So, You Want To Be A Real Estate Mogul? (SLG & BXP)

Do you want to be a big-time office landlord with an ownership stake in some big-city trophy office buildings? It?s more possible than you think. Shares of two of the largest publicly traded office REITs, SL Green (SLG) and Boston Properties (BXP), are trading at reasonable prices. Here?s the skinny on them.

SL Green is New York?s largest owner of commercial real estate, including ownership of 28.2 million square feet of space and another 18.3 million square feet of buildings securing debt and preferred equity investments. The firm has interest in 106 Manhattan buildings (around 12% of the office market) and 15 more suburban New York City buildings. These include a slew of midtown Park Avenue and Fifth Avenue locations. On top of this, the firm owns over 2 million square feet of Manhattan retail space with a mix of tenants that include Nordstrom, Burberry, Prada, Giorgio Armani, Tissot, Lowe?s, and CVS.

For all its attractive space, SL Green?s stock has languished lately. After having peaked at just under $120/share in the middle of 2016, it trades in the high $80 range right now. But that can be an opportunity for investors. The firm has generated $6.61 in funds from operations (FFO) over the past four quarters. That means it trades at around a modest 13 times FFO. Investors should remember that FFO is a REIT metric that adjusts net income for property sales and depreciation. It?s not a perfect cash flow proxy because all real estate involves some depreciation that a good analysis must add back. But FFO allows analysts and investors to take a first stab at cash flow, and to make comparisons between one REIT and another.

The firm has increased year-over-year same-store revenue impressively for the past four quarters -- 2%, 7.4%, 7.8%, and .6%. It?s hard for SL Green?s tenants to complain that the rent is too darn high because they need or want to be centrally located in Manhattan. That?s why the firm still boasts higher than 95% occupancy. The rent is going up, and that?s good for shareholders.

SL Green paid a dividend of $0.8125 per share on October 15, 2018. That translates into a 3.7% dividend yield. The dividend soaks up only around half of the FFO the firm generated for the past four quarters, which means it?s well covered.

One big risk investing in firm carries is its new development project, One Vanderbilt Avenue. This is a $3 billion trophy property that is estimated to be completed in 2020. If the economy slows to the point where the firm has trouble leasing the building, that would spell trouble for shareholders. Still, the company has a strong record of growth since its IPO in 1997, and it emerged from the financial crisis in decent shape.

SL Green?s larger, more diversified competitor, Boston Properties has also suffered declines in its stock price recently. The stock peaked at around $140 per share in mid-2016, and trades at under $120 now. Instead of focusing on New York City, Boston Properties owns 164 office buildings (48 million square feet) in Boston, Los Angeles, New York, San Francisco, and Washington, D.C.

The firm has produced $6.20 per share of FFO for the past four quarters, and its stock trades at 18 times that. The firm is paying a $0.95 dividend, which appears save given its last four quarterly

FFO readings of $1.49, $1.49, $1.58, and $1.64.

One negative is that the firm has reported only minuscule increases in year-over-year same-property net operating income over the past four quarters. Reports indicate that the Washington, D.C. office market is soft and where the firm has 10 million square feet or a little more than 20% of its property. Still, the firm?s diversified portfolio on both coasts give it an advantage and perhaps a stability that the market seems to like given its higher Price/FFO multiple.

Neither of these firms are paying a whopping dividend ? 3.7% for SL Green and 3.2% for Boston Properties. The 10-year U.S. Treasury, by contrast, is paying around 2.7%, by contrast. Still, these landlords have the ability to increase rent in the future. You may not get rich owning these buildings at their current price, but you?ll collect a decent dividend that seems safe, and can be increased in the future.