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# SL Green Realty Corp. (SLG)

## Q4 2020 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Thank you, everybody, for joining us and welcome to SL Green Realty Corp's Fourth Quarter 2020 Earnings Results Conference Call. This conference call is being recorded.

At this time, the company would like to remind listeners that during the call, management may make forward-looking statements. Actual results may differ from any forward-looking statements that management may make today. Additional information regarding the risks, uncertainties and other factors that could cause such differences appear in the risk factors and MD&A section of the company's latest Form 10-K and other subsequent reports filed by the company with the Securities and Exchange Commission.

Also, during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's fourth quarter 2020 earnings and in our supplemental information filed with our current report on Form 8-K relating to our fourth quarter 2020 earnings.

Before turning the call over to Marc Holliday, Chairman and Chief Executive Officer of SL Green Realty Corp., I ask that those of you participating in the Q&A portion of the call please limit your questions to two per person. Thank you.

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

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### Marc Holliday

*Chairman & Chief Executive Officer, SL Green Realty Corp.*

Appreciate you calling in today. The entire SLG team is here at 420 Lexington Avenue where we are doing our final earnings call from our boardroom in the landmark Graybar Building as our next call will be done from our new offices at One Vanderbilt Avenue.

For almost 22 years, Graybar has been our headquarters and base of operations for all that we've accomplished. But now 2021 heralds in change for SL Green as we move across the street into our extraordinary newly completed building that we will soon call home and we could not be more excited about it.

For us, the move begins a new chapter for the company that coincides with a period of reconstruction in New York City marked by the rollout of the COVID vaccine, the easing of COVID-related restrictions, the promise of federal stimulus for cities and states and a gradual return of the workforce to offices and other places of business. And there are many more reasons for optimism as we begin the return to normalcy this year.

The financial and tech sectors in New York City which account for over half of the office space demand are doing extremely well. And they added 5,000 office-using jobs in December alone. The city is forecasting a significant amount of new office jobs in 2021 such that we would return to pre-pandemic office employment levels by the fourth quarter of this year recouping all of the 165,000 office jobs lost at the outset of the pandemic. The credit markets remain quite strong with commercial mortgage interest rate levels in and around the 2.5% level and new construction activity had substantially declined which combined with job growth will enable supply to come back into balance with tenant demand.

And on the topic of demand, SL Green had a very productive seven weeks since our investor conference on December 7, where we held a live in-person event at One Vanderbilt. During that seven-week period, we signed 200,000 square feet of Manhattan office leases while adding 240,000 square feet of new pipeline, thus increasing our current pipeline as we sit here today to 700,000 square feet higher than on December 7.

With the leases we expect to sign over the next 60 days, we anticipate being on schedule for a total projected volume for the year of 1.3 million square feet, one of the 18 or so goals and objectives we laid out for everybody in the investor conference. Of particular note are the lease transactions we announced yesterday starting with the Beam Suntory deal for 100,000 square feet at 11 Madison Avenue, filling a space which had been vacant since April of 2019.

Suntory is relocating its headquarters from Chicago to New York City to better align its global brand building efforts with all that New York offers. The Suntory deal and the 92,000 square foot Freshly deal at 63 Madison Avenue, also recently announced, affirms the development strategy that is the underpinning of our One Madison Avenue development project which is now fully financed and bound with a GMP construction contract from Tishman Construction. With building permit now in hand, structural demolition has commenced and we will be delivering the finished project in 2023.

Leasing velocity at One Vanderbilt has been strong since the third quarter and that velocity is carried into 2021 with the signing of two notable leases. Our pipeline at One Vanderbilt includes three more leases in negotiation and four term sheets that are in advanced stages of discussion. So we are at currently 73% leases as we sit now. And at this pace, we are on a trajectory to meet or exceed our year-end estimate of 85%.

Furthermore, our net effective rents that we're achieving on these deals during the pandemic for all signed and pending leases remain within our underwriting assumptions. There is no other building in Manhattan enjoying this kind of success. And it's very, very gratifying to see businesses respond in such a positive way to what we've constructed.

In keeping with our custom for abbreviated opening remarks on the January earnings call that follows the deep dive we take in our December investor meetings, we will open up the line now for questions. Thanks.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Our first question comes from the line of Michael Lewis of Truist Securities.

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**Michael Lewis**
*Analyst, Truist Securities, Inc.*

Q

Great. Thank you. Marc, hearing you talk about the leasing activity, the pipeline, even the net effective rents at One Vanderbilt; it feels different than a few months ago. So you had this quick leasing activity for the quarter. You had two or three press releases out separately about leasing. Is there a change in psychology, you think, maybe as we get closer to bringing people back to the city? I guess in other words, this call feels different to me just in your brief remarks. Does it feel a lot different than a few months ago? Are things really changing quickly on the ground or am I reading too much into this?

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**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

I think it's yes and no. As it relates to the leases, what we're closing out now are leases that we've been working on, I'd say, Steve, maybe for three to six months.

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**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Yeah.

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**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

So while we're announcing them now and reviewing them now, this is I would say really since midsummer. When the pandemic hit, March, April, May; everything just stopped and I think that's across everything. And then when we got to June, July, August; at least within our portfolio, we felt things start to pick up. And I think if you go back to maybe the October call, I think you would hear some of that echoed in that call as it relates to the reemergence of people who had hit the pause button coming back because people are planning for 10, 15 years out, not the next 6 to 12 months. And the initial activity was a lot of shorter-dated renewal activity that changed to longer-dated renewal activity. Something I didn't mention in my remarks that is just occurring to me now is we also signed three significant deals over at 245 Park as agent for HNA, owner, and the total of that square footage probably also over 200,000 feet.

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**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

220...

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**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

220,000 feet. So we did that as well. For us, it's like any other deal. We had to negotiate and get those across the finish line, which all three just did. So in one sense, that leasing production you're seeing has been developed and pent up I'd say for the last six months. But in terms of psychology, it's like you mentioned psychology and the feel of the market; yes, things I don't want to say feel better, but it feels like more than ever there is an exit strategy and a path to what the governor calls reconstruction, having in his words been through a war which I guess it sort of feels like.

So the psychology and I think the market vibe is much better. It's no longer talking to people who say we'll be back next few year. Now, we're hearing and seeing schedules of move-in dates that have already begun and will gradually ramp up through the summer to the point where there is an expectation that everybody will be fully vaccinated, restrictions will have been largely lifted. And then there's some people who feel like there'll be a gradual rise from there. And there's others who feel like there'll be an explosive comeback due to the lockup of what – it was going on almost one year that when the all clear signal is sounded, that the resurgence won't be gradual. It'll be quite immediate. So yeah, I'd say you probably hear a little hitch in our step.

And also as I said, we're really excited to be moving into One Vanderbilt. So that sort of plays into everything not just for what it signifies. But it really I think is, at this stage in our cycle, where everything we're focused on on the investment side pretty much revolves around new development. It's very energizing and we want to be in the right space in order to kind of enhance that creativity even further than Graybar and certainly anything more than you get sitting at home.

**Michael Lewis**
*Analyst, Truist Securities, Inc.*

Q

Great, thank you. Answered a couple of my questions there. I'm going to ask one that's maybe more of a housekeeping question then for Matt. Maybe I was hoping you would just break down that other income line item for me. What's in that $26 million that you recorded in 4Q? How much was lease termination income and anything else material? I know in 3Q there was a legal settlement gain in there. But that number still was a little bit higher than maybe I was expecting.

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah, no problem. Happy to do housekeeping. The balance at the end of the year, the $26 million we recorded, consistent with what we expected, only over by about $1 million. Half of that number are the fees we alluded to and then were able to recognize in the fourth quarter related to the sale of the JV interest in One Madison and the outright sale of 410 Tenth. So we had fees that we had to wait till those deals closed to recognize. That was about half. We had no lease termination income in the quarter. And the bulk of the remainder of that balance was somewhere between $6 million and $8 million a quarter that we recognized of third party management fees, leasing fees, management fees, construction management fees, those types of things.

**Michael Lewis**
*Analyst, Truist Securities, Inc.*

Q

Okay, guys. Thanks a lot.

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah.

**Operator**: Our next question comes from Rick Skidmore with Goldman Sachs.

**Richard Skidmore**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, Marc. Good afternoon. Just following up on the return to office comment that you just made. What are the tenants that you have saying about their timing of their return to office? And then just to follow up on the new leases that you've signed, how are the space configurations changing or not with those tenants regarding densification, desk hoteling, number of employees per square foot et cetera? Thanks.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

As it relates to schedule, it's sort of all over the place. I'd say consistently, the refrain is by middle to late summer back, and back – unclear, back means 100% or certainly greater than 50%. But in their eyes, it's end of work from home or the beginning of end of work from home at that point. And there are firms already moved into One Vanderbilt and we have several hundred people today that are occupying that building.

We see some occupancy increases after the New Year in other parts of our buildings that got quite low in December. And I think it's hard to pinpoint anything more than to say between now and midsummer or late summer. I know that sounds like, wow, that's a long way away; but it's a blink of an eye. Before you know it, we'll be in summer. And therefore, there will be a vibe. I'm confident that there will be a significant return by mid end of summer. And hopefully by end of summer, we're completely back, completely vaccinated. And everybody will be celebrating the opening of our great new observation deck at the summit of One Vanderbilt on October 21. As it relates to configuration, Steve, you want to address that?

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

I think we are hard pressed to really get good examples of people that have changed their design of their space for the long term. Most of the people you talk to, the answer to the question is, well, we're changing our furniture configuration for the next – for immediate re-entry. What that generally means is taking the workspaces, spreading it more apart but ultimately planning to return to a densified environment, but not as dense as we were pre-COVID. And you've heard us say that before the trend of densification had already started to shift back to de-densification pre-COVID. COVID accelerated that trend. And when you speak to tenants – we speak to architects, it's clear to me at least that long term we're still going to be in a densified world. It's just going to be not as much as it was before.

The other trend I will say is there is a growing belief that tenants will want a greater amount of landlord-provided amenities. And we've certainly experienced that firsthand with the real – or with the lease-up at One Vanderbilt because we have probably the single best amenity floor in the city right now. And that has been a huge bonus to our leasing effort in the building. And I think we've started to develop some of those concepts throughout our portfolio. I think if you'll see us continue to do so in the years going forward particularly as we roll out the development plan for One Madison.

**Richard Skidmore**
*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you.

**Operator**: Our next question comes from Manny Korchman with Citi.

**Emmanuel Korchman**
*Analyst, Citigroup Global Markets, Inc.*

Q

Hey, good afternoon, everyone. Marc, when you turn to the New York City retail environment, how long do you think we have to wait to see some green shoots there? Is it a matter of getting everyone in and then those tenants that they can reopen and make some money and also new tenants looking to expand start coming in? Or do you think we might be able to see a little bit of that during sort of the early phases of reopening as you laid out?

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

Retail is a much tougher topic than, I guess, what we were just discussing today. It's going to I think lag substantially because a lot of the retail green shoots, as you put it, are going to be dependent on a return of leisure, hospitality and tourism, not all but certainly a big part of it. And right now, that is completely shut down. In fact, while there were 5,000 office jobs added in December, there were 19,000 private sector jobs eliminated. And almost all of those jobs came out of the leisure and hospitality and restaurant industries unfortunately, sort of tragically. So that's going to take longer to come back. While the city is forecasting a return to pre-pandemic levels for office jobs end of 2021, they're not projecting a return of total private sector jobs until sometime in 2023. So you can see – so that's a pretty significant lag, not insubstantial. So I think that restaurant and retail will lag.

And I would say that while we've had some good success, so I wouldn't sort of buck the trend a little bit. But we did sign a good lease at One Vanderbilt with One Medical in the fourth quarter. I guess that was previously announced. And we have another deal pending which hopefully will be a first quarter event. The demand is still tepid and the environment isn't really quite right yet with all the restrictions where I would say we're seeing any kind of forward momentum there.

**Emmanuel Korchman**
*Analyst, Citigroup Global Markets, Inc.*

Q

Great, thanks. And I think in your opening remarks you talked about stimulus for cities as sort of an important factor you're thinking about. If that stimulus doesn't come through or if there are delays in the stimulus or it doesn't shape out, are you worried about sort of the longer-term health of cities like New York?

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

No. Am I worried? It's something we focus on and so we're vigilant about it. But the city has balanced its budget for 2021 and 2022 fiscal year with the assumption of zero stimulus. So the stimulus comes on top of what's already a balanced budget. And the budget was balanced for 2021. Obviously, in June of this year, you go to the new budget, 2021-2022. And through various means the city has managed to budget in a tough operating environment.

I can't imagine that next year's operating environment will be as tough as the one we just went through. And they have attrition rules now, I think three attrition for every one new hire. They've made other cuts. Fortunately, the personal income tax side of the equation is reportedly better than projected. So that is offsetting some of the property tax collection losses or reductions that the city is experiencing. And net-net, they have a plan to get it done at least through the middle of 2022 that doesn't rely on any stimulus. So you want to add to that?

**Andrew W. Mathias**
*President & Director, SL Green Realty Corp.*

A

I would also say there's a lot of different forms of stimulus. And infrastructure in New York City has more shovel-ready projects than anywhere else in the United States. And they're lobbying hard for the Gateway tunnel and expansion of transportation and a bunch of other projects. So that's another way stimulus could make its way to New York, not just through direct bailout funds, if you will. And changes in the tax code where there's a potential rework of the SALT credit, state and local tax credit, which could also benefit residents of New York. So there are other ways you could see stimulus coming to the area and not just through the direct federal subsidies.

**Emmanuel Korchman**
*Analyst, Citigroup Global Markets, Inc.*

Q

Thank you both.

**Operator**: Our next question comes from Alexander Goldfarb with Piper Sandler.

**Alexander Goldfarb**
*Analyst, Piper Sandler & Co.*

Q

Hey, good afternoon. So, Marc, just along those lines, on the office restoration, there are a bunch of things in there. It's not just getting the offices to reopen and employers telling the people to come back. There's what you guys have highlighted, which are the incentives. So I don't know how many of your tenants are offering incentives to help their tenants or help the workers, incent them to come back. But there's also the city life. If you go into Midtown and like pass the restaurants, bars, bodegas; everything that supports the office workers upstairs are closed. They are heavily shut down. So it's sort of a two-fold. Plus, you have mayoral – basically, the November mayor election is in June because whoever wins that is by default the mayor. So there's a lot of sort of unknowns and a lot of hindrances to getting the city fully back. So beyond just the office, what's your view on the city doing its part to – because Midtown is empty from – [ph] for all these city lights that are (00:23:00) on the streets that are beyond the landlord's control. So how do you view that as opposed to your optimistic comments that everyone's going back in quarter Q4?

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

Well, again, back in Q3-Q4, but it's still going to be low occupancy levels in Q1 and probably even Q2. Some of the things – one program that the state has initiated is part of the State of the State Address, if you heard that, is something called the safe offices pledge where we and a number of other large owners made a commitment to set aside space within our buildings and in our portfolio [indiscernible] (00:23:48) identified, arrange for a testing provider to operate out of that space and the tenants make arrangements in that space with that testing provider to have all their employees tested on as much as a weekly basis if that's what they choose. And with the concept being that that's a first step to building the confidence level to get people back ahead of the time when everyone is fully vaccinated. So we support that; we endorse it. We've done something similar with our own employee base for months now. And we think that's the kind of thing that will help.

Now we've contacted every tenant or at least every major tenant in the portfolio and mid-sized tenant portfolio and gave them the suite of incentives that we provide to our employees and tried to demonstrate to them how easy it is to implement these incentives and how well received they are et cetera. And we're hopeful that companies will enact those incentives as a means of bringing people back. But I will say, obviously, as we sit here, between 10% and 15% total building occupancy; that has not yet taken hold and it may not until the third quarter. That just may be the case and we're hopeful that's not the case. And every time another firm comes back, it puts competitive pressure on the ones that haven't to get back also and I do see more of that, but it's gradual. It's only January.

So we think this is a trend that'll take some time. But there are efforts and the reopening of restaurants. So as of last night, with heavy and vocal pressure being applied by the restaurant industry and more importantly, numbers that have improved in New York State since that spike as a result of the holidays; it looks like 25% indoor dining either is or may be coming back or highly likely coming back next week or at least that's where we're hearing yesterday and this morning. And hopefully, that is the case and again that's the start hopefully towards 50%. And I think all restaurateurs agree at 50% with outdoor, they can make a go of it. So they're one step closer and everything will just have to build off itself. I'd look at the reconstruction process as a 9 to 12 month process, not something that's going to be the next month or two.

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**Emmanuel Korchman**
*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And then, Steve, at the Investor Day; you made the comment in the Q&A portion that sort of the easy part of your leasing job is done because the tenants you want to renew have renewed. The tough part is coming which is backfilling the tenants who are leaving. And your comments were definitely striking. So just sort of curious now that you're a few months further in, the vaccines are rolling out. Do you still see the replacement of tenants who are vacating sort of as challenging as you characterized it at the Investor Day? Is it the same? Is it getting better? Hopefully, it's not getting worse.

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**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

I think it's getting better and maybe this statistic I'm going to give you proves that. Of the 260,000 square feet of leases that we have either out for signature or in document negotiation, 120,000 square feet of that are new tenants, so new tenants migrating into the portfolio. It's almost a 50-50 split between renewal and new tenants; which as I also said or Marc said at the investor conference, all we need is velocity in the marketplace. And we have a good enough portfolio and we have a good enough leasing team. And we're here every day working very hard. We're going to get more than our fair share of the deals that are in the market. So as soon as tenants are out there, we'll fill the portfolio and we'll keep it full the way we have every year in the past.

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**Emmanuel Korchman**
*Analyst, Citigroup Global Markets, Inc.*

Q

Okay, thanks.

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**Operator**: Our next question comes from Jamie Feldman with Bank of America.

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**James C. Feldman**
*Analyst, Bank of America Merrill Lynch*

Q

Thank you. With your view of things getting better, I'm curious what your thoughts are on the value-add acquisition market, where you think pricing is and when we start to see more capital step in. It seems like so many of the transactions have been high-quality credit tenant, long-term leases. Just curious where you think that market is right now.

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**Andrew W. Mathias**
*President & Director, SL Green Realty Corp.*

A

So I think the financing market is generally tightening up. CMBS spreads are in and there's more banks looking to lend. And I think that'll drive that value-add market. The issue has been assets like for 410 Tenth which is fully leased are getting the best bids because of in-place income. But as lenders are willing to underwrite lease-up again, I think you'll start to see that market get more liquid and start to have some pickup in activity.

**James C. Feldman**
*Analyst, Bank of America Merrill Lynch*

Q

Where would you peg cap rates at this point or what IRRs are or what people are looking for and how much capital is out there? Is there a meaningful change in appetite, people circling?

**Andrew W. Mathias**
*President & Director, SL Green Realty Corp.*

A

Cap rates on value-add, you're saying as leased, so stabilized cap rate or your going-in cap rates are not a meaningful metric because there's large vacancy. I think people are underwriting to 10% to 12% IRRs on value-add type opportunities. And I think that means that by leasing the assets to – my guess is between 5% and 5.5% cash on cost if they're taking lease-up risk going in where if they're buying in-place income, it's more than that, 4.5% to 5% range on average.

**James C. Feldman**
*Analyst, Bank of America Merrill Lynch*

Q

Okay. And then for Steve – thank you by the way. And then for Steve. You had mentioned financial and tech are about half of office demand in the city right now. How much of that would you say is expansion space? And are there large tech leases in the pipeline?

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Our pipeline, are you asking or are you talking about just generally in the marketplace?

**James C. Feldman**
*Analyst, Bank of America Merrill Lynch*

Q

Generally.

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

I couldn't tell you how much in the overall market pipeline how much of it is expansion or just replacing [ph] time (00:30:50). Within our pipeline, I would say we're very heavily weighted towards financial services right now. And maybe a new growing trend that I'm starting to hear from sort of the early parts of searches is you're starting to see some of the law firms come back in the market as well where they were very quiet last year.

The part of the market that's very slow right now is the advertising media portion of the market. And that's made up obviously by the tech side. And this gives me the opportunity to sort of stress a point that I think is worth knowing for everybody, which is New York City's rebound will be driven by the fact that we have a very diversified tenant base as opposed to the West Coast which is sort of a one-trick pony. New York City has got – because of what we've seen over the past couple of decades – technology, education, healthcare, finance, media. And that diversification is going to be the strength of our rebound.

**James C. Feldman**
*Analyst, Bank of America Merrill Lynch*

Q

Okay. Thanks for your thoughts.

**Operator**: Our next question comes from John Kim with BMO Capital Markets.

**John P. Kim**
*Analyst, BMO Capital Markets Corp.*

Q

Thank you. I have a question on co-working. One of your peers took a stance yesterday with the write-downs. Today the Journal's reporting that WeWork is looking to go public potentially via SPAC. Can you just remind us what your views of WeWork and co-working tenants are as a going concern tenants?

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

I think we have – what is it, Matt, less than 2%?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah.

**Andrew W. Mathias**
*President & Director, SL Green Realty Corp.*

A

Less than 2% co-working. That was a strategic decision by us. I think the asset class is here to stay and there'll always be demand in the market for co-working type opportunities. We'd certainly love to see WeWork go public in a SPAC or otherwise. And I think it's a force that'll always be around. We have our own fractional office space division which has been around for 20 years or so. So we're in the business ourselves. We just don't see it as a very large part of our portfolio.

**John P. Kim**
*Analyst, BMO Capital Markets Corp.*

Q

As a follow-up, is WeWork current on rent? And how did rent deferrals and abatements trend this quarter versus last quarter? And is that number excluded from your rent collection number?

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

Well, as it tracks to gross rent collections, we're about what, Matt, between 95% and 96%?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah. On office, we're actually at 97% and we calculate it on gross contractual rents. So we don't net out any deferral or abatement from that number. If they owed us $100 and we agreed that they only have to pay us $50 and they paid us $50; that's not 100%, that's 50%. That's how we calculate it. That's how we think everybody should calculate it.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

I think there's a lot of different ways that people seem to be doing this. If we express collections based on current contractual obligations...

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Much higher.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

...we'd probably be at like 98%, 99%.

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

99%, that's correct.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

But we're not. We're – to try and give people a look into collections today versus what the rent schedule was back in, let's call it, Jan-Feb of last year which I think is really the only meaningful metric. That's where that 97% office and...

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Right.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

...and overall 95%, 96% when you factor in retail which is probably down around 80%?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah, correct.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

Or thereabouts?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yes.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

That's the way to look at it. So for somebody like a WeWork, they're 100% current as far as I know on their current contractual. But...

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

That's right.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

...that represents a modification that was done last year where we lowered the rent, gave a little bit of abatement in return for an enhanced security package to what was already a pretty robust security package. So now it's in our eyes very well secured. We thought that was a good trade. We don't even look at that necessarily as a concession. We think we upped the credit, which offset whatever those economic concessions were. And they're current on those economic concessions. So that's that one tenant in particular. But we've managed almost 900 tenants, many of them one by one if they're small business or retailers predominantly. But the vast majority of the portfolio are good credit rent paying tenants.

**John P. Kim**
*Analyst, BMO Capital Markets Corp.*

Q

And Matt mentioned that the deferrals and abatements would trend down this year. Is that still correct?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yes, they did. The bulk of the deals that were cut were done in second and third quarter. They've just had a handful done since that time in the fourth quarter. And I'm not even aware of any into 2021.

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Yeah. We've got some very small ones that were providing some additional deferrals too but nothing that really moves the needle. And we haven't done any abatement deals certainly in the past six months where we didn't get something on the trade where there was a part of a restructure of the lease where we got a longer term or enhanced security deposits or the tenant surrendered some capital contributions that we were required to make. So even though the vast majority of any – of the deals that we did were deferral deals, not abatement deals; on the few abatement deals that we did do, we got something for it.

**John P. Kim**
*Analyst, BMO Capital Markets Corp.*

Q

Great. Thank you.

**Operator**: Our next question comes from Steve Sakwa with Evercore ISI.

**Steve Sakwa**
*Analyst, Evercore ISI*

Q

Thanks. I guess going back to the comment; Marc, I think you talked about the pipeline being 700,000 square feet, which was up a little bit from December. I was just curious if you could give us kind of a broad breakdown of what was new in that and what are renewals. And are those renewals mostly 2021 or is any of that maybe pulling forward in terms of 2022 activities in the pipeline?

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Boy, it's hard to really give you a specific answer to that, Steve, only because the pipeline is very fluid from week to week or month to month. So some of it as a result of deals that were signed, so it came out of the pipeline. Other deals just didn't make, but then it was backfilled with new deals that are in there. I think that the easiest way for me to answer is the way I answered it before. If you zero in just on the portion of the pipeline that is the leases that are out, which is 260,000 square feet of the 700,000 square foot pipeline, half of that or almost half of that are new transactions and the other half are renewal deals.

There's one significant deal that's roughly 90,000 square feet in the deals pending portion of the pipeline. That is a new deal and that's a renewal deal and that would be an early renewal. Other than that, it's kind of business as usual attending to the 2021 and the 2022 expirations as we do every year at the beginning of the year.

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**Steve Sakwa**
*Analyst, Evercore ISI*

Q

Okay. And just as a quick follow-up, are you seeing any maybe non-economic lease terms changing, maybe tenants looking for maybe early exit rights or termination rights? Is there anything changing kind of maybe below the economics of the deal that we should be aware of?

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**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Yes. It's to no surprise, as we've seen every time there's a major disruption in the marketplace when tenants go on the defensive, they value flexibility. So whether that's shorter-term deals or an ability to expand in the near term or expand midterm or shed space midterm or right of cancellation at some point, that becomes part of the conversation. And I'd say on the deals that are large enough to warrant that kind of flexibility, then we're meeting the market to do it. It's certainly not the vast majority of our deals. So if you're a tenant that's 5,000 or 10,000 square feet; you don't get that kind of flexibility. If you're a big tenant taking multiple floors and you want a right to – if I'm doing a 15-year deal with you and you want a right to shed some of the space 10 years out, we have that conversation. But the tenant pays for that right. And by the way, as soon as the economy tightens up, those concessions will get wrung out of those discussions very quickly.

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**Steve Sakwa**
*Analyst, Evercore ISI*

Q

Right, that makes sense. Okay, and maybe just second question on sublease space kind of in the...

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**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

I don't know. We may call foul on that one, Steve. Go ahead.

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**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

What have you got, Steve?

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**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

That's two and a half.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

It's four.

**Steve Sakwa**
*Analyst, Evercore ISI*

Q

Well, I was just going to say sublease space in general just kind of in the New York City market and then maybe sublease within your portfolio, anything that's kind of come up lately that concern you in the market or things within your own portfolio?

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

As you've read in the papers, there's a lot of space that's been added to the availability from subleases. But what's most interesting in that statistic is the amount of sublease available today is still below the amount of sublease space that was as part of the availability after 9/11 and as part of the availability during the financial crisis. So today, 27% of the overall availability is sublease space. Compare that to 47% of the availability was sublease space during the dotcom bust and 31% during the financial crisis.

And what we see a lot of times is that tenants come, they dump a lot of space on the market; but then they rapidly pull it off the market as well when things start to improve. So you see a lot of tenants that'll test the waters and maybe they've got a big portfolio. We're seeing this right now with a tenant in Grand Central that's putting 500,000 square feet on the market. But they've said also publicly they only intend to lease 250,000 square feet of it. So it skews the statistics and creates the perception that may not be [indiscernible] (00:42:08) not as bad as what you otherwise might think. Another point to make on that is that of the sublease space that's on the market, 40% of it has a term of four years or less, which does not make it competitive to direct space. So I think it's important for people to understand that just because there's sublease space on the market, that doesn't necessarily have the corresponding impact to where rents are headed or where lease-up velocity will trade on a direct basis.

**Steve Sakwa**
*Analyst, Evercore ISI*

Q

Got it. Thanks.

**Operator**: [Operator Instructions] Our next question comes from Blaine Heck with Wells Fargo.

**Blaine Heck**
*Analyst, Wells Fargo Securities LLC*

Q

Hey, thanks. Good afternoon. Steve, can you talk a little bit about TIs, improved rent trends out there especially since you guys were able to get some large long-term leases signed during the quarter, which seems to be a rarity these days. So any commentary on the concessions associated with those leases would definitely be helpful.

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

I think it's sort of leveled off from – in line with where we spoke about it during Investor Conference. I think free rent is up kind of – if it was 12 months pre-COVID, now it's somewhere in the 14 to 15 months. And there are examples of extreme – three months of free rent beyond that. But by and large, it's up three or four months more than where it was pre-COVID. And I think TIs, if they were at $100 to $110 pre-COVID; they're kind of in that $130 to $135. And if you're on a very high price point building, then they're above that as well, above that number only because it's sort of proportionate to the rent you're paying.

But I haven't sensed that they've been increasing over the past month or two. They spiked up in the fourth quarter. I think they've sort of held and I see no reason why they won't continue to sort of stay this way at least for the next quarter or two. And when you talk about net effective rents; what's interesting and we've said this on the last earnings call, we said it in Investor Conference was face rents are not down that much. They're kind of down 5% to 7% where the real trade has been on the concession side. And as you'd expect, during a time of disruption, tenants play defense. And they'll pay the rent over the next 10 years, but they want their concessions upfront. They want to husband their capital and they want the landlord to pay the concessions so that they don't have to come out of pocket.

**Blaine Heck**
*Analyst, Wells Fargo Securities LLC*

Q

Okay, great. That's helpful. And then Marc or maybe even Steve can chime in on this one too. But, Marc, you talked a little bit about the timing on the reopening. But can you give us some commentary around how you expect a leasing decision process and timetable to play out for large tenants? I guess I'm wondering once tenants are physically back into the office to whatever extent they will be, how long do you think it'll take the business leaders to determine how work from home and hoteling or de-densification, all those trends, how they're going to impact what their ultimate space requirements are going to be? And obviously, they typically can't act on that until their expiration. But I'm more interested in that first assessment and planning and decision process and how long that could take.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

Yeah. It's a hard question to answer because there are some tenants and particularly the ones we're in dialog with now about opportunities in the next 12 to 18 months who seem to have a pretty definite view on what they want to do. And most of those that have that point of view are the ones who are probably going to be completely or mostly work from office. So there'll be issues around physical layouts and whether they want to increase workstations by a foot or two and whether they want to put up some kind of glass partitioning at workstations and other choices they'll get in order to enhance air filtration and things of that sort. But by and large, I'd say there's a school of tenants that feel like they're going to be most or all back to work.

I don't labor under the illusion that work from home is a good thing. So it's hard for me to answer this question. I think when I look at it, but I'm biased; I think everyone's going to be back to work because those that work from home really solely to accommodate commutation issues or at least predominately commutation issues. I think those firms will suffer competitively. It's not a question of spiritually is it better or not. I think it's a question of are firms more efficient, productive, capable and competitive if they are not just work from office. Work from office is sort of just the tip of it. It's being on the road developing relationships.

Business is just not conducted out of a home and I don't see it happening that way. I know we could not have accomplished half of what we accomplished in the past 10 months if the entire workforce were at home. It would have been impossible given what we do in a given day. And we're not even a good example of it because there are other firms that really make their living off of customers where they have to be in the customer, entertaining the customer, [ph] kneading (00:48:13) their relationship. So I just don't really see it for the bulk of the firms that we deal with. There's a reason why we have 900 tenants who have substantial square footage. There might be more flexibility. Maybe it'll be a four-day week and one day at home. Maybe some firms will, I guess, permanently go to homes. I know some of the tech firms have originally said they would and now they're reconsidering it. And we're hearing that they're not going to go 100% work from home.

So I can't really tell you what that decision matrix is, only that the firms we're in dialog with tend to think they'll be predominantly work from office and want to be. For those that don't or aren't, we're probably not in dialog with those tenants is my guess. And whether businesses will work those things out over the next 12 to 18 months, I think they will. But as circumstances change, their decisions may change. And as they feel the need to be more competitive and to do what they want to do in order to be more sufficient, I think they may come back to the center which is why this market has 400 million square feet of office space. Work from home is not birthed new out of the pandemic. This is something that's been around for years and years and has been tested and the technology this year is the same with last year and the year prior. It's suboptimal. And I think most people would agree and those that don't will work from home.

**Blaine Heck**
*Analyst, Wells Fargo Securities LLC*

Q

Okay. Appreciate the thoughts.

**Operator**: Our next question comes from Craig Mailman with KeyBanc Capital Markets.

**Craig Mailman**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey, guys. We've just been hearing from a couple of private owners in the city that their tax assessments are coming in probably lighter than they expected. I'm just kind of curious if that is the experience that you guys are having this year and whether you think if you are that sustainable just given kind of the fiscal situation of the city.

**Andrew W. Mathias**
*President & Director, SL Green Realty Corp.*

A

I think the assessments have come out lower. The city hasn't set the mill rate yet. So the question is – there's two components of taxes. There's the assessment and then there's the mill rate. So I would say we're reserving until we see where the mill rate shakes out.

**Craig Mailman**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay, thanks. And then just one housecleaning for Matt. Just the leases that you did at 245 Park Avenue, is that going to lead to any outsized other income from just leasing fees in the first quarter?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Sure, a lot of housekeeping. You people must know what I do at home. It's the 245 Park Avenue leasing we get paid commissions on. We do budget for that stuff coming into the year. So it will result in commissions that we recognize in other income but nothing outside of what we had projected.

**Craig Mailman**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

So if we are to kind of do a run rate quarter-over-quarter, should we assume a decent step-down in that as the fees from the transactions closing last quarter kind of go away?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah. If you're looking quarter-to-quarter, yes. Those fees recognized in the fourth quarter would not be replicated in the first. But as to the 245 Park commissions or any other, that's in that kind of $6 million to $8 million every quarter of fees we generate from our JV partners from managing and leasing.

**Craig Mailman**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Right. Thanks.

**Operator**: Our next question comes from Vikram Malhotra with Morgan Stanley.

**Vikram Malhotra**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks for taking the question. Matt, I'm not going to call it housekeeping or cleaning. I'll just call it the model question because you're the expert there. Just on – can you remind us what the sort of bad debt reserves taken in the fourth quarter on the portfolio? And then how should we anticipate potential additional reserves in 2021 and potentially new reversals?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah. So in the fourth quarter – appreciate not calling it housekeeping. The reserves we took in the fourth quarter were about $6.6 million [ph] 26667 (00:52:30) on AR, so actual receivable reserves. That's across the portfolio, consolidated joint venture. We took no incremental reserves on straight line. So overall, reserves are down in total and roughly flat on the actual reserve or on the actual AR trend this year. We leave some conservatism in our numbers historically and even more so in this environment for potential reserves. We can't project those forward. Otherwise, we'd have to take them now. So I'll just say we put conservatism into our numbers for 2021.

**Vikram Malhotra**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Fair enough. And then just maybe another question just on the DPE book. I think the two [ph] positives (00:53:15) – I think, one, you took some losses I believe on the retained positions. And I don't know if that was sort of just part of your quarterly CECL review. But also just your view of recovery in the market overall, can you talk about how you think DPE opportunities may trend for you in the balance of the year?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

Yeah, I'll take the first part of that. That is part of the CECL review we do every quarter. We sold one position during the quarter, but that was at par. So we didn't have to take much of a mark there. The reserves on retained were part of CECL and they were on retained retail investments. And then I'll leave the opportunities question to either Andrew or David.

**Andrew W. Mathias**
*President & Director, SL Green Realty Corp.*

A

Well, we did on the goals and objectives talk about finding some interesting deployment opportunities in DPE to the tune of $100 million or so. And yeah, I think we're starting to see that market materialize where there are some interesting capital opportunities. And we're definitely – the shingle's still out and we're still evaluating opportunities and conveying that to everybody in the market. And I think we will see some very interesting opportunities hopefully in the early part of this year.

**Vikram Malhotra**
*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you.

**Operator**: Our next question comes from Anthony Paolone with JPMorgan.

**Anthony Paolone**
*Analyst, JPMorgan Securities LLC*

Q

Thanks. I guess first question is for Steve on One Madison. Can you talk about just activity there, put brackets around maybe what types of requirements you're seeing in the market that could line up with that asset?

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Yeah. We've got a couple of tenants that we're in early conversation with. But let's remind everybody that the process for marketing a large development like that is we start with educating the brokerage community. Then we go after the tenants. Then we ultimately see the deals. I think we're ahead of schedule as far as the level of tenant inquiries about the building. And we're feeling really strong about the feedback that we're getting from both the brokers and the tenants that we presented the building to with regards to the product that we're offering, the development plan that we've got and the timing of delivering the building at the end of 2023, which I think is going to be sort of like spot on as the perfect time to deliver a big block of the best space in Midtown South.

**Anthony Paolone**
*Analyst, JPMorgan Securities LLC*

Q

Okay. And then I guess just one question for Matt. Is there a way to think about – you mentioned in the last, I think, question around the reserves and stuff in those – I think you had 95% collections roughly in the quarter. Is there a way to think about what was recognized like in your NOI for FFO purposes like is it some number in between what you collected and what was actually scheduled or is...

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

There's no easy way to correlate it. So the answer to your question is no. The numbers that run through your income statement reflect straight line. They smooth out deals that you've done. So collections are definitely correlated to cash NOI and our cash flow. But you're not as likely to find a good correlation on the earnings side to collections.

**Anthony Paolone**
*Analyst, JPMorgan Securities LLC*

Q

Okay. Fair enough. Thanks.

**Operator**: Our next question comes from Nick Yulico with Scotiabank.

**Nicholas Yulico**
*Analyst, Scotiabank*

Q

Thanks. First question is just going back to the expirations this year. If you had just a sense for kind of how many of those you feel confident about getting renewed at this point. And then also just kind of relating it back to – I know you had the 93% same-store occupancy goal for this year and how that factors into that as well.

**Steven M. Durels**
*Executive Vice President, Director-Leasing & Real Property, SL Green Realty Corp.*

A

Well, I think the answer is the same to both questions, which is there are no surprises with regards to lease expirations this year that – no new surprises beyond what we already have in our budget. Everybody that has a lease expiration for this year and next year, we're in deep dialogue with. We have very good clarity as to who's likely to stay and who's likely to go. And there's been no change in our expectation since the Investor Day when we rolled out our renewal goal and objective for the year.

**Nicholas Yulico**
*Analyst, Scotiabank*

Q

And I guess just in terms of just relating it back to again kind of holding the occupancy somewhat flat for the year, [indiscernible] (00:58:36) you just assume a very high retention rate? Is there anything in terms of vacancy being filled up in the portfolio you should think about?

**Matthew J. DiLiberto**
*Chief Financial Officer, SL Green Realty Corp.*

A

So it's a combination of both of those things. So when we looked out over our leasing of 1.3 million square feet, there's a good portion of that that is renewal. What is not could be leased up later this year or into next. But offsetting that additional vacancy is the lease-up of vacancy that we recognized this year. So we had some vacancy at 485 Lexington as an example or 1185 Avenue of the Americas. That came in in 2020 and early 2021. That's getting leased up later in 2021 such that at the end of the year you remain roughly flat.

**Nicholas Yulico**
*Analyst, Scotiabank*

Q

Okay, thanks. That's helpful. I guess just the last question there is on – Marc, going back to the idea about – you seem positive about the work environment staying – people now wanting – with businesses not wanting to work from home. I guess what I'm wondering is are you actually actively spending time sort of surveying a broad piece of the corporate America on this topic or is a lot of that based on sort of what you said where you're talking to people and that's what they're telling you or maybe you're missing some of the other conservation. I'm just trying to understand kind of what's backing this confidence level that you have.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

A

In terms of surveying, the partnership I think has done one or two surveys of all the businesses in New York. But that was last year and that was more to get a sense of timeline for return as opposed to what go-forward new program would be. So my data points, my survey are discussions with tenants in our portfolio, period. We have like I said 900 tenants big and – we uniquely cover the gamut from small tenants to the largest, most affordable rents to the highest premium rents and everything in between.

So I feel like, man, if we don't have a good handle on a cross-section of New York City business and tenants, then shame on us because that's a pretty good pool of – a sample pool, if you will, to get a sense of what business is thinking about New York City. And there's very few conversations I have where companies are saying to me we're going to go work entirely from home or predominantly from home or even half from home. So to your point, maybe people are telling me what they think I'd want to hear. It's not a scientific survey; it's more anecdotal. But it's many months of many conversations. And all I can say is that the preponderance of those conversations go anything like this, we can't wait to get back, we're dying to get back, this work from home sucks. I can go on and on.

I'm trying to think of people who say, boy, we're just never going to return to the office or we're going to keep [indiscernible] (01:02:10). We don't have it or I don't see it. So is that the case in California or Silicon Valley? I can't tell you. Is that the case for tenants not in our portfolio? I can't tell you. But with the large and small and medium-sized financial institutions, small business that really needs to have a presence here or they've become irrelevant, which is the majority of our portfolio at least by number of tenants. The dynamism and the action I think happens within the city. I don't think it happens at home.

So I'm also going a bit on my own gut and instinct; 30 years in the business and I have a point of view. And I think that's hopefully an educated point of view that by and large when the all clear signal is, people will return. Now, might there be 5% or 10% that either works from home or works in some kind of a hoteling basis? Yeah, it's possible. But might not space requirements on a space per employee basis go up by 5% or 10% to kind of de-densify, which we are – we have de-densified. So we're not that unique. So if we took our footprint that was designed pre-COVID, went back, de-densified it by about 5% or 10%; I don't see why everyone is not going to do that. And everyone who asks us for advice on it, we give them our program which is a 5% or 10% de-densification whether they follow it or not. So I guess I'm thinking that those two things will largely offset. And we'll be in good shape once we get past this period of time. But it's not a survey. It's certainly not national. And it's quite possible that I'm missing the voices of people not in the portfolio.

**Nicholas Yulico**
*Analyst, Scotiabank*

Q

All right. Thanks. Appreciate the time, Marc.

**Marc Holliday**
*Chairman & Chief Executive Officer, SL Green Realty Corp.*

Thank you. So I think with that, we are at the end, just right after 3:00 on the nose. So thank you for whoever still made it to the end and listening. And let's hope for better times ahead and looking forward already to having some good results to put up on the board in April.

**Operator**: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.