FitchRatings

19 Feb 2020 | Affirmation

Fitch Affirms SL Green Realty Corp. at 'BBB'; Outlook Stable

Fitch Ratings-New York-19 February 2020:

Fitch Ratings has affirmed the ratings for SL Green Realty Corp. (SLG) and its subsidiaries. Fitch's ratings consider SLG's credit strengths, including its strong competitive position and high quality New York office portfolio that feature high occupancy rates, long-term leases to solid credit tenants, and above-average contingent liquidity from institutional lenders and investors.

The company's financial policy targets and capitalization strategy are appropriate for the 'BBB' rating, after considering the quality and low market capitalization rates warranted by its portfolio. SLG also has manageable, well-balanced lease expiration and debt maturity schedules as well as limited floating-rate debt exposure.

SLG's geographic portfolio concentration in the New York metro area, opportunistic capital allocation strategy and ownership of capital intensive office properties are factors that balance the company's credit positives. SLG is also a less established unsecured borrower than many similarly or more highly rated REIT peers. The persistent strength and economic diversity of Manhattan help to mitigate these risks.

Fitch anticipates temporary increased leverage in 2021 due to the timing of One Madison coming off-line for redevelopment before its One Vanderbilt development stabilizes, which should return leverage to within Fitch's rating sensitivities.

SL Green Operating Partnership, L.P.; Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta
----senior unsecured; Long Term Rating; Affirmed; BBB
----junior subordinated; Long Term Rating; Affirmed; BBB-
SL Green Realty Corp.; Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta
----senior unsecured; Long Term Rating; Affirmed; BBB
----preferred; Long Term Rating; Affirmed; BB+
Reckson Operating Partnership, LP; Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta
; Long Term Issuer Default Rating; Withdrawn; WD
----senior unsecured; Long Term Rating; Affirmed; BBB

Key Rating Drivers

One Vanderbilt and One Madison Elevating Nearer Term Leverage: Current SLG net debt to recurring operating EBITDA is generally higher than similarly rated equity REIT peers but more suitable after adjusting for lower market-level cap rates for Manhattan commercial real estate. However, Fitch expects SLG to temporarily operate with higher net debt to recurring operating EBITDA above 8x in 2021 due to income from its One Madison asset being taken out of service during its redevelopment phase before the One Vanderbilt development project income is fully realized. By the end of Fitch's Outlook horizon, Fitch expects SLG leverage to return to within the agency's leverage sensitivities. In addition, only about 10% of SLG's debt matures in the next two years as this progression occurs. As per SLG's Investor Day in December 2019, in the intermediate to longer term, the company anticipates targeting debt closer to the bottom end of the range of our sensitivities. SLG's net debt to recurring operating EBITDA was 7.0x for the year ended Dec. 31, 2019, compared with 6.8x for the year ended in 2018 and 6.5x for the year ended in 2017. Net debt to recurring operating EBITDA was 7.1x for the most recent quarter annualized at Dec. 31, 2019.

Fitch expects SLG's REIT fixed-charge coverage (recurring operating EBITDA adjusted for straight line rents and maintenance capex relative to interest and preferred dividends) to remain relatively flat, since growth in cash flow is partially offset by an environment in which landlords will continue to offer attractive tenant lease incentives. REIT fixed-charge coverage was 2.1x for the year ended Dec. 31, 2019, in line with the 2.1x for the year ended Dec. 31, 2018.

Diminished Unencumbered Asset Coverage of Unsecured Debt: After having reached consolidated unencumbered asset coverage of unsecured net debt (UA/UD) in 2016 and 2017 of above 2x, which is typical for investment grade REITs, SLG has seen UA/UD coverage drop to the 1.6x-1.7x level in 2018-2019. Some upcoming dispositions may contribute to the paying off of mortgages that would add to unencumbered NOI and SLG plans to repay $250 million of unsecured bonds maturing in March 2020; however, the prospect of further declines to unencumbered NOI persists; the contribution of One Madison into an unconsolidated joint venture and disposition of The News Building (220 East 42nd Street) will make it difficult for SLG to reach 2x UA/UD in the near future.

Fitch estimates that UA/UD calculated as unencumbered property NOI divided by a stressed 7% capitalization rate, was 1.7x at Dec. 31, 2019, which was driven by a combination of the company using more unsecured debt in its capital structure and a ramp-up in dispositions of non-core assets that included unencumbered assets. As such, Fitch expects SLG's UA/UD to remain below 2.0x during the Outlook horizon. Nonetheless, SLG also has incremental income from its debt and preferred equity portfolio that is not encumbered. UA/UD coverage of below 2.0x had historically hindered SLG's credit profile when compared with similarly rated companies, particularly given

that the stressed capitalization rate applied to SLG's NOI is the lowest across Fitch's rated universe. However, SLG's portfolio has stronger contingent liquidity relative to most asset classes in other markets when considering that Midtown Manhattan assets are highly sought after by secured lenders and foreign investors.

Above-Average Portfolio Quality: SLG wholly-owns and has interests in high-quality, primarily New York City office properties with above peer-average occupancy rates and rents per square foot and long-term leases to solid credit tenants. As of Dec. 31, 2019, the company also owns and operates a street retail portfolio in key Manhattan shopping corridors, such as the Plaza District, SoHo and Times Square as well as six residential NYC assets. SLG generates 88% of its NOI from its Manhattan operating properties with 6% of NOI coming from retail and 4% from residential.

Relatively Low Rent Risk Profile: SLG's rental income risk profile is below the U.S. equity REIT average. Portfolio occupancy has historically sustained in the low- to mid-90% range, with moderate volatility through the cycle. SLG has a long weighted average lease duration (10.7 years for leases signed in 2019), which minimizes rollover risk. Lastly, the company's tenant credit profile is strong, with minimal concentration. SLG's top-10 tenants generally have healthy credit profiles and comprise approximately 26.0% of annualized revenues as of Dec. 31, 2019.

Dispositions Fund Development and Share Repurchases: SLG completed $400 million of share repurchases in 2019 and has upsized its $2.5 billion share buyback authorization by an additional $500 million. Given the level of 2018-2019 dispositions, SLG was able to execute this on a leverage-neutral basis. However, Fitch believes that SLG's continuation of the buyback will result in higher near-term leverage given less dispositions compared to other capital obligations, particularly in light of the foregone income from One Madison starting in 2021.

Potentially More Challenging Leasing in 2020: SLG is coming off a strong year in 2019, where it signed 163 office leases aggregating approximately 2.5 million square feet in its Manhattan portfolio. For leases that encompassed space that had been occupied in the prior 12 months (which was about 2/3 of the total leasing), the company saw average leases comprise a 38.1% increase over the previous rents on the same spaces. However, much of this was driven by two signed leases with Amazon and First Republic at 410 Tenth Avenue.

As of Dec. 31, 2019, SLG had a manageable lease expiration schedule with an average of 9.9% of consolidated Manhattan rents expiring annually from 2020-2023. Nevertheless, 2020 appears more challenging, with 15.1% of leases expiring and in-place rents that are approximately 6% above SLG's average asking rent for these spaces. This compares with +4%-6% mark-to-market expectations in the Manhattan office portfolio that SLG laid out at its recent Investor Day for 2020. Lease expirations on SLG's retail portfolio appear to be considerably below market, even if it

represents a minimal amount at below 3% of total retail rents.

One Vanderbilt and One Madison Risks: SLG holds asset concentration and lease-up risk with regard to two of its largest assets, One Vanderbilt and One Madison. One Vanderbilt is a development project that is currently 65% pre-leased with construction anticipated to be completed by August 2020, in which SLG has a 71% ownership stake but is reported on an unconsolidated basis. SLG expects One Vanderbilt to be 82% leased by year-end 2020; however, it will not receive substantial rents from the project until 2022. Likewise, One Madison is one of SLG's largest assets that will be taken off line to be redeveloped, starting in 2020. Therefore, this will represent interim lost income during this phase; the company also will seek to find joint venture partners for the project, comprising 45%-75% ownership, and the asset will also be characterized as unconsolidated prospectively.

Experienced Management Team: The ratings also consider SLG's experienced and cycle tested management team, which demonstrated the ability to maintain portfolio occupancy and adequate liquidity levels through the 2008/2009 downturn. Risk mitigation is a cornerstone of SLG's opportunistic investment strategy, regularly demonstrated by management through its leasing, capital recycling and asset-level capitalization strategies.

Junior Subordinated Notes Notching: The one-notch differential between SLG's IDR and junior subordinated notes (trust preferred securities) is consistent with Fitch's criteria for corporate entities with an IDR of 'BBB'. Based on Fitch's "Corporates Hybrids Treatment and Notching Criteria," these securities are senior to SLG's perpetual preferred stock but subordinate to SLG's corporate debt. Holders of such notes have the ability to demand full repayment of principal and interest in the event of unpaid interest.

Affirmation and Withdrawal of Reckson IDR: Fitch has affirmed at 'BBB'/Stable and withdrawn the IDR of Reckson Operating Partnership, now that it is no longer a guarantor for any of the SLG bonds. Likewise, SLG's $250 million, 7.75% coupon bonds due March 2020 have been affirmed and moved under the SL Green Operating Partnership, L.P., given it is now the sole obligor of SLG bonds.

Preferred Stock Notching: The two-notch differential between SLG's IDR and preferred stock rating is consistent with Fitch's criteria for corporate entities with an IDR of 'BBB'. Based on Fitch's "Corporates Hybrids Treatment and Notching Criteria," these preferred securities are deeply subordinated and have loss absorption elements that would likely result in poor recoveries in the event of a corporate default.

Derivation Summary

SLG owns high-quality, primarily NYC office portfolios, with high occupancy rates, long-term leases to solid credit tenants. The company's New York-focused portfolio has better contingent liquidity from institutional lenders and investors than lower-rated peer Mack-Cali Realty Corp. (BB/ Negative). The persistent strength and economic diversity of Manhattan and its high face rents help to mitigate the geographic concentration risk. SLG approaches ground-up development more opportunistically, rather than as a key component of its operating strategy. Comparably rated, Vornado Realty Trust (BBB/Stable) is the most similar peer to SLG due to its predominant NYC office focus, although Vornado historically has had more of a development pipeline and SLG has had a secondary suburban component historically, while also maintaining a debt and preferred equity investment portfolio.

Fitch links and synchronizes the IDRs of the parent REIT and subsidiary operating partnerships due to entities operating as a single enterprise with strong legal and operational ties. No country ceiling or operating environment aspects impact the rating.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer

--Low to mid-single digit annual SSNOI growth in 2020-2023;

--SLG's remaining One Vanderbilt development committed expenditures spent evenly through 2020;

--Maturing consolidated secured debt primarily refinanced with new mortgage capital;

--No equity issued through forecast period. $500 million of additional share repurchases in 2020;

--No additional debt issued in 2020, $700 million of debt issued in 2021, $650 million of debt issued in 2022.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Fitch's expectation of REIT leverage sustaining below 6.0x;

- Proven and consistent capital access commensurate with a higher rating;

- Fitch's expectation of REIT fixed-charge coverage (recurring operating EBITDA adjusted for

straight line rents and maintenance capex relative to interest and preferred dividends) sustaining above 3x.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Fitch's expectation of REIT leverage sustaining above 7.5x;

- Fitch's expectation of UA/UD sustaining below 2.0x;

- Fitch's expectation of REIT fixed-charge coverage (recurring operating EBITDA adjusted for straight line rents and maintenance capex relative to interest and preferred dividends) sustaining below 2x.

Liquidity and Debt Structure

Liquidity Coverage at 0.9x: SLG's sources of liquidity (cash, availability under its revolving credit facility, retained cash flow after dividends/distributions) cover its uses (pro rata debt maturities, recurring capital expenditures, non-discretionary development expenditures) by 0.9x for the period Jan. 1, 2020 through Dec. 31, 2021. This includes several as-of right extension options, which make the company's maturity schedule more manageable as the company's weighted average debt tenor is 4.3 years as of Dec. 31, 2019. SLG also has a manageable debt maturity schedule, with only 55.1% maturing through the end of 2024. Over the next five years, 2023 is the largest year of debt maturities with 19.1% coming due.

While this analysis does show a modest deficit between sources and uses through the end of 2021, this analysis assumes SLG does not raise any external capital to repay debt maturities. However, Fitch believes the issuer's demonstrated access to a variety of capital sources over time meaningfully mitigates refinancing risk. Under a scenario where the company refinances 80% of maturing pro rata secured debt, SLG's liquidity coverage improves to 1.0x. SLG's historically conservative common dividend policy supported its liquidity by allowing it to retain additional operating cash flow. As expected though, the company's AFFO payout ratio has trended toward industry averages and was 75.3% for the TTM 2019.

Summary of Financial Adjustments

--Fitch adds back non-cash stock-based compensation to recurring operating EBITDA

--Fitch analyzes perpetual preferred stock with 50% equity credit, and preferred units with 0% equity credit (given the ability of the holders to demand cash from SLG at any time) in most

metrics. Certain metrics calculate leverage before preferred stock, including REIT Leverage.

-- Fitch makes the following adjustments to operating EBITDA:

1) Add cash distributions from unconsolidated joint ventures, not including any cash distributions from sold properties or cash distributions from financings or refinancings. Since these figures are not public and provided by SLG directly, Fitch haircuts them by 20% before adding to operating EBITDA.

2) Subtract Distributions to NCIs in other Partnerships (from cash flow statement).

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Contacts:
Primary Rating Analyst
Peter Siciliano,
Director
+1 646 582 4760
Fitch Ratings, Inc.
33 Whitehall Street
New York 10004

Secondary Rating Analyst
Stephen Boyd, CFA
Senior Director
+1 212 908 9153

Committee Chairperson
Joseph Rohlena, CFA
Senior Director
+1 312 368 3112

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)
Corporate Rating Criteria (pub. 19 Feb 2019)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)
Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of

that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees

from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.