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SL Green Realty Corp. (SLG)

Q1 2024 Earnings Call

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Analyst, BTIG LLC

Ronald Kamden
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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us and welcome to the SL Green Realty Corp's First Quarter 2024 Earnings Results Conference Call. This call is being recorded. At this time, the company would like to remind listeners that during the call, management may make forward-looking statements. You should not rely on forward-looking statements as predictions of future events as actual results and events may differ from any forward-looking statements that management may make today. All forward-looking statements made by management on this call are based on their assumptions and beliefs as of today. Additional information regarding risks, uncertainties and other factors that could cause such differences to appear are set forth in the Risk Factors and MD&A sections 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 2024 earnings and in our supplemental information included in our current report on Form 8-K relating to our first quarter 2024 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 yourself to two questions per person. Thank you.

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

Marc Holliday

Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.

Okay. Good afternoon. And thank you all for joining us today. We appreciate the opportunity to discuss with you our results for the first quarter and review with you our recent announcements. It's been years since I've felt this optimistic about the trajectory of our business. After a challenging few years where we navigated unprecedented change by keeping focused and working harder than ever, we've emerged with a stronger portfolio, a more exciting and diversified business and an even sharper strategy moving forward.

Certainly nobody did more than us when it came to leasing within our portfolio, developing extraordinary projects, capitalizing on market dislocation and recapitalizing deals when others didn't. Our reputation and extraordinary relationships within the lending community allowed us to create plans to extend our debt maturities, capitalize and move forward. We're in the early innings of what we believe will be a period of market improvement, fueled by the strength of New York City's resurgent financial sector, signs of a re-emergence of the tech sector, and a new generation of workers who recognize that career advancement and relationship building doesn't happen at home.

Now, as we enter what we expect to be a period of significant growth and opportunity, we are encouraged by the market fundamentals, which we believe are shifting to become tailwinds. Even in this higher interest rate environment, there's a solid foundation of positive economic momentum among our strong and stable tenant base. The diversity of New York City's economy is reflected in our portfolio and is one of the core strengths of this market compared to other cities. A market where a record 192 leases were signed last year at triple-digit rents.

And contrary to the media hype, the vast majority of these premium leases were not signed in new construction projects, but rather in well-located, easily commutable and highly amenitized existing buildings.

This aligns extremely well with SL Green's portfolio and the elevated office experience in which our hospitality group specializes, and the leasing results for the first quarter certainly support the case. We leased over 630,000 square feet of space at an average starting rent of $93 per square foot, one-third of which were renewals and two-thirds of which were new leases.

On the investment front, we launched a $1 billion opportunistic debt fund in February. The only one of this scale that is entirely New York City centric. This fund will allow us to capitalize on current capital market dislocation through the discounted acquisition of existing debt investments and the origination of new high-yielding debt instruments.

Fundamentally, we are looking to replicate our approach for the last 26 years of investing in the best properties in New York City via strategic debt investments. The feedback is that no one is better positioned to take advantage of the moment in this market as we are and our initial closings are targeted for sometime this summer. Just this past week, the governor and the legislature have reached agreement on a comprehensive office-to-residential conversion bill, which should be printed tomorrow and voted upon and signed this weekend.

The conversion program is particularly targeted to existing Midtown Office Building South of 96th Street and Lower Manhattan office buildings as well. SL Green has played an instrumental role in helping to get this legislation passed as part of the state's new fiscal budget. And we applaud Governor Hochul, the Senate and the Assembly on the doorstep of passing this landmark office-to-residential conversion bill, which I believe will have a transformative effect on this office market, much in the same way that we called very early on the transformative effect that East Side Access would have on the Park Avenue corridor. I see this as being even more impactful than that event and certainly more comprehensive in a Midtown and Downtown encapsulated way.

By incentivizing the conversion of underutilized, obsolete office space to housing, this vital legislation will uniquely address three of New York's most pressing challenges. Amidst record high Manhattan office vacancy, the bill will create stability in the commercial office market, produce the affordable and market rate housing we need to overcome the city's housing crisis and generate foot traffic to support local retailers and restaurants in New York's central business districts.

While many of these conversions under the new program will be taking place over the next three to five years, the impact will be felt immediately, as owners remove their buildings from office space inventory and relocate out existing tenants into other buildings. Ultimately, we believe that somewhere between 25 million square feet to 40 million square feet of rentable space will convert under this program. If this bears out as we think, the result would be a significant reduction in available space, far accelerated from whatever would otherwise have occurred simply through natural absorption of space via demand.

Thanks to the leadership of the Governor and our elected officials in Albany, as well as to Mayor Adams for his City of Yes Zoning initiatives, the private sector is now positioned to again invest in New York City's housing future. As part of a new Conversion Incentive Bill, we are planning to be among the first out of the blocks with the conversion of 753rd Avenue from office to residential use. The conversion of 753rd will spur on this important new development for the city, and there'll be more to come on this throughout the year.

Lastly, we made enormous progress over the past year with our partners, Caesars Entertainment, Roc Nation on our vision for Caesars Palace Times Square. We had the opportunity to meet with hundreds of stakeholders, grow our coalition and gain significant support. We now know that this will be a long process, with bids likely not due until 2025. And we will use this time to continue strengthening our bid because the project is worth the extra effort and Times Square stands to gain so much. One thing we know for sure ours is the only proposal that is a true New York approach to gaming, providing benefits far beyond its walls.

Thank you. And we'd like to take your questions on the quarter's results, please. Operator questions. We – do we...

Unverified Participant

Operator, are you there?

Unverified Participant

[indiscernible] (00:09:38) the operator. [indiscernible] (00:09:53).

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Alexander Goldfarb with Piper Sandler. Your line's open.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey, good afternoon. Marc, let me first go to the office-to-resi conversion. I guess a two-part question and hopefully Matt doesn't say that's all my questions. But if we look at what Douglas Emmett did out in Hawaii, they've been able to convert building floor by floor, so they didn't have to take it out of service. Obviously for you guys, you've done 750, I think it's pretty fully vacant, but one, does this accelerate your plans and thoughts on how you would convert buildings? And then two, the buildings that are coming out, that 25 million square feet to 40 million square feet, are those really competitive with you guys? Meaning if those buildings go out of service, does that really force more office demand into your portfolio? Or what do you think the carry-on impact of that 25 million square feet to 40 million square feet going offline is?

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

A

Yeah, well, some of these buildings, they're all competitive to a certain extent because they form the bottom of the market or the bottom middle of the market. These are not bad buildings. They're just what I would call secondary buildings. Secondary buildings do not mean bad buildings. Some of them, when I use the term obsolete, it just means that they don't really warrant the full scale capital redevelopment and amenitization redevelopment relative to the types of rents that can be achieved in light of the concessions that would have to be given.

So, they're not bad buildings. The buildings in Midtown definitely by eliminating such a vast quantity of space and taking the tenants out of those buildings and relocating them into existing space, like we did at – 753rd is a perfect example. It's a good office building. It just in our eyes had a better, higher and better use and we've relocated many of those tenants out into our portfolio in other surrounding buildings.

So, don't get the impression that these Midtown buildings are bad buildings, simply because I use the term secondary or obsolete. They're just buildings that can be optimized as residential and should be optimized as residential and don't necessarily warrant the same level of investment as buildings that we have where we're achieving $90 a square foot and above. That's where that investment should go. And these buildings that might otherwise be $60 a foot or thereabouts on office rentable might be $100 a foot on resi square footage equivalent. So, it becomes very clear.

And your comment about what Douglas Emmett is doing in Honolulu, I think it's spot on. I mean, obviously, it's a different market, different size of market, but the point is the same. There was an example of one building having a fairly significant impact on an office market. Imagine dozens of buildings converting, being taken offline, tenants being relocated out. The way this bill is structured to get the maximum tax benefits, you have to file for your permits by sometime in 2026. That means you got to get going right now. This isn't one of those wait and see and I'll get to it in 2027, 2028, 2029. This is intended smartly to coerce not just ultimate transition to building, but expedited transition to building, because we want to see this affordable housing and market and workforce housing problem addressed right now, not 5, 10 years down the road. So, the tax benefits, I think to me, look intentionally coercive in a way that's very positive for city and positive for affordable renters who need solutions sooner than later.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. Second question is, are the $2 billion of debt that you guys did, clearly, I think exceeded what anyone would have expected, especially with only $40 million of debt paydown. But as you guys look to future asset sales and really the stake sales out of One Vanderbilt and others of your top tier assets, does the calculus change because everything's interconnected, right? You do refinancing. You do better than you expect. It means less pressure to sell a stake here or do other things. How does the $2 billion that you have achieved so far, does that change anything that you laid out at your Investor Day, either accelerating things or taking the pressure off the need off to do other things?

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

A

Well, I mean, look, it doesn't – it's not changing our business plan. We don't feel pressured. We're enjoying this. This is what we do and this is what we've done and what I've done for 33 years. We're in this because we love it, we enjoy it, and we view this as progress. We view this as putting points on the board for our shareholders. And we enjoy watching the impact on the stock and turning the tide and seeing New York come back.

So, we don't feel any more or less pressure to do anything. Our business plan remains the same, which is we do intend to sell or JV certain buildings, which we identified in the beginning of the year plus along the year, we may add or eliminate from that mix, but the aggregate amount of activity is still our goal and objective for the year, both with regards to debt modification, extensions and restructurings. As much as we just announced, we still have four or five big important deals that we're working on to go. And then two, on the disposition front, we think that the appetite, both domestic and internationally for the best well-located premium assets remains very strong and we remain committed to working through the monetization events of these assets like we've done for decades now as we harvest our gains and reinvest.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Thank you. One moment for our next question. And our next question comes from John Kim with BMO Capital Markets. Your line is now open.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thank you. I had a question on earnings excluding all the debt extinguishment and other one-time items, that was $0.98 for the quarter, which on a run rate basis is kind of modest. I was wondering if this is a good run rate and what's your visibility on additional one-time items, whether it's debt extinguishment or sourcing any fees from your debt fund?

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

A

Yeah, John, it's Matt. So, I read quite a bit of commentary out there that this was a miss, which kind of threw me because actually the quarter was ahead on our numbers. And if you look at what our guidance adjustment was, our new guidance range, what the adjustment we made back in January, the adjustment we made last night are due to the incremental DPO gains, discounted debt extinguishment gains at 2 Herald, 280 Park and 719 Seventh. That would say all of the other assumptions that fed our guidance back in December are intact.

So, [ph] at the (00:17:46) first, we don't guide on a quarter-by-quarter basis, we guide on a full year basis and our full year guidance is the same. So, if it was – it struck people as low in the first quarter, that's relative to their models, not ours. We were ahead of our model by a few pennies excuse me, mostly on the NOI and Summit side. And if people need to adjust their models to reflect higher in the second, third and fourth quarters to get back to the core number that we guided to, they should do that.

Our quarterly earnings are not linear. We have fee streams that come through that make them lumpy. We have NOI building over the course of the year as we increase occupancy. So, first quarter was better than our expectations and our full year guidance is intact.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Can I ask about 280 Park and the loan refinancing. It seems like there's very little residual equity in the asset. You didn't have to pay down any of the more senior mortgage, although part of the [indiscernible] (00:18:42). What was really in it for the senior lenders on this transaction?

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

A

So, first, I'd just make a statement upfront, disagree with the assessment about the residual equity. Not at all. With respect to just the market in general. And then, I'll speak about 280 Park, as we saw with all these extensions and what we're seeing both in the CMBS and the balance sheet side and as we demonstrated with all those announcements, we're able to get substantial runway [ph] and term (00:19:14) on all of these deals and in return, the lenders want to see some form of skin in the game. At 280 Park, we put up reserves for leasing costs that we were otherwise going to spend at the asset and in assets that have free cash flow, the lenders were looking for some form of skin in the game, which we demonstrated through some symbolic paydowns.

So, as we've been telling people on the past few earnings calls, these are lenders that we have big relationships with and they're looking – and they have tremendous faith in us. So, you should expect to see more of what we got done over the past quarter as we get down the balance of the $5 billion program.

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

Great. Thank you.

Operator: Thank you. One moment for our next question. And our next question comes from Tom Catherwood with BTIG. Your line is now open.

Thomas Catherwood
Analyst, BTIG LLC
Q

Thank you. Good afternoon, everybody. Obviously, very strong quarter on the leasing front. And Marc, you sound convinced on the durability of this demand. How does your leasing pipeline compare to the 1.4 million square feet roughly that you had at the start of last quarter? And could you provide some more color on the reemergence of the tech sector that you mentioned in your remarks?

Marc Holliday
Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.
A

Yeah. I'm going to actually hand that ball off to Steve Durels, so we can go right to the source here because he's in charge of that pipeline, obviously, and can go into some discussion about, after having done, by the way, big leasing in the fourth quarter, big leasing in the first quarter, you would think that pipeline is depleted, but maybe not. And on the tech sector, I can – we have some [ph] thoughts on that (00:21:06) as well.

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

Sure. So, just to give you a little color on the pipeline, it's – we're actually have grown the pipeline despite very strong leasing in the first quarter. We're now at a current pipeline of over 1.6 million square feet. Of that 1.6 million square feet, 840,000 square feet of it is actually leases that are out in current negotiation as opposed to over 700,000 square feet of term sheets that are in negotiation. Of that, two-thirds of the space are new tenants as opposed to renewal tenants. And I think another point to make within the pipeline is that of the leases that are out, almost 500,000 square feet of those leases cover current vacancy within the same-store portfolio.

With regards to the increasing demand from the tech sector, there's over 5 million square feet of current tech tenants that are being tracked in the market today, not necessarily just within our portfolio, obviously, but active tech requirements with tenants that are searching the market. That's a 53% increase from a year ago. And just to give you a flavor, we've seen tenants like Intuit and Fanatics and [ph] Figma (00:22:32) and a couple of other big household names that have started to kick tires in the market as a result of adding head count to their Manhattan employee population.

Thomas Catherwood
Analyst, BTIG LLC
Q

That's great. Thank you for that, Steve. And then, maybe on dispositions, obviously, it was great to see 719 Seventh and Palisades go into contract. And we understand that the mix can potentially shift throughout the year, though the aggregate remains the same. That said, is OVA, the partial interest sale there still in the plan. And what is the expected closing on 625 Madison?

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

A

Those assets are still very much in the plan, in active negotiations, documenting big deals. Big deals don't happen quick, nor do they need to be rushed. But we're confident in their outcome. And in terms of timing, I don't know if we've given any guidance beyond this year. I mean, we hope to get them buttoned up sooner than later, certainly OVA, which is more advanced. The second one you said was, did you say...

Thomas Catherwood
Analyst, BTIG LLC

Q

625.

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

A

625 closing or, that was in contract. Yeah. So, is the question there about closing timeframe on 625?

Thomas Catherwood
Analyst, BTIG LLC

Q

Yes.

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

A

Okay. Yes. That deal is slated to close at the end of this month. And so, it's another two weeks or so. And we're going through the motions with the buyer to go through that closing process and expect that to happen in this second quarter. And OVA, I mentioned we're [ph] steaming away on (00:24:20) and then, 245 Park is another one that you know we're getting enormous traction on leasing. We have more leases pending that are in that 1.6 million square feet. The JV execution is enhanced for all of us, the company, shareholders, everybody. The more leasing we get done, the better. So, we're just going to keep leasing ahead of even really having started the redevelopment. But on the promise of the redevelopment and the commitment of the redevelopment, which I think is going to make it one of the best non-new buildings on Park Avenue.

Thomas Catherwood
Analyst, BTIG LLC

Q

Great. Appreciate the answers. Thanks, everyone.

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

A

Thanks.

Operator: Thank you. One moment for our next question. And our next question comes from Ronald Kamden with Morgan Stanley. Your line is now open.

Ronald Kamden
Analyst, Morgan Stanley & Co. LLC

Q

Great. Hey, just two quick ones for me. I – just staying on the leasing front, if I could just add, if you could talk about sort of the mark-to-market on the leases in the pipeline, because I saw you reiterated sort of expectation on both sort of the occupancy targets as well as the leasing volumes this year, which based on the pipeline, it sounds like you're well on track. But maybe talk a little bit about the mark-to-market? Thanks.

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

A

Yeah. Just to give some color on, the negative mark-to-market in the first quarter were really driven by two buildings. We had a number of leases at Graybar Building and 803rd Avenue, that's – were sort of drove the negative mark-to-market for the overall leasing for the quarter. On balance, most of the leases signed in the rest of the portfolio were generally positive. So, it's unfortunate that we had a couple of stragglers that pulled us down. But as we look forward into leases that are out right now and then beyond that, the overall pipeline of [ph] 1.6 million (00:26:28) square feet, we've got some big positive mark-to-markets. And that's what gives us the confidence to assure ourselves that we're going to be positive for the year.

Ronald Kamden
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then, just my last one, and I guess, it kind of ties into asset sales, which you just touched on. But just taking a step back on terms of the target of the year, how much sort of debt you wanted to take out on the balance sheet? If you think about sort of the refinancing success you had, the plan for the asset sales, how is that sort of trending? Is there in line with expectations? Could you even do better? Just trying to get a sense of how much [ph] debt (00:27:10) can come off the balance sheet this year. Thanks.

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

A

What Marc said earlier is that our business plan remains intact. And that's true. So, we laid out in December, north of $1 billion of debt reduction through execution of this plan. So, at a minimum, we would expect that. But we've have had some additional success in things like the discounted debt extinguishment at 2 Herald in some asset sales we didn't have wired in like 717 and 719 in Palisades. So, that would see us be even ahead of that original target that we laid out back in December if we execute the entire business plan we have laid out.

Ronald Kamden
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much.

Operator: Thank you. One moment for our next question. Our next question comes from Michael Griffin with Citi. Your line is now open.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks. Maybe just going back to the refinancings for a bit that you did in the quarter. Should we take this as an indication that lenders are more willing to work with owners as opposed to having to take back the keys or is it mainly specific to the existing relationships that you have in the market?

Marc Holliday
Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.
A

Yeah. I don't want to generalize the activity to anything beyond SL Green, our assets, our relationships, et cetera. I think it's a still a tough market out there. And as Harry said earlier, it's going to come a lot down to belief in the sponsor, the sponsor's plan, making sure skin is in the game, equity in the deal, et cetera and where it all lines up. I think, lenders, many lenders have and will conclude that that's the best path towards at loan resolution, optimization and payoff. But that isn't necessarily every case you see throughout the city. There's examples of what we've done and there's examples that have gone in the other direction. And it's going to take a while to work through all of the effects of the interest rate increases, which have occurred over the past two years.

But we feel very fortunate that we're positioned in a way that we think we can manage through all of that in a very steady, responsible way and position ourselves for growth this year, which I think is what you're hearing. And with the backdrop of improving leasing market and office-to-resi conversion program, that harkens back to what I said earlier today, I think the trajectory we're on is very, very good and we're optimistic. But I don't think you can really just sort of generalize from that or extrapolate them.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.
Q

Got you. That's helpful. And then, maybe a question on the 10 East 53rd transaction, just looking at this property, the rents seem relatively attractive, call it in the mid-to-high 80s, it's fully leased, it seems cash flow positive. I'm curious, if you can give any insight as to why your JV partner decided to exit that building? And could we see, I guess, a potential for more of the same for some of your other joint venture relationships and exiting some of these properties?

Marc Holliday
Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.
A

We have a policy here not to comment on what our partners or lenders are thinking, and I don't want to put words in their mouth, but we'll continue to look for opportunity. We invest in real estate and if we see opportunities that make sense for us, we're going to continue to do it.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.
Q

Great. That's it for me. Thanks for the time.

Operator: Thank you. One moment for our next question. Our next question comes from Camille Bonnel with Bank of America. Your line is now open.

Camille Bonnel
Analyst, BofA Securities, Inc.
Q

Hi, everyone. Can you speak to the thought process of moving forward with the disposals of 719 and the Conference Center, just given these assets were not in your December pipeline? And how should we be thinking about further deleveraging opportunities since you're working on another $3 billion?

Marc Holliday
Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.
A

Yeah. In both instances, those are opportunities that were in front of us, they came up. Certainly as it pertains to Palisades, that was not an asset that we had a long-term strategy for [ph] not part of our (00:31:53) core business plan. But again, continue to see, look for us to [ph] mine (00:31:58) opportunities as they sit in front of us, even if they're not in the main business plan.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. And as you work through your disposition and deleveraging program, how do you think about the earnings volatility when more and more of your cash flows are becoming weighted to ancillary income?

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

A

[indiscernible] (00:32:21) that's the case.

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

A

Well. Yeah, no. I don't think that's the case at all. But we are building ancillary income streams [indiscernible] (00:32:26). I don't think it's becoming disproportionate to that. We're trying to grow things like our special servicing business [ph] that we're going to (00:32:32) – the fund business and we're managing joint venture interest. That's good business. It's diversifying the revenue streams that you should do. Separate and aside, we have plans, as we always do, to acquire assets, dispose of assets. We have had a de-leveraging strategy for a couple of years. We have more of that this year and then we're going back on offense. So, I think they're kind of separate and distinct. We'll continue to try and grow and diversify the income streams while managing the balance sheet and the portfolio with opportunistic acquisitions and dispositions.

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

A

Yeah, I wouldn't want to minimalize the attractiveness or the importance of a business line like [ph] some of the (00:33:14) entertainment and the ability to grow that globally. Technically you can call it, I guess, an ancillary business income line. But I look at it as a substantial additional attractive business that we've developed organically, in-house. It's very profitable and it's fairly capital light. We're working to expand that into other locations now. We're making good progress. And I think it's quite an important reason overall to be interested and attracted to SL Green stock is not only our prowess in what we do in commercial space in New York City, but what we do in the areas of hospitality, food and beverage, entertainment, soon, hopefully in the funds management business, definitely already deep into the special servicing business, which is a fee-for-service business where we've gotten incredible traction over the past. Well, really since inception. I don't know. We didn't mention, we just got an additional rating from...

A

Morningstar.

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

A

...from Morningstar, [ph] but what's (00:34:23) the acronym..

A

DBRS.

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

A

DBRS Morningstar just gave us our third designation as an accredited special servicer, large loan, SASB loans. These are accreditations, not easy to come by. And having that now from S&P and Fitch and Morningstar, gives us an ability to create all sorts of new client and customer relationships. I think, we've got close to $10 billion specialty serviced right now, and that's top of about another $7 billion that we've serviced previously and we're just getting started there. So, they're important business lines. We focus on them. We have people internally who specialize in those areas and we're looking to grow all of them.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Omotayo Okusanya with Deutsche Bank. Your line is now open. Omotayo, your line is open. Please check your mute button.

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good afternoon. Can you hear me?

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

A

We can now.

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Q

Excellent. Could you talk a little bit about the lumpiness of earnings in Summit? Specifically, I'm kind of wondering whether that's why you may have been getting some of these [ph] news (00:36:01) in first quarter, saying it was an earnings miss, given that probably most of the earnings associated with that business happens over the summer?

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

A

I got it.

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

A

I've got to restrain that.

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

A

Yeah. Marc is going to hold me down because if I hear earnings miss one more time, I am probably going to lose my mind. So, there was no miss. If we missed anybody's model, it's because your model was wrong, not the numbers. Separately as to Summit, it is actually fairly linear. The fourth quarter is slightly better and the first quarter is slightly lower. We actually do only shut down for two weeks a year at Summit and that happens in the first quarter. And obviously, the fourth quarter is buoyed by holiday sales. But generally speaking, the Summit is pretty linear because we're sold out just about every timeslot on every day and maxed out.

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Q

That's interesting. Okay. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Peter Abramowitz with Jefferies. Your line is now open.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Thank you, guys. Just continuing on kind of the topic of the earnings trajectory throughout the year, I think if we back out the debt extinguishment and one-time items, it's implying about a $1.11 per quarter for second through fourth quarter versus kind of the $0.98 without the debt extinguishment in the first quarter. So, just kind of curious if you could provide an overview. I know you said it's lumpy throughout the year, but if we average it out, should be getting to that $1.11. So, what kind of bridges the gap from first quarter to where you expect it to be for the rest of the year?

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

A

So, I'm not going to give quarterly guidance. We don't, never will. We give annual guidance. The earnings can be lumpy depending on success fees that come in through special servicing or fees recognized on sale transactions or the like. So, we give full year guidance and there is an acceleration of income obviously, off the first quarter as the first quarter is low. And obviously, that's not going to, if you run rate that, it's not going to get to the full year guidance that we gave. How it bounces quarter to quarter is going to be dependent on how deals close or special servicing fees are recognized or how occupancy take shape. But we are confident in the full year number and that's why we maintained it.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. So, I guess, to the extent that, if you're expecting, say, an acceleration on the NOI side, is that mainly just mainly, just improving occupancy?

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

A

Yes, of course, we released the 1.8 million square feet last year. We're going to lease 2 million square feet this year. Occupancy is increasing, rents are increasing. That translates into NOI increasing.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay, that's all for me. Thanks.

Operator: Thank you. One moment for our next question. Our next question comes from Steve Sakwa with Evercore ISI. Your line is now open.

Steve Sakwa
Analyst, Evercore ISI

Q

Yeah, great. Thanks. Matt, I was going to ask about the earnings miss in the quarter. I'm just kidding.

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

A

You're banned, Steve. That's it.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay. Marc, I know you don't like to talk about kind of partners, but I guess the transaction at 280, your ability with Vornado to basically pay off the mezz portion of that at $0.50 on the $1 was just a bit eye opening. And I know you can't speak for your partner specifically, but was that a situation where maybe their cost basis wasn't at full par and that gave them some flexibility to do something with you at a lower rate? Because if there was [ph] view to have (00:40:03) a lot of equity value in the building, I know if you were sitting in their shoes, you might not sell it at $0.50 on $1. So, I think we're just trying to get our arms around, it's a great execution on your part. How that sort of maybe played out.

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

A

I got to tell you, I think in times like this, trying to overthink and overread people's motives is dangerous. This is a foreign lender who has their own set of mandates, issues, objectives, things that we don't know and can't get into and don't really want to get into. This is not at all unusual. There are lenders that have mandates to kind of reduce real estate as a percent of assets period. And it's not a wrong or a right objective. It's an objective and it's not an unusual objective. And in those cases, there can be negotiations around what is and isn't the right price and value for a debt instrument at a moment in time that looks to want to be liquefied and monetized in an environment that I said earlier is still capital constrained but getting better. And then there are those that will restructure and term out and hang in there and have different objectives.

So, to say that, we all know how to calculate how much equity is in a deal. You run the numbers, the numbers derive a current and a stabilized value. And that's how we've always done it. And rates vary and values vary, but I don't think it's a black box and we believe there's equity in the deal. I think the lender probably believe there was certainly stabilized future equity in the deal. But I think that's disconnected from what any party decides to do at a moment in time here in April or March or April of 2024. You do what's in your best interest at the moment. And to take any – a moment like that and try and extrapolate as to what this building is going to be worth. When does the debt mature, Harry?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

September 2028.

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

A

September 2028. So, we'll revisit this issue like close to 2029, and we'll have the conversation then about the equity in the deal in 2029. I think this building is going to ultimately respond well to this market. I mean, we're working hard to lease it up. I think we did the Antares lease.

A

This facility is 76,000 square feet.

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

A

76,000 square feet, [ph] where are the props on that Steve Sakwa come on, maybe (00:43:07), and we've got more pendings. So, us and Vornado are in it for the duration. The duration is defined, I guess, for the next four and a half years, and every party did what was in their best interest. It's not a war. It's not a fight. It's not a gamesmanship thing. I think it was – this was a sensible business deal. Everybody decided where they wanted to be and on we go.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay, great. Thanks for the color. Maybe, Matt, on the dividend, just how are you guys thinking about the dividend if you've got these investment opportunities in front of you, just remind us kind of where the dividend is in relation to taxable net income. And might that dividend be served better either through debt reduction or through kind of the investments that you made, say a 10 East 53rd?

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

A

Yeah, the dividend was set based on taxable income, which 100% of taxable income, that's the basis for it. And we've been monitoring that closely because we've been generating incremental gains. These DPO gains are taxable income as well. But we have strategies we can employ and try to maintain that taxable income trajectory that we've been on to keep the $3. So, very comfortable with our $3 as [ph] were when we (00:44:23) set out, even more so now. And we'll look at the dividend again at the end of the year. But we've said over and over again how important the dividend is to us.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from Caitlin Burrows with Goldman Sachs. Your line is now open.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good afternoon, everyone. Like you mentioned earlier, 4Q was an active leasing quarter, 1Q was [ph] too (00:45:02). We've heard from some industrial companies that – we've heard some from some industrial REITs that companies are being hesitant about signing big leases. So, I was just wondering, are you seeing any of this hesitancy related to macro uncertainty play out in your pipeline or does it just seem like a different story?

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

A

No, not at all. I mean, there's no doubt that if you looked at the stats for – overall market stats for the first quarter, big tenants, there was a dearth of big leases signed. But if you looked, scratched the surface on the pipeline and deals pending, not only within our portfolio, but if you looked on the tenants in the market list, active tenant searches that are out there, there's some very, very large requirements. I mean, we – I don't recall a moment in time where I had the same number of large leases out or term sheets out with large tenants that we do today.

So, I think what you saw in the first quarter is simply a quirk in timing. There were a lot of big deals signed in the fourth quarter. And I think you're going to see a bunch of big leases signed in the second quarter and through the balance of this year.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Okay.

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

A

And one other point I'll make is that the vast majority of big leases that are that are being signed or were signed in the first quarter were all relocations. And those are long-term commitments by tenants of size as they bring their employees back to the office.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then, I know earlier you guys talked about some of the disposition and JV outlooks. Just going back to 245 Park briefly, were you saying that you're planning to maybe do more leasing before focusing on the additional JV sale or is that something that's kind of moving along and could be done any time, I guess, any update on the 245 Park JV in particular?

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

A

Yeah. Message we, I think also delivered down at City was, this is a big focus for us for the second half of the year. We've got some leasing in pipeline that we're trying to complete, as Marc noted and I think it will package very well as we get into the second half of the year and get some more of these business plan objectives done through the first half of the year.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. Thanks.

Marc Holliday
Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.
A

Operator, do we have any more questions?

Operator: Our next question comes from Blaine Heck with Wells Fargo. Please go ahead.

Blaine Heck
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks. Just two quick ones for me. Just following up on the potential sales of interest at OVA and 245 Park. Obviously, we've seen some fluctuation in foreign exchange rates and a pretty dramatic recent increase in the tenure. So, I guess, the question is, have those dynamics impacted the interest level from any other perspective investors on those deals? I guess, has anyone fallen out of the running?

Marc Holliday
Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.
A

No.

Blaine Heck
Analyst, Wells Fargo Securities LLC
Q

All right. Fair enough. And then, I think you mentioned putting some leasing cost reserves in as part of the modification of the 280 Park loan. Can you quantify how much that was?

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

The amount that we put in collectively with Vornado was approximately $68 million.

Blaine Heck
Analyst, Wells Fargo Securities LLC
Q

Great. Thank you.

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

So, [ph] $34 million each (00:48:42).

Operator: Thank you. This concludes the question-and-answer session. I would now like to turn the call back over to Chairman and CEO, Marc Holliday for closing remarks.

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

Thank you. Again, kudos to the whole team here at SL Green because I know they're listening on this call. It was a great, great launch to the year, a fantastic three months and we're busy at work here making sure that when we speak again in three months, we'll have hopefully some equally good news, maybe even better news. And we look forward to it. Thank you.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.