintain our fair multiple at 7.0X in the face of a bleaker investment case moving forward. There seem to be few to no catalyst incentivizing investors to hold the stock at its current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

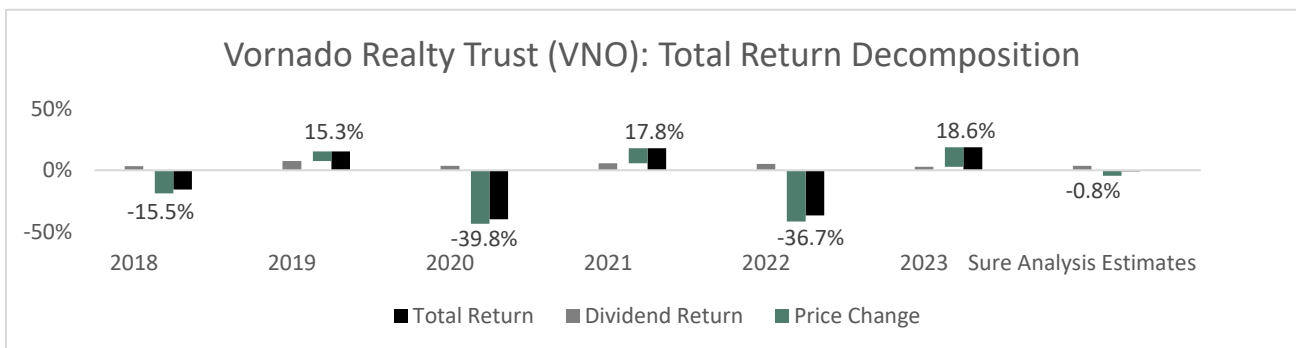
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	60%	46%	33%	566%	66%	87%	61%	71%	64%	26%	29%	41%

Despite its recent, rather underwhelming developments regarding its dividend and overall investment case, Vornado has numerous strengths, including a prime retail location portfolio and a high-quality tenant base. This is evident in Alexander's (NYSE: ALX), in which the trust has a 32.4% stake and owns properties like the Bloomberg, L.P. headquarters building at 731 Lexington Avenue, spanning 1.3 million square feet. Furthermore, the trust's cash flow is well diversified, as no tenant contributes more than 10% of revenue. Nevertheless, it's important to remember that the New York City real estate market is highly competitive, which means that some landlords may accept lower returns during tough times, such as the present. If a prolonged economic downturn occurs, it's probable that the trust's performance will suffer.

Final Thoughts & Recommendation

Vornado has delivered fluctuating shareholder returns over the past several years. While the trust has paid relatively solid dividends, including massive payouts upon asset sales, the stock is currently trading at the same levels as it did three decades ago. Over the medium-term, we believe the stock may not be able to produce positive returns. Its dividend prospects are highly speculative, while shares appear expensive relative to its growth outlook. Hence, we continue to rate Vornado a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,299	2,313	1,985	2,004	2,084	2,164	1,925	1,528	1,589	1,800
Gross Profit	1,338	1,359	1,161	1,159	1,198	1,200	1,007	739	792	926
Gross Margin	58.2%	58.8%	58.5%	57.9%	57.5%	55.5%	52.3%	48.4%	49.8%	51.4%
SG&A Exp.	177	169	149	144	151	142	170	182	135	134
D&A Exp.	562	583	566	595	530	473	439	418	433	526
Operating Profit	699	708	632	595	617	612	418	144	245	288
Operating Margin	30.4%	30.6%	31.8%	29.7%	29.6%	28.3%	21.7%	9.4%	15.4%	10.4%
Net Profit	476	865	760	907	227	450	3,148	(297)	176	(347)
Net Margin	20.7%	37.4%	38.3%	45.3%	10.9%	20.8%	163.6%	-19.4%	11.1%	(19.3%)
Free Cash Flow	1,041	1,135	672	995	860	803	663	424	762	799
Income Tax	(9)	9	(85)	8	42	38	103	37	(11)	22

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20,097	21,158	21,143	20,815	17,398	17,181	18,287	16,222	17,270	16,490
Cash & Equivalents	583	1,198	1,836	1,501	1,818	571	1,515	1,624	1,760	890
Accounts Receivable	911	897	1,029	946	985	1,008	838	752	736	776
Goodwill & Int. Ass.	307	225	228	190	159	137	31	24	155	140
Total Liabilities	12,502	13,669	13,667	13,196	12,390	12,073	10,976	9,274	10,750	9,980
Accounts Payable						431	440	427	---	---
Long-Term Debt	9,979	9,530	11,091	9,447	9,729	9,837	7,407	7,399	8,616	8,389
Shareholder's Equity	5,488	5,468	5,421	5,860	3,446	3,574	5,841	5,351	5,054	4,657
LTD/E Ratio	1	1	2	1	2	2	1	1	1.38	1.44

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.02	0.04	0.04	0.04	0.01	0.03	0.18	0.2%	1.1%	(2.1%)
Return on Equity	8.6%	15.8%	14.0%	16.1%	4.9%	12.8%	66.9%	-5.3%	3.4%	(7.1%)
ROIC	2.6%	5.0%	4.3%	5.1%	1.4%	3.0%	21.2%	-2.0%	1.2%	(2.3%)
Shares Out.	191.3	191.3	190.2	189.6	188.7	187.7	186.5	186.0	192.1	191.8
FCF/Share	5.54	6.02	3.55	5.23	4.50	4.20	3.47	2.22	3.97	4.17

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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