



SL Green Realty Corp. **Building** 1999 Annual Report
Value

Better than A Greater than B

A Real Estate Investment Trust (REIT) is a financial entity which was created by Congress in 1960 to enable individuals and institutions to invest in income-producing real estate via publicly traded securities. REITs reduce barriers to real estate ownership for those who lack the capital, or time, to assemble a diversified property portfolio on their own.

The goal of SL Green Realty, a fully-integrated, self-administered and self-managed REIT, is to own and operate the most compelling portfolio of older, classic office buildings, customarily called Class B properties, in Manhattan. These buildings are found in the most desirable locations and offer tenants superior office facilities at significantly lower costs than Class A properties. As the only public REIT exclusively focused on the Manhattan real estate market, SL Green is a pure play for investors to **OWN A PIECE OF NEW YORK.**

By focusing on location, infrastructure, management and value, SL Green has established a new class of New York office space—one that is more cost effective than Class A space—and offers far more than typical Class B space. These are properties that are truly in **A CLASS OF THEIR OWN.**

Financial Highlights

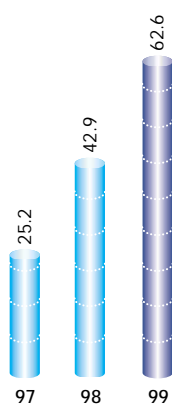
Operating data

year ended December 31

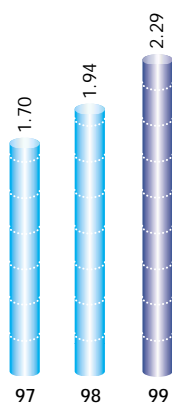
in thousands except per share and operating data

	1999	1998	% Change
Total revenue	\$ 206,017	\$ 134,552	53.1
Funds from operations (FFO)	\$ 62,645	\$ 42,858	46.2
Funds from operations per share (diluted)	\$ 2.29	\$ 1.94	18.0
Real estate assets (before depreciation)	\$ 908,866	\$ 697,061	30.4
Total market capitalization	\$ 1,169,050	\$ 847,627	37.9
Net rentable area (including joint ventures)	8,539,800	6,254,000	36.5
Annual dividend (per common share)	\$ 1.41	\$ 1.40	0.9
FFO payout ratio	62%	72%	

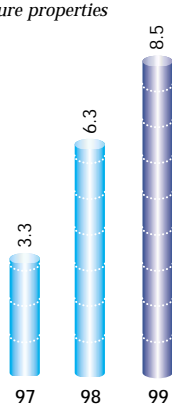
Funds from operations
(in millions of dollars)



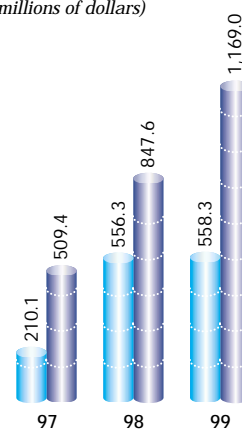
FFO per share (diluted)
(in dollars)



Net rentable area
(in millions of square feet including joint venture properties)



Book equity and total market capitalization at year end
(in millions of dollars)



Book equity

Total market capitalization



To Our Shareholders

Another year has passed since I last wrote to you our shareholders, and in the immortal words of Charles Dickens, "it was the best of times, it was the worst of times."

Symbolizing "the best of times" in many ways, 1999 was a defining year for SL Green Realty. We not only achieved the objectives which we set for ourselves at this time last year, but also delivered on the promises made to our shareholders at and since our IPO.

An Outstanding Year During the year, we began repositioning our portfolio from smaller side-street properties to larger, avenue properties with higher tenant quality. This process began with the acquisition of three major Class B properties comprising 2.5 million square feet, each having huge upside rental growth and repositioning possibilities. But we were not just acquirers, as we brought our investment strategy full circle by harvesting the value created in some of our smaller side-street properties. These property sales, comprising about 250,000 square feet, when closed, will harvest more than \$20 million in net capital. In total we increased our property ownership by nearly 50%, creating a portfolio of 9.1 million square feet. So too, we have cemented our position as the brand name in Class B office space in New York City. The year was a financial success as well, as we posted an 18% growth in earnings (FFO) comparing favorably to an industry average of 9.6%.

Competing in the Capital Markets With so many achievements in 1999, how could the year also symbolize "the worst of times?" The REIT industry in general and our firm in particular are experiencing a tremendous disconnect between the value of our stock and the value of our real estate. There is no more obvious example of this than that demonstrated by our two recent building sales, which sold at a weighted average of \$178 per square foot, while our stock trades at an implied value in the mid \$130's per square foot.

On a comparative basis, SL Green's results in the capital markets were good. Our 7.75% total return (dividends plus price appreciation) to shareholders was over 23% better than the returns of the S&P REIT Index.

A Dynamic Real Estate Market While our 1999 successes give us reason to be pleased, more important to you, the shareholder, is what the future holds. The New York real estate market continues to be strong and dynamic, which is reflected in the continued upsurge in B rental rate growth. This is best exemplified by the fact that our average asking rent of \$35 per square foot today, is 29% greater than the current average in place rents of only \$25. More importantly, there is no indication of a reemergence of the rampant speculative development experienced in the 1980's.

Stephen L. Green *(seated)*
 Chairman of the Board and Chief Executive Officer

(from left to right)

Marc Holliday
 Executive Vice President and Chief Investment Officer

Gerard T. Nocera
 Executive Vice President—Leasing

David J. Nettina
 President and Chief Operating Officer

Concurrently, available square footage continues to shrink, primarily from demand driven by the increasing presence of new media, technology, and internet firms which created many of the over 85,000 new jobs in the New York metropolitan area. Interestingly, downtown CBD markets are thriving as technology jobs have clustered in urban centers. Technology was supposed to make geography less relevant to business growth and allow rural areas to compete with central cities. How is it, then, that in a world where large CBDs like New York were supposed to become irrelevant, high-tech and computer related businesses are resulting in large job gains?

The answer is clear. High-tech and new media professionals tend to be extremely well educated, sophisticated individuals who are overwhelmingly drawn to large cities. In a recent national survey commissioned by Cushman and Wakefield, computer service professionals chose New York more frequently than any other city, when asked where they would most like to work.

2000 and Beyond These strong market conditions will make the acquisition process more challenging, playing to our competitive advantage. As the brand name in this market, unique buying opportunities present themselves to us first. More than ever, you need to know this market to make these acquisitions work. As we harvest capital, we also will increase our asset allocation on preferred equity and high yield assets, affording us an entrée to future acquisitions at less than today's prices, while providing strong current returns for shareholders.

While real estate continues to be our main focus, we believe the recent passage of the REIT Modernization Act presents an opportunity to further exploit our real estate. We are examining a number of initiatives in related businesses, complimentary to our core real estate activities. As New York City rapidly develops into one of two dominant technology centers in the U.S., we see an opportunity to develop strategically significant ventures in emerging technologies.

While we are proud of our 1999 achievements, we are mindful that our ultimate goal is to increase the price of our stock, not just the value of our real estate.

I recently received a letter from a friend, which best conveys our vision of the future: "Value investors and momentum investors are tempted by very different assets and respond to their temptations very differently. A value investor is like a crop engineer who assesses a field on the basis of objective criteria, calculating which crop will yield the greatest return per acre. Whereas a technology investor in this momentum market is akin to an art buyer tempted by the beauty of a portrait. Beauty trades on its speculative value. Our approach, on the other hand, is akin to the crop engineer analyzing the value of a field of wheat rather than falling in love with a field of dreams."

I believe strongly that value investors will soon re-emerge and be seduced by our field of undervalued New York office buildings as opposed to the momentum investor's field of dreams.

Sincerely,



Stephen L. Green
 Chairman of the Board and Chief Executive Officer

Largest office market in the world

Larger than the combined CBD's
of six next largest US cities

A Vast and Unique Market

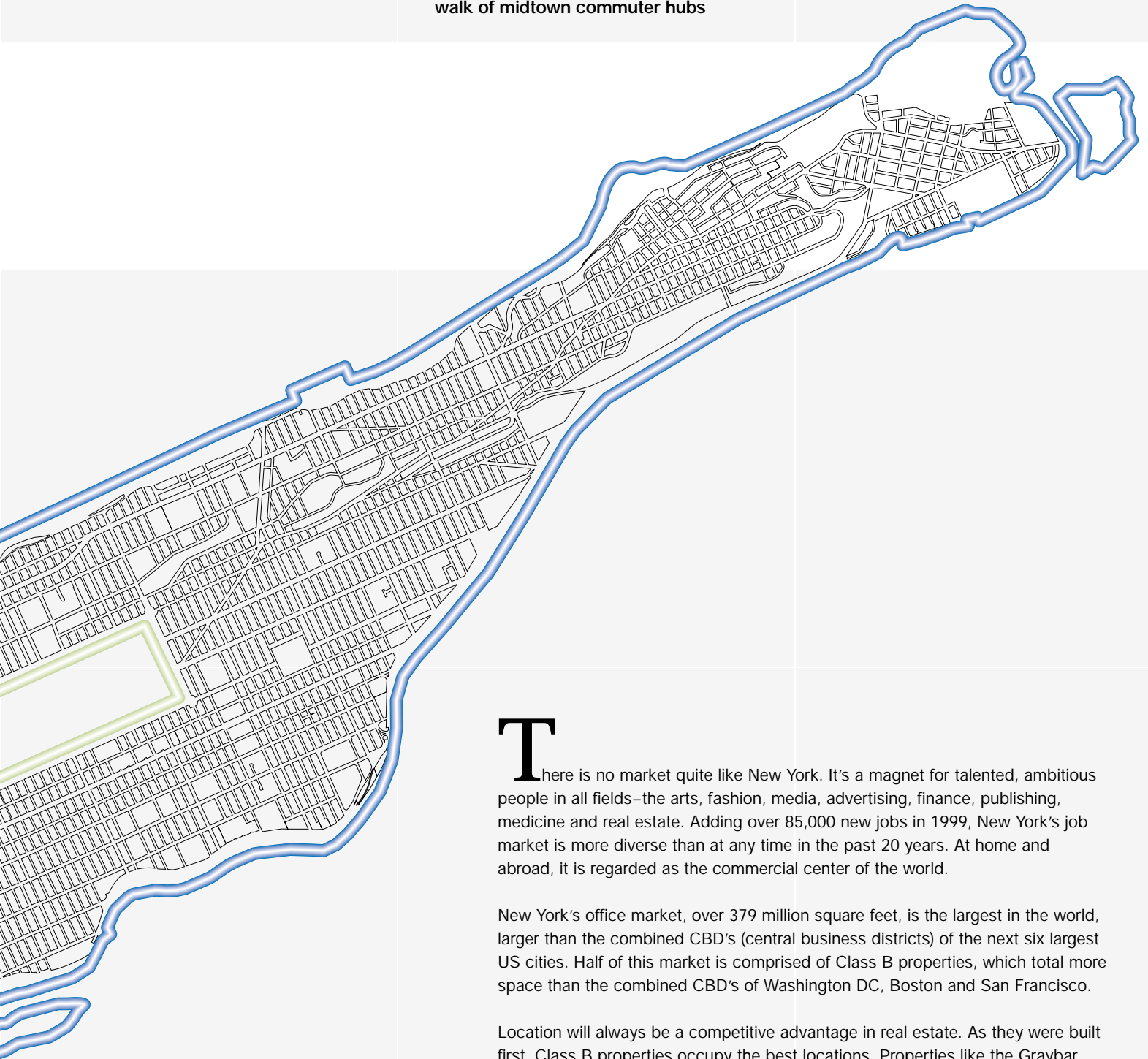


PENN
STATION

PORT
AUTHORITY

Commercial center of the world

85% of SLG buildings within ten minute walk of midtown commuter hubs



There is no market quite like New York. It's a magnet for talented, ambitious people in all fields—the arts, fashion, media, advertising, finance, publishing, medicine and real estate. Adding over 85,000 new jobs in 1999, New York's job market is more diverse than at any time in the past 20 years. At home and abroad, it is regarded as the commercial center of the world.

New York's office market, over 379 million square feet, is the largest in the world, larger than the combined CBD's (central business districts) of the next six largest US cities. Half of this market is comprised of Class B properties, which total more space than the combined CBD's of Washington DC, Boston and San Francisco.

Location will always be a competitive advantage in real estate. As they were built first, Class B properties occupy the best locations. Properties like the Graybar Building, which sits atop Grand Central Station, have this competitive advantage. Hence, our strategy is built on how New Yorkers work—a midtown focus with proximity to suburban commuter hubs.

Today our portfolio comprises more than 9 million square feet of office space, valued at over \$1 billion. We have carved out a distinct market niche. **Location:** About 85% of our properties are within a 10-minute walk of midtown's three primary transportation hubs. **Infrastructure:** All of our properties provide high-speed internet access. **Cost effective:** Class B rents average 30% less than Class A rents—all of which adds up to **Value**—Value for today's growing businesses, by providing superior space, while allowing more money to flow to the bottom line.



GRAND
CENTRAL

Market Leadership

WinStar Communications¹
430 Park Ave., New York, NY 10169

SL Green Realty Corp.
70 W. 36th St., New York, NY 10018

IDT Corp.

190 Main St., Hackensack, NJ 07601

Headway Corporate Resources Inc.
100 Third Ave., New York, NY 10003

A Brand Name



in the Manhattan Office Market

With over twenty years experience in the complex and fragmented Manhattan office market, SL Green has become the name people trust.

Having built a reputation for quality and honoring our commitments, owners looking to sell a property think of SL Green first. That is why since our IPO, 14 of our last 16 property acquisitions were completed on a private basis.

Second largest publicly held portfolio of New York office property.

In 1999, SL Green launched a branding campaign based on BUILDING VALUE.

Today SL Green has the size and scale to not only be the leader in the Class B office market, but also a business leader at large, having ranked 8th on Crain's list of fastest growing companies in New York City.

In spite of a challenging capital market, private and public, we were one of the most active acquirers of Manhattan office real estate. In 1999, we increased the size of our portfolio by nearly 50 percent, to over 9 million square feet.

Size has its advantages, not only in realizing economies of scale in business operations, but also in enabling us to be a more efficient landlord. As tenants' space needs change, we can offer a variety of well-located properties with a wide range of rental rates to meet their needs. This allows us to retain and attract a more diverse and desirable tenant base.

Among leasing brokers and tenants alike, we are known as a landlord who improves the quality of its buildings and provides first class tenant services; state-of-the-art technological infrastructures, and superior property management. This has earned us recognition as *the Brand Name in New York Office*.

Market leadership and expertise, as well as name recognition, have made us an attractive joint venture partner for a roster of blue-chip financial institutions—Goldman Sachs, Morgan Stanley Dean Witter, Prudential Insurance and the Carlyle Group. These partnerships allow us to leverage our capital base, expanding our imprint on the Manhattan office market.

Our newest acquisition is a prime example of the value of these partnerships. In December we announced a joint venture with Prudential Insurance Company of America to acquire 100 Park Avenue for a total of \$192 million. This 36-story building is superbly located just two blocks from Grand Central Station. The property is home to a great roster of tenants, including MCI and Laidlaw Holdings.

A strong reputation goes beyond simply being able to attract capital. Tenants also use a building owner's reputation as a basis for selecting a building. This was the case when New York Life sought a new home in which to combine a number of regional sales offices. Though many building owners competed to attract this prime tenant, they selected SL Green. Locating in the Graybar Building for them was a matter of location, planned property improvements and the quality of the building's owner.

ACQUIRED	INITIATED	LEASED	NAMED
7 new office buildings total portfolio: over 9 million square feet	Co-investment relationships with 4 Blue Chip institutions High yield investment program Capital recycling program	Over 900,000 square feet Achieved portfolio occupancy of 97%	Among the 10 fastest growing companies in New York City To Standard & Poor's REIT Composite Index

Building Real Estate Value

As the only public REIT exclusively focused on New York, our primary objective is to own the most compelling portfolio of Manhattan Class B office properties. This is an active, not a passive, process.

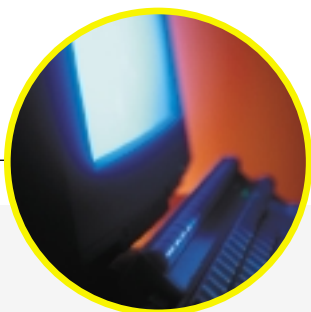
We continually build and refine our portfolio using an investment strategy focused on strategic property locations, developing institutional alliances and capitalizing on opportunistic divestitures. We do this through:

Direct investments—are properties wholly owned by SL Green. These properties may be long-term core assets, or non-core assets. Core assets are properties strategically positioned in the market which provide long-term appreciation, such as the BMW and Graybar buildings. Non-core assets, such as those we contracted for sale, have attributes relative to meeting shorter-term portfolio or leasing objectives. These are properties where value can be enhanced more quickly and recaptured as a source of reinvestment capital when sold.

High-yield investments—are investments in either a preferred equity interest in a property or a high yield debt position. These investments provide high current return and cash flow for earnings growth, while establishing a position in a property which may lead to future acquisition opportunities.

Joint ventures—are co-investments with only the highest quality of institutional investors. These investments may be in core or non-core properties. In addition to receiving its share of income, these investments reward SL Green for its management, leasing and construction skills through fee arrangements and promoted interests in refinancing or sales proceeds.

Divestitures—Building portfolio value sometimes requires recognition of a particular property's lack of contribution to longer term earnings or market objectives. That is when a property may be sold, providing proceeds to fund future portfolio growth.



Classic Architecture

Modern Technology

Since October 1998, SL Green has undertaken a program to ensure that all of its buildings have high speed internet access and improved telephony systems. These are the highest demand requirements of tenants today, and are a competitive advantage for all of our buildings. Add this to our reputation for restoring classic architecture, and you have why SL Green is renown for **BUILDING VALUE**.

Prime location

Contemporary offices

Modern new lobby

Millennium-ready technology

State of the art security

Glass and steel architecture

Immediate-response elevators

40 stories

\$65/RSF

Prime location

Contemporary offices

Restored classic lobby

Millennium-ready technology

State of the art security

Brick and glass architecture

Standard elevators

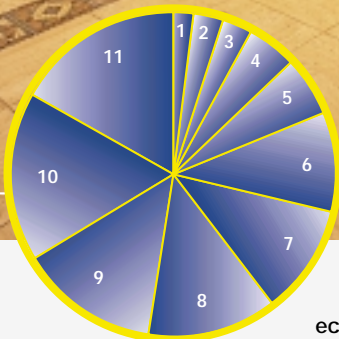
30 stories

\$40/RSF

A VS **B**

Hidden Value

There is tremendous embedded value in SL Green, which is not reflected in its share price. Today, while the equity market values our stock at approximately \$135 per square foot, the real estate market has placed a value on two of the company's recently sold smaller assets of \$178 a square foot.



Strong and Diverse Tenant Base

SL Green's portfolio represents the diversity of the New York economy. Its portfolio is neither dominated by any one industry nor tenant. No one industry segment exceeds 20% of its aggregate square footage, and no one tenant accounts for more than 3.5% of its annualized rental revenue.

Building Shareholder Value

Building shareholder value is the driving force behind the decisions we make at SL Green. In our view, there are two fundamental ways we can build value for you, our shareholder—through earnings growth and portfolio appreciation.

Since our IPO, SL Green has assembled an impressive portfolio of properties, which are the foundation for growing shareholder value. There is tremendous earnings potential in this portfolio just waiting to be unlocked.

In fact, average in place rents in all of our properties are, at today's rental rates, approximately 29% below market asking rents for those same buildings. As these leases expire, replacement rents at today's market rates would provide an FFO growth rate of approximately 7.5-8%. This represents about three-quarters of our targeted annual earnings growth rate.

As we capitalize on this earnings growth potential, we will see increasing cash flow from our properties. As cash flows increase, the market value and implied net asset value per share of these properties will also increase.

With such embedded earnings growth, we will concentrate on our future asset allocation, in order to maximize the return on our capital base. In 2000 you can expect to see properties being sold which, on a relative basis, do not contribute adequately to meeting our objectives. As these properties are sold, the capital generated from these sales will be re-deployed into assets which provide earnings growth, long-term asset appreciation and strategic market position.

SL Green will also seek to increase future shareholder value by leveraging the business opportunities made available as a result of the passage this year of the REIT Modernization Act, which goes into effect in January 2001. Whether by developing complementary tenant services or allied business opportunities, we are examining areas that will enhance our core real estate business.

We believe that as the potential of our portfolio is realized, the disconnect between the health of the real estate market and the interest of the capital market will correct itself.

(seated from left to right)
Benjamin P. Feldman
Executive Vice President and General Counsel

Thomas E. Wirth
Chief Financial Officer

(standing from left to right)
Rick L. Serrapica
Senior Vice President—Operations

Stephen L. Beal
Senior Vice President—Construction



Hands-on Management

SL Green has thrived for two decades in the highly competitive New York real estate market. Crucial to our success has been the performance of a sophisticated management team.

A key element behind the Company's performance has been the decision to pursue a well defined niche strategy, permitting talented, experienced people to execute that strategy and expand the Company, while remaining true to the original vision. SL Green managers have made the Company into the clear market leader in Class B buildings in Manhattan.

Real estate values are not created by formula. Each property requires its own unique mix of physical improvement, attention to tenant mix and old fashioned hands-on management. That is why we have built an extensive and strong relationship with the New York leasing brokerage community. It is also why we retain in-house professionals in all aspects of real estate development, leasing and management. They have the skills to identify a property's needs, the knowledge of the market for appropriate market positioning for those properties and the ability to maintain strong market relationships, in order to lease and finance them.

In the end, it is our people who have established SL Green as the brand name in the Manhattan office market. We hope that this report gives you a sense of the embedded value, quality of management, and leading market position of SL Green.

The SL Green Portfolio

As of December 31, 1999, SL Green Realty Corp.'s portfolio included 22 wholly-owned properties and two properties held in joint ventures. Additionally, the company had contracted to acquire a major interest in an additional property while contracting to sell two others. Net of pending transactions, SL Green's portfolio will total 9,100,000 square feet.

Properties	Date Acquired	Submarket	Rentable Square Feet	Percent Leased
<i>Core Portfolio</i>				
673 First Avenue	8/97	Grand Central South	422,000	100%
36 West 44th Street (Bar Building) (Sold 3/00)	8/97	Grand Central North	165,000	100
1414 Avenue of the Americas	8/97	Rockefeller Center	111,000	100
470 Park Avenue South	8/97	Park Avenue South	260,000	98
70 West 36th Street	8/97	Garment	151,000	100
29 West 35th Street (Sold 2/00)	8/97	Garment	78,000	97
Total/Weighted Average			1,187,000	99.4%
<i>1997 Acquisitions</i>				
633 Third Avenue	12/97	Grand Central South	41,000	100%
110 East 42nd Street	9/97	Grand Central North	251,000	100
1372 Broadway	8/97	Garment	508,000	100
17 Battery Place	12/97	World Trade & Battery	811,000	87
50 West 23rd Street	8/97	Chelsea	333,000	100
1140 Avenue of the Americas	8/97	Rockefeller Center	191,000	100
Total/Weighted Average			2,135,000	95.1%
<i>1998 Acquisitions</i>				
420 Lexington Avenue (The Graybar Building)	3/98	Grand Central North	1,188,000	97%
1466 Broadway	3/98	Garment	289,000	91
1412 Broadway	8/98	Garment	389,000	95
711 Third Avenue	5/98	Grand Central North	524,000	96
321 West 44th Street	3/98	Times Square	203,000	97
440 Ninth Avenue	6/98	Penn Station	339,000	100
Total/Weighted Average			2,932,000	96.3%
<i>Acquired in 1999</i>				
555 West 57th Street	1/99	Columbus Circle/ West Side	941,000	100%
286-292 Madison Avenue ⁽²⁾ (The Madisons)	6/99	Grand Central South	335,800	97
90 Broad Street ⁽¹⁾	6/99	Financial	339,000	83
1250 Broadway ⁽¹⁾	9/99	Penn Station	670,000	100
Total/Weighted Average			2,285,800	97.0%
Grand Total/Weighted Average			8,539,800	96.6%
<i>Properties Acquired after December 31, 1999</i>				
100 Park Avenue ⁽¹⁾	2/00	Grand Central South	834,000	97%

⁽¹⁾ Properties owned in conjunction with institutional partners. Percentage interests: 90 Broad Street 35%, 1250 Broadway 49.9%, 100 Park Avenue 49.9%.

⁽²⁾ Comprised of three buildings.

Financials

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Selected Financial Data

The following table sets forth selected financial data for the Company, and on an historical combined basis for the SL Green Predecessor (as defined below), and should be read in conjunction with the Company's Financial Statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations". The balance sheet information as of December 31, 1999, 1998 and 1997 represents the consolidated balance sheet of the Company and the statement of income for the years ended December 31, 1999 and 1998 and the period August 21, 1997 to December 31, 1997 represents consolidated results of the Company since the IPO. The combined balance sheet information as of December 31, 1996, and 1995 and

statements of income for the period January 1, 1997 to August 20, 1997 and for the years ended December 31, 1996, and 1995 of the SL Green Predecessor have been derived from the historical combined financial statements.

The "SL Green Predecessor" consists of the assets, liabilities, and owners' deficits and results of operations of two properties, 1414 Avenue of the Americas and 70 West 36th Street, equity interests in four other properties, 673 First Avenue, 470 Park Avenue South, 29 West 35th Street and the Bar Building (which interests are accounted for under the equity method) and of the assets, liabilities and owners' equity and results of operations of the Company's affiliated Service Corporation.

The Company and the SL Green Predecessor (Historical)

	Year ended December 31, 1999	The Company		SL Green Predecessor		
		Year ended December 31, 1998	August 21- December 31, 1997	January 1- August 20, 1997	Year ended December 31, 1996 1995	
<i>(In thousands, except per share data)</i>						
Operating Data:						
Total revenue	\$206,017	\$134,552	\$23,207	\$ 9,724	\$10,182	\$ 6,564
Property operating expenses	62,168	45,207	7,077	2,722	3,197	2,505
Real estate taxes	29,198	21,224	3,498	705	703	496
Interest	28,610	13,086	2,135	1,062	1,357	1,212
Depreciation and amortization	27,260	15,404	2,815	811	975	775
Loss on terminated project	-	1,065	-	-	-	-
Loss on hedge transaction	-	176	-	-	-	-
Marketing, general and administration	10,922	5,760	948	2,189	3,250	3,052
Total expenses	158,158	101,922	16,473	7,489	9,482	8,040
Operating income (loss)	47,859	32,630	6,734	2,235	700	(1,476)
Equity in net income (loss) from Service Corporation	730	387	(101)	-	-	-
Equity in net income of unconsolidated joint ventures	377	-	-	-	-	-
Equity in net loss of uncombined joint ventures	-	-	-	(770)	(1,408)	(1,914)
Income (loss) before minority interest and extraordinary items	48,966	33,017	6,633	1,465	(708)	(3,390)
Minority interest	(5,121)	(3,043)	(1,074)	-	-	-
Income (loss) before extraordinary items	43,845	29,974	5,559	1,465	(708)	(3,390)
Extraordinary items (net of minority interest)	(989)	(522)	(1,874)	22,087	8,961	-
Net income (loss)	42,856	29,452	3,685	23,552	8,253	(3,390)
Preferred dividends and accretion	(9,598)	(5,970)	-	-	-	-
Income available to common shareholders	\$ 33,258	\$ 23,482	\$ 3,685	<u>\$23,552</u>	<u>\$ 8,253</u>	<u>\$(3,390)</u>
Income per common share before extraordinary item (basic and diluted)	\$ 1.41	\$ 1.22	\$ 0.45			
Net income per common share (basic and diluted)	\$ 1.37	\$ 1.19	\$ 0.30			
Cash dividends declared per common share	\$ 1.41	\$ 1.40	\$ 0.51			
Basic weighted average common shares outstanding	24,192	19,675	12,292			
Diluted weighted average common share and common share equivalents outstanding	26,680	22,145	12,404			

Selected Financial Data *(continued)*

	The Company			SL Green Predecessor	
	1999	1998	December 31, 1997	1996	1995
Balance Sheet Data:					
Commercial real estate, before accumulated depreciation	\$ 908,866	\$ 697,061	\$ 338,818	\$ 26,284	\$ 15,559
Total assets	1,071,242	777,796	382,775	30,072	16,084
Mortgages and notes payable	435,693	162,162	128,820	16,610	12,700
Accrued interest payable	2,650	494	552	90	2,894
Minority interest	41,494	41,491	33,906	-	-
Stockholders' equity/owners' (deficit)	406,104	404,826	176,208	(8,405)	(18,848)

	The Company			SL Green Predecessor		
	Year ended December 31, 1999	Year ended December 31, 1998	August 21-December 31, 1997	January 1-August 20, 1997	Year ended December 31, 1996	1995
Other Data:						
Funds from operations after distributions to preferred shareholders ⁽¹⁾	\$ 62,645	\$ 42,858	\$ 9,355	\$ -	\$ -	\$ -
Funds from operations before distributions to preferred shareholders ⁽¹⁾	71,845	48,578	9,355	-	-	-
Net cash provided by (used in) operating activities	48,013	22,665	5,713	2,838	272	(234)
Net cash provided by financing activities	195,990	347,382	224,234	2,782	11,960	63
Net cash (used in) investing activities	(228,678)	(376,593)	(217,165)	(5,559)	(12,375)	(432)

⁽¹⁾ The White Paper on Funds from Operations ("FFO") approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in March 1995 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties and significant non-recurring events that materially distort the comparative measurement of the Company's performance over time, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In October 1999, NAREIT revised the definition of FFO to include non-recurring events. This revised definition is effective for all periods beginning on or after January 1, 2000. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes FFO in accordance with the current standards established by NAREIT which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available for the Company's cash needs, including its ability to make cash distributions. For a reconciliation of net income and FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds from Operations."

Management's Discussion & Analysis of Financial Condition & Results of Operations

OVERVIEW

This report includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this report that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including such matters as future capital expenditures, dividends and acquisitions (including the amount and nature thereof), expansion and other development trends of the real estate industry, business strategies, expansion and growth of the Company's operations and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate. Such statements are subject to a number of assumptions, risks and uncertainties, general economic and business conditions, the business opportunities that may be presented to and pursued by the Company, changes in laws or regulations and other factors, many of which are beyond the control of the Company. Any such statements are not guarantees of future performance and actual results or developments may differ materially from those anticipated in the forward-looking statements.

The following discussion related to the consolidated financial statements of the Company and the combined financial statements of SL Green Predecessor should be read in conjunction with the financial statements. In connection with the Formation Transactions as described in Note 1 to the financial statements there were significant changes in the financial condition and results of operations of the Company which are outlined below. Consequently, the comparison of the 1998/1997 historical periods provides only limited information regarding the operations of the Company. Therefore, in addition to the historical comparison, the Company has provided a comparison of the results of operations on a pro forma basis for that period.

RESULTS OF OPERATIONS

Comparison of year ended December 31, 1999 to year ended December 31, 1998

The following comparison for the year ended December 31, 1999 compared to the year ended December 31, 1998 makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by the Company at December 31, 1997, (ii) the effect of the "1998 Acquisitions," which represents all properties acquired in 1998, and (iii) the effect of the "1999 Acquisitions," which represents all properties acquired in 1999.

Rental revenue for the year ended December 31, 1999 totaled \$174.9 million representing an increase of \$60.0 million compared to \$114.9 million for the year ended December 31, 1998. The increase is primarily attributable to the revenue associated with the following: (i) Same-Store Properties which increased rental revenue \$5.5 million (ii) the 1998 Acquisitions which increased rental revenue by \$30.0 million, and (iii) the 1999 Acquisitions which increased rental revenue by \$24.5 million.

Escalation and reimbursement revenue for the year ended December 31, 1999 totaled \$21.9 million representing an increase of \$6.0 million compared to \$15.9 million for the year ended December 31, 1998. The increase is primarily attributable to the revenue associated with the following: (i) the 1998 Acquisitions which increased revenue by \$2.7 million, and (ii) the 1999 Acquisitions which increased revenue by \$3.4 million, partially offset by the Same-Store Properties which decreased revenue by \$0.1 million.

Signage revenue for the year ended December 31, 1999 totaled \$1.7 million, representing an increase of \$1.6 million compared to \$0.1 million for the year ended December 31, 1998. The increase is primarily attributable to 1466 Broadway (\$1.4 million) and 1414 Avenue of the Americas (\$0.2 million).

Investment income totaled \$5.3 million for the year ended December 31, 1999 representing an increase of \$2.0 million compared to \$3.3 million for the year ended December 31, 1998. The investment income for 1999 primarily represents interest income from the 17 Battery Park mortgage (\$0.7 million), 521 Fifth Avenue (\$1.3 million), 636 11th Avenue (\$0.9 million), 1370 Avenue of the Americas (\$1.6 million), interest on other mortgage notes (\$0.3 million) and interest from excess cash on hand (\$0.5 million).

Operating expenses for the year ended December 31, 1999 totaled \$49.4 million representing an increase of \$15.3 million compared to \$34.1 million for the year ended December 31, 1998. The increase was primarily attributable to: (i) Same-Store Properties which increased operating expenses by \$0.9 million, (ii) the 1998 Acquisitions which increased operating expenses by \$5.7 million, and (iii) the 1999 Acquisition properties which increased operating expenses by \$8.7 million.

Ground rent for the year ended December 31, 1999 totaled \$12.8 million representing an increase of \$1.7 million compared to \$11.1 million for the year ended December 31, 1998. This increase primarily resulted from increased ground rent at 420 Lexington Avenue (\$1.2 million), and 711 Third Avenue (\$0.5 million).

Interest expense for the year ended December 31, 1999 totaled \$28.6 million representing an increase of \$15.5 million compared to \$13.1 million for the year ended December 31, 1998. This increase is primarily attributable to: (i) Same-Store Properties (\$2.6 million) as new secured mortgage financing was placed on assets in this portfolio, (ii) 1998 Acquisitions (\$6.8 million) due to

Management's Discussion & Analysis *(continued)*

financing placed on 420 Lexington Avenue, 711 Third Avenue and 1412 Broadway, (iii) 1999 Acquisitions (\$5.0 million) due to mortgage financing associated with these purchases and (iv) \$1.1 million higher interest expense at the corporate level.

Depreciation and amortization for the year ended December 31, 1999 totaled \$27.3 million representing an increase of \$11.9 million compared to \$15.4 million for the year ended December 31, 1998. The increase is primarily attributable to: (i) Same-Store Properties which increased depreciation by \$1.3 million, (ii) the 1998 Acquisitions which increased depreciation by \$6.4 million, (iii) the 1999 Acquisitions which increased depreciation by \$3.2 million, and (iv) an increase in the amortization of deferred finance costs totaling \$1.0 million associated with fees incurred on the Company's 1999 secured mortgage financings.

Real estate taxes for the year ended December 31, 1999 totaled \$29.2 million representing an increase of \$8.0 million compared to \$21.2 million for the year ended December 31, 1998. The increase is primarily attributable to: (i) the 1998 Acquisitions which increased real estate taxes by \$4.3 million and (ii) the 1999 Acquisitions which increased real estate taxes by \$4.0 million, partially offset by a decrease in real estate taxes at Same-Store Properties (\$0.3 million) due to reduced tax rates.

Marketing, general and administrative expense for the year ended December 31, 1999 totaled \$10.9 million representing an increase of \$5.1 million compared to \$5.8 million for the year ended December 31, 1998. The increase is primarily due to increased personnel costs associated with the Company's recent growth (\$3.3 million) and increased public entity and technology costs (\$0.9 million).

Comparison of year ended December 31, 1998 to year ended December 31, 1997

For discussion purposes, the results of operations from the year ended December 31, 1998 represent the operations of SL Green Realty Corp. and the results of operations for the year ended December 31, 1997 represent (i) the operating results of the SL Green Realty Predecessor (represented by 70 West 36th Street, 1414 Avenue of the Americas and 36 West 44th Street (since acquisition date in July 1997) for the period January 1, 1997 to August 20, 1997 and (ii) the results of the Company from August 21, 1997 to December 31, 1997. The following transactions have occurred that have had a material impact on the comparison of the 1998 and 1997 results: (i) the Formation Transactions resulted in three buildings previously accounted for under the equity method (673 Third Avenue, 470 Park Avenue South and 29 West 35th Street) which are now reported as property results, three acquired buildings (50 West 23rd Street, 1140 Avenue of the Americas and 1372 Broadway) collectively the "IPO Acquisitions" being included in the 1998 results which were

included in the 1997 results of the Company as of August 21, 1997; (ii) the results of 110 East 42nd Street (acquired September 1997) 17 Battery Place (acquired December 1997) and 633 Third Avenue (acquired December 1997) "the 1997 Acquisitions" are included in the consolidated results for 1998 and were included for only a portion of the 1997 results (iii) the results of 420 Lexington Avenue (acquired March 1998), 1466 Broadway (acquired March 1998), 321 West 44th Street (acquired March 1998), 711 Third Avenue (acquired May 1998), 440 Ninth Avenue (acquired June 1998) and 1412 Broadway (acquired August 1998) (the "1998 Acquisitions") which are included for a portion of the 1998 results, and were not included in the 1997 results.

Rental revenue for the year ended December 31, 1998 totaled \$117.3 million representing an increase of \$93.2 million compared to \$24.1 million for the year ended December 31, 1997. The increase is primarily attributable to the revenue associated with the following: (i) the IPO Acquisitions which increased rental revenue \$28.1 million (ii) the 1997 Acquisitions which increased rental revenue by \$17.8 million, (iii) the 1998 Acquisitions which increased rental revenue by \$46.9 million and (iv) \$0.4 million due to increased rental revenue in the SL Green Predecessor buildings.

Escalation and reimbursement revenue for the year ended December 31, 1998 totaled \$15.9 million representing an increase of \$12.9 million compared to \$3.0 million for the year ended December 31, 1997. The increase is primarily attributable to the revenue associated with the following: (i) the IPO Acquisitions which increased revenue by \$3.3 million, (ii) the 1997 Acquisitions which increased revenue by \$1.6 million, (iii) the 1998 Acquisitions which increased revenue by \$8.0 million.

Investment income totaled \$3.3 million for the year ended December 31, 1998 representing an increase of \$2.8 million compared to \$0.5 million for the year ended December 31, 1997. This amount primarily represents interest income from the 17 Battery Park mortgage (\$1.9 million), interest on other mortgage notes (\$0.4 million) and interest from excess cash on hand (\$0.5 million).

As of the IPO date, third party management, leasing and construction revenues and related expenses are incurred by the Service Corporations, which are 95% owned subsidiaries of the Company, which are accounted for on the equity method. This change in recognition of income and expense from third party business activities was made in order to be consistent with the REIT qualifying income test, as defined by the IRS. Consequently, in 1998, management fees, leasing commissions and construction fees, were recorded on these operating subsidiaries, compared to the 1997 third party revenue, which was recorded on the SL Green Predecessor.

Management's Discussion & Analysis *(continued)*

Operating expenses for the year ended December 31, 1998 totaled \$36.5 million representing an increase of \$28.3 million compared to \$8.2 million for the year ended December 31, 1997. The increase was primarily attributable to: (i) the IPO Acquisitions which increased operating expenses by \$6.3 million (ii) the 1997 Acquisitions which increased operating expenses by \$6.7 million and (iii) the 1998 Acquisition properties with operating expenses of \$15.3 million.

Ground rent for the year ended December 31, 1998 totaled \$11.1 million representing an increase of \$9.5 million compared to \$1.6 million for the year ended December 31, 1997. This increase primarily results from newly acquired properties having ground and sub-lease arrangements at 420 Lexington Avenue (\$6.0 million), and 711 Third Avenue (\$0.8 million) and increased ground rent at 673 First Avenue (\$2.5 million) and 1140 Avenue of the Americas (\$0.2 million).

Interest expense for the year ended December 31, 1998 totaled \$13.1 million representing an increase of \$9.9 million compared to \$3.2 million for the year ended December 31, 1997. This increase is primarily attributable to (i) interest incurred on the Company's Credit Facility, and Acquisition Facility (\$7.0 million) principally used to acquire new properties (ii) interest from the December 1998 bridge financings (\$0.3 million) and (iii) additional secured mortgage debt, including interest on the Company's capital lease obligation on 673 First Avenue which was previously accounted for under the equity method, (\$2.6 million).

Depreciation and amortization for the year ended December 31, 1998 totaled \$15.4 million representing an increase of \$11.8 million compared to \$3.6 million for the year ended December 31, 1997. The increase is primarily attributable to: (i) the IPO Acquisitions which increased depreciation by \$4.2 million (ii) the 1997 Acquisitions which increased depreciation by \$2.0 million (iii) the 1998 Acquisitions which increased depreciation by \$4.6 million, (iv) and an increase in the amortization of deferred finance costs totaling \$1.0 million associated with fees incurred on the Company's Credit Facility and Acquisition Facility.

Real estate taxes for the year ended December 31, 1998 totaled \$21.2 million representing an increase of \$17.0 million compared to \$4.2 million for the year ended December 31, 1997. The increase is primarily attributable to (i) the IPO Acquisitions which increased real estate taxes by \$4.2 million (ii) the 1997 Acquisitions which increased real estate taxes by \$3.2 million and (iii) the 1998 Acquisitions which increased real estate taxes by \$9.6 million.

Marketing, general and administrative expense for the year ended December 31, 1998 totaled \$5.8 million representing an increase of \$2.7 million compared to \$3.1 million for the year ended December 31, 1997. The increase is due to increased personnel costs associated with the Company's recent growth (\$2.1 million) and increased public entity and technology costs (\$0.6 million). This increase was partially off-set by third party costs included in the 1997 expense which were reclassified to the Service Corporations in 1998 to correspond with the reclassification of third party revenue which has been included in equity in net loss from Service Corporations since August 21, 1997.

PRO FORMA RESULTS OF OPERATIONS

Comparison of the year ended December 31, 1998 to the year ended December 31, 1997

The pro forma statement of operations for the year ended December 31, 1997, is presented as if the Company's IPO and the Formation Transactions occurred on January 1, 1997 and the effect thereof was carried forward through December 31, 1997. In addition to the IPO and Formation Transactions, the following transactions also affect the 1998 and 1997 comparable results: (i) the results of 110 East 42nd Street (acquired September 1997), 17 Battery Place (acquired December 1997) and 633 Third Avenue (acquired December 1997) the "1997 Acquisitions" are included in the consolidated results for the full year ended December 31, 1998 and included only for a portion of the 1997 results and (ii) the results of 420 Lexington Avenue (acquired March 1998), 1466 Broadway (acquired March 1998), 321 West 44th Street (acquired March 1998) 711 Third Avenue (acquired May 1998), 440 Ninth Avenue (acquired June 1998) and 1412 Broadway (acquired August 1998) the "1998 Acquisitions" are included in a portion of the 1998 results and not included in the 1997 results. During May 1998, the Company completed two public offerings for 11.5 million shares of common stock and 4.6 million of preferred shares resulting in net proceeds of \$353 million, net of underwriting costs.

The pro forma results of operations do not purport to represent what the Company's results would have been assuming the completion of the Formation Transactions and the Company's IPO at the beginning of the period indicated, nor do they purport to project the Company's financial results of operations at any future date or for any future period. The pro forma statements of operations should be read in conjunction with the combined financial statements of SL Green Predecessor included in the Company's registration statements on Form S-11 dated May 12, 1998 and August 14, 1997 and the consolidated financial statements of the Company, included elsewhere herein.

Management's Discussion & Analysis *(continued)*

Year ended December 31, 1998 compared to year ended December 31, 1997

<i>(Unaudited, in thousands)</i>	1998 <i>(Historical)</i>	1997 <i>(Pro forma)</i>	Dollar Change
Revenue			
Rental revenue	\$117,304	\$49,472	\$67,832
Escalation & reimbursement revenues	15,923	5,500	10,423
Investment income	3,267	485	2,782
Leasing commissions	-	2,251	(2,251)
Other income	478	1,676	(1,198)
Total revenues	<u>136,972</u>	<u>59,384</u>	<u>77,588</u>
Equity in net income from Service Corporations	387	168	219
Expenses			
Operating expenses	36,545	13,165	23,380
Ground rent	11,082	4,297	6,785
Interest	13,086	5,509	7,577
Depreciation and amortization	15,404	7,413	7,991
Real estate taxes	21,224	8,658	12,566
Loss on terminated contract	1,065	-	1,065
Loss on hedge transaction	176	-	176
Marketing, general and administrative	5,760	2,578	3,182
Total expenses	<u>104,342</u>	<u>41,620</u>	<u>62,722</u>
Income before minority interest, preferred stock dividends and extraordinary items	<u>\$ 33,017</u>	<u>\$17,932</u>	<u>\$15,085</u>

Rental revenue for the year ended December 31, 1998 totaled \$117.3 million representing an increase of \$67.8 million compared to \$49.5 million for the year ended December 31, 1997. The increase is primarily attributable to the revenue associated with the following properties not previously owned or acquired at the IPO date: (i) the 1997 acquisitions which increased rental revenue by \$17.8 million, (ii) the 1998 acquisitions which increased rental revenue by \$46.9 million and (iii) increased occupancy and additional rollover rental income in the other portfolio buildings which increased \$3.1 million.

Escalation and reimbursement revenue for the year ended December 31, 1998 totaled \$15.9 million an increase of \$10.4 million compared to \$5.5 million during the year ended December 31, 1997. The increase is attributable to the revenue associated with: (i) the 1997 Acquisitions which increased revenue by \$1.6 million, (ii) the 1998 Acquisitions which increased revenue by \$8.0 million and (iii) the properties owned or acquired at the IPO date where revenue increased by \$0.8 million.

Investment income for the year ended December 31, 1998 totaled \$3.3 million, which represents an increase of \$2.8 million as compared to \$0.5 million for the year ended December 31, 1997. The increase in interest income is primarily due to the 17 Battery Place mortgage (\$1.9 million), other mortgage notes receivable (\$0.4 million) and the balance (\$0.5 million) earned from excess cash on hand.

Leasing commission income decreased \$2.3 million. Leasing commission income as reported in the 1997 pro forma financial statements represents Tenant-Rep income through September 30, 1997 and is subsequently being recorded by the Service Corporations for the remainder of 1997 and the comparable 1998 period. Tenant-rep revenue totaled \$2.6 million for the year ended December 31, 1998 representing a decrease of \$0.3 million. This decrease reflects the strong results in the 1997 period.

Other income for the year ended December 31, 1998 totaled \$0.5 million representing a decrease of \$1.2 million as compared to December 31, 1997. The decrease is the result of 1997 lease termination income exceeding 1998 primarily due to a large tenant buy-out at 1372 Broadway.

Operating expenses for the year ended December 31, 1998 totaled \$36.5 million representing an increase of \$23.4 million compared to \$13.1 million for the year ended December 31, 1997. The increase was primarily attributable to properties not previously owned or acquired at the IPO date: (i) the 1997 Acquisitions which increased operating expenses by \$6.7 million and (ii) the 1998 Acquisitions which increased operating expenses by \$15.3 million (iii) \$1.4 million of increased costs from properties owned or acquired at the IPO date primarily due to the provision for tenant straight-line credit loss which increased \$0.6 million.

Management's Discussion & Analysis *(continued)*

Ground rent for the year ended December 31, 1998 totaled \$11.1 million representing an increase of \$6.8 million compared to \$4.3 million for the year ended December 31, 1997. The increase is primarily attributable to the ground and sub-lease rent on new acquisitions at 420 Lexington Avenue (\$6.0 million) and 711 Third Avenue (\$0.8 million).

Interest expense for the year ended December 31, 1998 totaled \$13.1 million representing an increase of \$7.6 million compared to \$5.5 million for the year ended December 31, 1997. The increase is primarily attributable to interest incurred on the Company's Credit Facility and Acquisition Facility (\$7.0 million) and additional mortgage loans (\$0.6 million).

Depreciation and amortization for the year ended December 31, 1998 totaled \$15.4 million representing an increase of \$8.0 million compared to \$7.4 million for the year ended December 31, 1997. The increase is primarily attributable to properties not previously owned or acquired at the IPO date: (i) the 1997 Acquisitions which increased depreciation by \$2.0 million (ii) the 1998 Acquisitions which increased depreciation by \$4.6 million, (iii) amortization of financing costs increased \$0.9 million primarily due to fees recognized on the Company's revolving line of credit and acquisition facility and (iv) the properties owned or acquired at the IPO date which increased \$0.5 million primarily due to increased tenant improvement amortization.

Real estate taxes for the year ended December 31, 1998 totaled \$21.2 million representing an increase of \$12.5 million compared to \$8.7 million for the year ended December 31, 1997. The increase is primarily attributable to properties not previously owned or acquired at the IPO date (i) the 1997 Acquisitions which increased real estate taxes by \$3.2 million and (ii) the 1998 Acquisitions which increased real estate taxes by \$9.6 million. These increases were partially off-set by a \$0.3 million reduction in taxes related to the core and IPO properties primarily from lower tax rates and management's effort to obtain reductions in assessed values.

Marketing, general and administrative expense for the year ended December 31, 1998 totaled \$5.8 million representing an increase of \$3.2 million compared to \$2.6 million for the year ended December 31, 1997. The increase is due to additional staffing, and incremental absorption of lost third party management related costs (\$2.6 million), costs associated with management information systems and year 2000 compliance and higher public entity costs (\$0.6 million).

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Net cash provided by operating activities increased \$25.3 million to \$48.0 million for the year ended December 31, 1999 compared to \$22.7 million for the year ended December 31, 1998. The increase was due primarily to the operating cash flow generated by the Same-Store Properties, 1998 Acquisitions and 1999 Acquisitions as a result of higher occupancy rates, rents which have been marked to market and flat property operating expense trends and an increase in investment income. Net cash used in investing activities decreased \$147.9 million to \$228.7 million for the year ended December 31, 1999 compared to \$376.6 million for the year ended December 31, 1998. The decrease was due primarily to the decreased amount of property acquisitions in 1999 (\$223 million) as compared to the amount of property acquisitions in 1998 (\$357 million). Net cash provided by financing activities decreased \$151.4 million to \$196.0 million for the year ended December 31, 1999 compared to \$347.4 million provided by financing activities for the year ended December 31, 1998. The decrease was primarily due to net proceeds from the Company's 1998 public offerings of common stock (\$242.1 million) and preferred stock (\$109.7 million) which were used to pay-off the Company's Acquisition Facility (\$240 million) and purchase certain 1998 acquisitions as well as an increase in the dividends and distributions paid (\$14.3 million).

Capitalization During 1999, the Company financed its 1999 Acquisitions primarily with property level debt. This debt totaled \$97.0 million with interest rates ranging from 7.98 percent to 8.10 percent at December 31, 1999.

At December 31, 1999, borrowings under the mortgage loans, and credit facilities represented 40.7% of the Company's market capitalization based on a total market capitalization (debt and equity including preferred stock), assuming conversion of all operating partnership units, of \$1.2 billion (based on a common stock price of \$21.75 per share, the closing price of the Company's common stock on the New York Stock Exchange on December 31, 1999). The Company's principal debt maturities are scheduled to be \$113.7 million and \$63.0 million for the years ending December 31, 2000 and 2001, respectively.

At December 31, 1999, the Company had \$352.7 million of property level mortgage debt (weighted average interest rate of 8.06 percent), encumbering 15 properties. This was comprised of \$270.7 million in fixed rate debt and \$82.0 million in floating rate debt.

At December 31, 1999, the Company had availability of \$49.5 million under its \$140.0 million Credit Facility (weighted average interest rate of 7.82 percent).

Management's Discussion & Analysis *(continued)*

On December 28, 1999, the Company closed on a \$30.0 million credit facility with Prudential Securities Credit Corp. ("PSCC"). The current borrowing capacity is \$15.0 million, of which none was drawn down at December 31, 1999. The PSCC Facility is secured by the Company's preferred equity interest in 1370 Avenue of the Americas and a repurchase mortgage participation interest in the mortgage at 420 Lexington Avenue. Interest-only is payable based on the 1-Month LIBOR plus 125 basis points. The PSCC Facility may be prepaid at any time during its term without penalty. The PSCC Facility matures on December 27, 2000.

The Company is currently evaluating its options with respect to \$113.7 million of debt maturing in 2000. The Company may refinance such debt or obtain new loans.

The Company expects to make distributions to its stockholders primarily based on its distributions received from the Operating Partnership primarily from property revenues or, if necessary, from working capital or borrowings.

The Company estimates that for the years ending December 31, 2000 and 2001, it will incur approximately \$37.7 million and \$18.2 million, respectively, of capital expenditures (including tenant improvements) on properties currently owned. In 2000 and 2001, \$15.7 million and \$9.1 million, respectively, of the capital investments will be associated with the redevelopment of properties acquired at or after the Company's IPO. The Company expects to fund these capital expenditures with the credit facilities, operating cash flow and cash on hand. Future property acquisitions may require substantial capital investments in such properties for refurbishment and leasing costs. The Company expects that these financing requirements will be provided primarily from the credit facilities, from additional borrowings secured by the properties and from future issuances of equity and debt. The Company believes that it will have sufficient capital resources to satisfy its obligations during the next 12 month period. Thereafter, the Company expects that capital needs will be met through net cash provided by operations or additional borrowings.

To maintain its qualification as a REIT, the Company must make annual distributions to its stockholders of at least 95 percent of its REIT taxable income, determined without regard to the dividends paid deduction and by excluding net capital gains.

Moreover, the Company intends to continue to make regular quarterly distributions to its stockholders which, based upon current policy, in the aggregate would equal approximately \$35.1 million on an annualized basis. However, any such distribution, whether for Federal income tax purposes or otherwise, would only be paid out of available cash after meeting both operating requirements and scheduled debt service on mortgages and loans payable.

Funds from Operations The White Paper on Funds from Operations ("FFO") approved by the Board of Governors of NAREIT in March 1995 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties and significant non-recurring events that materially distort the comparative measurement of the Company's performance over time, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In October 1999, NAREIT revised the definition of FFO to include non-recurring events. This revised definition is effective for all periods beginning on or after January 1, 2000. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes FFO in accordance with the current standards established by NAREIT which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

Management's Discussion & Analysis *(continued)*

On a pro forma basis after giving effect to the Offering, Funds from Operations for the year ended December 31, 1997 and for the years ended December 31, 1998 and 1999, on a historical basis, are as follows:

<i>(In thousands)</i>	1999 <i>(Historical)</i>	Year ended December 31	
		1998 <i>(Historical)</i>	1997 <i>(Pro forma)</i>
Income before minority interest and extraordinary item	\$ 48,966	\$ 33,017	\$17,932
Add:			
Depreciation and amortization	27,260	15,404	7,413
Loss on hedge transaction	-	176	-
Loss on terminated transaction	-	1,065	-
FFO adjustment for unconsolidated joint ventures	433	-	-
Less:			
Dividends on preferred shares	(9,200)	(5,720)	-
Minority interest in the BMW Building	(1,765)	-	-
Amortization of deferred financing costs and depreciation of non-rental real estate assets	(3,049)	(1,084)	(186)
Funds From Operations	\$ 62,645	\$ 42,858	\$25,159
Cash flows provided by operating activities	\$ 48,103	\$ 22,665	
Cash flows used in investing activities	\$ (228,678)	\$ (376,593)	
Cash flows provided by financing activities	\$ 195,990	\$ 347,382	

In compliance with the White Paper issued by NAREIT in March 1995, the Company has excluded a loss from a hedge transaction (\$176,000) and loss on terminated transaction (\$1.1million) from the calculation of FFO. The Company believes these transactions are non-recurring in nature based on the Company's operating history of not entering into these types of transactions and, therefore, are non-recurring and would materially distort the Company's performance if included in the calculation of FFO. In accordance with the revised White Paper issued by NAREIT in October 1999, these transactions would be included in the calculation of FFO.

Inflation Substantially all of the office leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of the leases provide for fixed base rent increases or indexed escalations. The Company believes that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

Recently Issued Accounting Pronouncements In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was scheduled to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. In 1999, the FASB delayed implementation of FASB 133 by one year. The Company expects to adopt the new Statement effective January 1, 2001. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

Year 2000 Compliance The Company identified three areas of focus for Year 2000 Compliance: internal information technology, property operating equipment, and third party service suppliers. The Company began a project to update its information technology resources by installing new hardware and software throughout the Company and completed the implementation of the systems during 1998. The Company inquired regarding compliance status from all vendors providing systems identified as having potential Year 2000 compliance problems. The Company then tested each system with these vendors. At present, the Company has no automated interfaces from third party service providers into the Company's financial systems. In addition, limited contingency procedures were drafted in the event of Year 2000 failures associated with critical property level systems on the Company's internal information technology.

The Company did not incur material direct costs related to Year 2000. These direct costs excluded the costs to replace the hardware and software systems, as the decision to replace these systems was not accelerated by Year 2000 issues.

Due to the Company's Year 2000 program, the Company experienced no operational problems relating to the Year 2000 issue. The Company has concluded the Year 2000 project and anticipates no further Year 2000 compliance issues or expenditures.

Consolidated Balance Sheets

	December 31,	
	1999	1998
<i>(Amounts in thousands, except per share data)</i>		
Assets		
Commercial real estate properties, at cost:		
Land and land interests	\$ 132,081	\$112,123
Buildings and improvements	632,004	492,568
Building leasehold	132,573	80,162
Property under capital lease	12,208	12,208
	<u>908,866</u>	<u>697,061</u>
Less accumulated depreciation	(56,983)	(37,317)
	851,883	659,744
Properties held for sale	25,835	-
Cash and cash equivalents	21,561	6,236
Restricted cash	34,168	18,635
Tenant and other receivables, net of allowance of \$938 and \$374 in 1999 and 1998, respectively	5,747	3,951
Related party receivables	463	245
Deferred rents receivable, net of reserve for tenant credit loss of \$5,337 and \$2,369 in 1999 and 1998, respectively	37,015	20,891
Investment in and advances to Service Corporation	4,978	10,694
Mortgage loans receivable and preferred equity investment	20,000	26,401
Investments in unconsolidated joint ventures	23,441	-
Deferred costs, net	30,540	15,282
Other assets	15,611	15,717
Total assets	<u>\$1,071,242</u>	<u>\$777,796</u>
Liabilities and Stockholders' Equity		
Mortgage notes payable	\$ 352,693	\$ 50,862
Secured bridge facilities	-	87,500
Revolving credit facilities	83,000	23,800
Accrued interest payable	2,650	494
Accounts payable and accrued expenses	17,167	5,588
Deferred revenue	306	-
Accounts payable to related parties	-	63
Capitalized lease obligations	15,017	14,741
Deferred land lease payable	11,611	9,947
Dividend and distributions payable	11,947	11,585
Security deposits	18,905	16,949
Total liabilities	<u>513,296</u>	<u>221,529</u>
Commitments and Contingencies		
Minority interests in Operating Partnership	41,494	41,491
8% Preferred Income Equity Redeemable Shares SM \$0.01 par value \$25.00 mandatory liquidation preference, 25,000 authorized and 4,600 outstanding at December 31, 1999 and 1998	110,348	109,950
Stockholders' Equity		
Common stock, \$0.01 par value 100,000 shares authorized, 24,184 and 23,952 issued and outstanding at December 31, 1999 and 1998, respectively	242	240
Additional paid-in capital	421,958	416,939
Deferred compensation plans	(6,610)	(3,266)
Officers' loans	(64)	(528)
Distributions in excess of earnings	(9,422)	(8,559)
Total stockholders' equity	<u>406,104</u>	<u>404,826</u>
Total liabilities and stockholders' equity	<u>\$1,071,242</u>	<u>\$777,796</u>

The accompanying notes are an integral part of these financial statements.

Statements of Income

	SL Green Realty Corp.			SL Green Predecessor
	Year ended December 31, 1999	Year ended December 31, 1998	August 21- December 31, 1997	January 1- August 20, 1997
<i>(Amounts in thousands, except per share data)</i>	<i>(consolidated)</i>			<i>(combined)</i>
Revenues				
Rental revenue	\$174,939	\$114,884	\$20,033	\$4,107
Escalation and reimbursement revenues	21,902	15,923	2,205	792
Signage rent	1,660	-	-	-
Management revenues, including \$458 (1997), from affiliates	-	-	-	1,268
Leasing commissions	-	-	484	3,464
Construction revenues, net, including \$6 (1997), from affiliates	-	-	-	77
Investment income	5,266	3,267	485	-
Other income	2,250	478	-	16
Total revenues	<u>206,017</u>	<u>134,552</u>	<u>23,207</u>	<u>9,724</u>
Expenses				
Operating expenses including \$4,707 (1999), \$2,118 (1998), and \$282 (1997) to affiliates	49,414	34,125	5,517	2,709
Real estate taxes	29,198	21,224	3,498	705
Ground rent	12,754	11,082	1,560	13
Interest	28,610	13,086	2,135	1,062
Depreciation and amortization	27,260	15,404	2,815	811
Loss on terminated project	-	1,065	-	-
Loss on hedge transaction	-	176	-	-
Marketing, general and administrative	10,922	5,760	948	2,189
Total expenses	<u>158,158</u>	<u>101,922</u>	<u>16,473</u>	<u>7,489</u>
Income before equity in net income (loss) from Service Corporation, equity in net income (loss) of unconsolidated joint ventures and uncombined joint ventures, minority interest, and extraordinary item	47,859	32,630	6,734	1,465
Equity in net income/(loss) from Service Corporation	730	387	(101)	-
Equity in net income of unconsolidated joint ventures	377	-	-	-
Equity in net (loss) of uncombined joint ventures	-	-	-	(770)
Minority interest:				
Operating partnership	(3,356)	(3,043)	(1,074)	-
Partially owned properties	(1,765)	-	-	-
Extraordinary item, net of minority interest of \$90, \$52 and \$362 in 1999, 1998 and 1997, respectively	(989)	(522)	(1,874)	22,087
Net income	<u>42,856</u>	<u>29,452</u>	<u>3,685</u>	<u>23,552</u>
Preferred stock dividends	(9,200)	(5,720)	-	-
Preferred stock accretion	(398)	(250)	-	-
Net income available to common shareholders	<u>\$33,258</u>	<u>\$23,482</u>	<u>\$3,685</u>	<u>\$23,552</u>
Per share data:				
Income per common share before extraordinary item	\$1.41	\$1.22	\$0.45	
Extraordinary item per common share	(0.04)	(0.03)	(0.15)	
Net income per common share-basic and diluted	<u>\$1.37</u>	<u>\$1.19</u>	<u>\$0.30</u>	
Basic weighted average common shares outstanding	<u>24,192</u>	<u>19,675</u>	<u>12,292</u>	
Diluted weighted average common shares and common share equivalents outstanding	<u>26,680</u>	<u>22,145</u>	<u>12,404</u>	

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Stockholders' Equity

<i>(Amounts in thousands, except per share data)</i>	Common Stock	Additional Paid-In Capital	Deferred Compensation Plan	Officers' Loans	Distributions In Excess of Earnings	Total
Balance at August 21, 1997 (inception)						
Net proceeds from initial public offering of common stock	\$123	\$223,366	-	-	-	\$223,489
Net income	-	-	-	-	\$ 3,685	3,685
Cash distributions declared (\$0.51 per common share of which none represented a return of capital for federal income tax purposes)	-	-	-	-	(6,269)	(6,269)
Contribution of the net assets of SL Green Predecessor in exchange for Units of the Operating Partnership and other Formation Transactions	-	(44,697)	-	-	-	(44,697)
Balance at December 31, 1997	123	178,669	-	-	(2,584)	176,208
Net income	-	-	-	-	29,452	29,452
Preferred dividend and accretion requirement	-	-	-	-	(5,970)	(5,970)
Issuance of common stock net offering cost (\$1,615) and revaluation increase in minority interest (\$6,934)	115	234,709	-	-	-	234,824
Deferred compensation plan	2	3,561	\$(3,563)	-	-	-
Amortization of deferred compensation plan	-	-	297	-	-	297
Cash distributions declared (\$1.40 per common share of which none represented a return of capital for federal income tax purposes)	-	-	-	-	(29,457)	(29,457)
Officers' loan net	-	-	-	\$(528)	-	(528)
Balance at December 31, 1998	240	416,939	(3,266)	(528)	(8,559)	404,826
Net income	-	-	-	-	42,856	42,856
Preferred dividend and accretion requirement	-	-	-	-	(9,598)	(9,598)
Deferred compensation plan and stock award	2	5,019	(4,771)	-	-	250
Amortization of deferred compensation plan	-	-	1,427	-	-	1,427
Cash distributions declared (\$1.41 per common share of which \$0.10 represented a return of capital for federal income tax purposes)	-	-	-	-	(34,121)	(34,121)
Officers' loan, net	-	-	-	464	-	464
Balance at December 31, 1999	\$242	\$421,958	\$(6,610)	\$ (64)	\$ (9,422)	\$406,104

The accompanying notes are an integral part of these financial statements.

Combined Statement of Owners' Equity

<i>(Amounts in thousands, except per share data)</i>	SL Green Predecessor
Balance at December 31, 1996	\$ (8,405)
Distributions	(4,024)
Contributions	25
Net income for the period ended August 20, 1997	23,552
Balance at August 20, 1997	<u>\$ 11,148</u>

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

	SL Green Realty Corp.			SL Green Predecessor
	Year ended December 31, 1999	Year ended December 31, 1998	August 21- December 31, 1997	January 1- August 20, 1997
	<i>(consolidated)</i>			<i>(combined)</i>
<i>(Amounts in thousands, except per share data)</i>				
Operating Activities				
Net income	\$ 42,856	\$ 29,452	\$ 3,685	\$ 23,552
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	27,260	15,404	2,815	811
Equity in net (income) loss from Service Corporation	(730)	(387)	101	-
Equity in net (income) from unconsolidated joint ventures	(377)	-	-	-
Minority interest	5,121	2,991	712	-
Share of net (income) from uncombined joint ventures	-	-	-	(21,072)
Deferred rents receivable	(20,363)	(11,748)	(946)	(102)
Provision for straight-line credit loss	3,883	2,420	-	-
Amortization for officer loans and deferred compensation	1,891	747	-	-
Extraordinary item-non-cash portion, net of minority interest in 1999, 1998 and 1997	989	574	803	-
Changes in operating assets and liabilities:				
Restricted cash	(9,229)	(6,147)	(223)	-
Tenant and other receivables, net	(2,391)	(3,213)	(614)	(190)
Related party receivables	(204)	619	(1,633)	(365)
Deferred costs	(14,578)	(5,810)	(707)	(279)
Other assets	1,393	(8,441)	(3,101)	656
Accounts payable, accrued expenses and other liabilities	10,829	4,738	4,524	(173)
Deferred land lease payable	1,663	1,466	297	-
Net cash provided by operating activities	48,013	22,665	5,713	2,838
Investing Activities				
Additions to land, buildings and improvements	(223,240)	(357,243)	(217,165)	(7,411)
Investment in and advances to Service Corporation	6,446	(8,449)	-	-
Investments in unconsolidated joint ventures	(18,285)	-	-	-
Mortgage loan receivable	6,401	(10,901)	-	-
Contributions to partnership investments	-	-	-	(25)
Distributions from partnership investments	-	-	-	1,877
Net cash used in investing activities	(228,678)	(376,593)	(217,165)	(5,559)
Financing Activities				
Proceeds from mortgage notes payable	339,775	-	21,000	7,000
Payments of mortgage notes payable	(62,144)	(1,958)	(76,822)	(219)
Proceeds from bridge financings	-	327,460	-	-
Repayments of bridge financings	(87,500)	(239,960)	-	-
Proceeds from senior revolving credit facility	138,500	155,250	76,000	-
Repayments of senior revolving credit facility	(79,300)	(207,450)	-	-
Capitalized lease obligation	276	251	58	-
Mortgage loan receivable	-	-	(15,500)	-
Net proceeds from sale of 8% mandatory preferred stock	-	109,700	-	-
Cash distributions to owners	-	-	-	(4,024)
Cash contributions from owners	-	-	-	25
Dividends and distributions paid	(46,389)	(32,144)	(2,348)	-
Deferred loan costs	(7,228)	(5,822)	(1,643)	-
Net proceeds from sale of common stock	-	242,055	228,704	-
Formation expenses	-	-	(5,215)	-
Net cash provided by financing activities	195,990	347,382	224,234	2,782
Net increase (decrease) in cash and cash equivalents	15,325	(6,546)	12,782	61
Cash and cash equivalents at beginning of period	6,236	12,782	-	476
Cash and cash equivalents at end of period	\$ 21,561	\$ 6,236	\$ 12,782	\$ 537
Supplemental cash flow disclosures				
Interest paid	\$ 26,454	\$ 13,144	\$ 1,583	\$ 1,085
Supplemental disclosure of non-cash investing and financing activities				
Land interest acquired for operating partnership units		\$ 1,000		
Assets acquired				
Commercial real estate, net			\$ 91,123	
Other assets	\$ 7,714		\$ 16,751	
Liabilities assumed	\$ 4,861			
Issuance of common stock as deferred compensation	\$ 5,019	\$ 3,561		
Contribution of property to joint venture	\$ 25,579			
Mortgage notes payable assumed	\$ 45,000		\$ 73,073	
Mortgage notes payable assigned to joint venture	\$ 20,800			
Capitalized lease obligation			\$ 14,431	
Deferred land lease			\$ 8,184	
Security deposits payable			\$ 4,262	

In December 1999, 1998 and 1997 the Company declared distributions per share of \$0.3625, \$0.35 and \$0.35, respectively. These distributions were paid in January 2000, 1999 and 1998, respectively.
The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

December 31, 1999, (Dollars in thousands, except per share data)

1 ORGANIZATION AND BASIS OF PRESENTATION

Initial Public Offering and Formation Transactions SL Green Realty Corp. (the "Company"), a Maryland corporation, and SL Green Operating Partnership, L.P., (the "Operating Partnership"), a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities ("SL Green Predecessor"). The Operating Partnership received a contribution of interest in the real estate properties as well as 95% of the economic interest in the management, leasing and construction companies (the "Service Corporation"). The Company qualifies as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended; and operates as a fully integrated, self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to shareholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level.

Concurrent with the consummation of the initial public offering (the "IPO") in August 1997, the Company and the Operating Partnership, together with the partners and members of the affiliated partnerships of the SL Green Predecessor and other parties which held ownership interests in the properties contributed to the Operating Partnership (collectively, the "Participants"), engaged in certain formation transactions (the "Formation Transactions").

Substantially all of the Company's assets are held by, and it conducts its operations through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership.

Principles of Combination—SL Green Predecessor The SL Green Predecessor was not a legal entity but rather a combination of real estate properties and affiliated real estate management, construction and leasing entities under common control and management of Stephen L. Green, and interests owned by Stephen L. Green in entities accounted for on the equity method (see Note 4) that were organized as partnerships and a limited liability company. The entities included in this financial statement have been combined for only the periods that they were under common control and management. All significant intercompany transactions and balances have been eliminated in combination. Capital contributions, distributions and profits and losses are allocated in accordance with the terms of the applicable agreements.

For the entities accounted for on the equity method, SL Green Predecessor records its investments in partnerships and limited liability company at cost and adjusts the investment accounts for its share of the entities' income or loss and for cash distributions and contributions.

Service Corporation In order to maintain the Company's qualification as a REIT while realizing income from management, leasing and construction contracts from third parties, all of the management operations with respect to properties in which the Company does not own a 100% interest are conducted through an unconsolidated company, the Service Corporation. The Company, through the Operating Partnership, owns 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation. Through dividends on its equity interest, the Operating Partnership receives substantially all of the cash flow (if any) from the Service Corporation's operations. All of the voting common stock of the Service Corporation (representing 5% of the total equity) is held by an SL Green affiliate. This controlling interest gives the SL Green affiliate the power to elect all directors of the Service Corporation. The Company accounts for its investment in the Service Corporation on the equity method of accounting because it has significant influence with respect to management and operations, but does not control the entity.

All of the management, leasing and construction services with respect to the properties wholly-owned by the Company are conducted through Management LLC which is 100% owned by the Operating Partnership.

Partnership Agreement In accordance with the partnership agreement of the Operating Partnership (the "Operating Partnership Agreement"), all allocations of distributions and profits and losses are to be made in proportion to the percentage ownership interests of their respective partners. As the managing general partner of the Operating Partnership, the Company will be required to take such reasonable efforts, as determined by it in its sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient distributions by the Company (95% of taxable income) to avoid any Federal income or excise tax at the Company level. Under the Operating Partnership Agreement each limited partner will have the right to redeem limited partnership interest for cash, or if the Company so elects shares of common stock. In accordance with the Operating Partnership Agreement, the Company is prohibited from selling 673 First Avenue and 470 Park Avenue South through August 2009.

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

2 SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries, which are wholly-owned or controlled by the Company. Entities which are not controlled by the Company are accounted for under the equity method. (See Note 6). All significant intercompany balances and transactions have been eliminated.

Investment in Commercial Real Estate Properties Rental properties are stated at cost less accumulated depreciation and amortization. Costs directly related to the acquisition and redevelopment of rental properties are capitalized. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Category	Term
Building (fee ownership)	40 years
Building improvements	shorter of remaining life of the building or useful life
Building (leasehold interest)	lesser of 40 years or remaining life of the lease
Property under capital lease	49 years (lease term)
Furniture and fixtures	four to seven years
Tenant improvements	shorter of remaining life of the lease or useful life

Depreciation expense (including amortization of the capital lease asset) amounted to \$22,672 and \$13,555 for the years ended December 31, 1999 and 1998, respectively, \$2,526 for the period August 21, 1997 to December 31, 1997 and \$591 for the period January 1, 1997 to August 20, 1997.

On a periodic basis, management assesses whether there are any indicators that the value of the real estate properties may be impaired. A property's value is impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. Management does not believe that the value of any of its rental properties is impaired.

Cash and Cash Equivalents The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investment in Unconsolidated Joint Ventures The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for equity in earnings (loss) and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet of the Company and the underlying equity in net assets is amortized as an adjustment to equity in earnings (loss) of unconsolidated joint ventures over 40 years. See Note 6.

Restricted Cash Restricted cash primarily consists of security deposits held on behalf of tenants.

Deferred Lease Costs Deferred lease costs consist of fees and direct costs incurred to initiate and renew operating leases and are amortized on a straight-line basis over the related lease term. Certain of the employees of the Company provide leasing services to the Properties. A portion of their compensation, approximating \$1,572, \$645 and \$257 for the years ended December 31, 1999 and 1998, and the period August 21, 1997 to December 31, 1997, respectively, was capitalized and is amortized over an estimated average lease term of seven years.

Deferred Financing Costs Deferred financing costs represent commitment fees, legal and other third party costs associated with obtaining commitments for financing which result in a closing of such financing. These costs are amortized over the terms of the respective agreements. Unamortized deferred financing costs are expensed when the associated debt is refinanced before maturity. Costs incurred in seeking financial transactions which do not close are expensed in the period. Deferred costs associated with the Company's forward treasury lock (see Note 8) are classified as deferred financing costs and are being amortized over the term of the related mortgage financings.

Revenue Recognition Rental revenue is recognized on a straight-line basis over the term of the lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rents receivable on the accompanying balance sheets. The Company establishes, on a current basis, a reserve for future potential tenant credit losses which may occur against this account. The balance reflected on the balance sheet is net of such allowance.

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

Rent Expense Rent expense is recognized on a straight-line basis over the initial term of the lease. The excess of the rent expense recognized over the amounts contractually due pursuant to the underlying lease is included in the deferred land lease payable in the accompanying balance sheet.

Income Taxes The Company is taxed as a REIT under Section 856(c) of the Internal Revenue Code of 1986, as amended, commencing with the period August 21, 1997 to December 31, 1997. As a REIT, the Company generally is not subject to Federal income tax. To maintain qualification as a REIT, the Company must distribute at least 95% of its REIT taxable income to its stockholders and meet certain other requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax on its taxable income at regular corporate rates. The Company may also be subject to certain state and local taxes on its income and property. Under certain circumstances, Federal income and excise taxes may be due on its undistributed taxable income.

Underwriting Commissions and Costs Underwriting commissions and costs incurred in connection with the Company's stock offerings are reflected as a reduction of additional paid-in-capital.

Stock-Based Compensation The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25"). Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to the quoted closing market price of the Company's stock on the business day preceding the grant date. Accordingly, no compensation cost has been recognized for the Company's stock option plans. Awards of stock, restricted stock or employee loans to purchase stock, which may be forgiven over a period of time, are expensed as compensation on a current basis over the benefit period.

Extraordinary Item Extraordinary item represents the effect resulting from the early settlement of certain debt obligations, including related deferred financing costs, prepayment penalties, yield maintenance payments and other related items.

Interest Rate Hedge Transactions The Company may enter into derivative financial instruments such as interest rate swaps and interest rate collars in order to mitigate its interest rate risk on a related financial instrument. The Company may designate these derivative financial instruments as hedges and apply deferral accounting. Gains and losses related to the termination of such derivative financial instruments are deferred and amortized to interest expense over the term of the debt instrument.

The Company may also utilize interest rate contracts to hedge interest rate risk on anticipated debt offerings. These anticipatory hedges are designated, and effective, as hedges of identified debt issuances which have a high probability of occurring. Gains and losses resulting from changes in the market value of these contracts are deferred and amortized into interest expense over the life of the related debt instrument. Hedges determined to be ineffective and hedges not correlated to financings are charged to operations.

Earnings Per Share In accordance with the Statement of Financial Accounting Standards No. 128 ("FASB No. 128"), the Company presents both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentrations of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash investments and accounts receivable. The Company places its cash investments with high quality institutions. Management of the Company performs ongoing credit evaluation of its tenants and requires certain tenants to provide security deposits. Though these security deposits are insufficient to meet the terminal value of a tenant's lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with retenanting the space. Although the SL Green Predecessors' buildings and new acquisitions are all located in Manhattan, a borough of New York City ("Manhattan"), the tenants located in

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

these buildings operate in various industries and no single tenant represents 10% of the Company's revenue. Approximately 19% of the Company's revenue for the period August 21, 1997 to December 31, 1997 was derived from 673 First Avenue. Approximately 19% and 11% of the Company's revenue was derived from 420 Lexington Avenue and 17 Battery Place, respectively, for the year ended December 31, 1998. Approximately 18% and 10% of the Company's revenue was derived from 420 Lexington Avenue and 555 West 57th Street, respectively, for the year ended December 31, 1999.

The Company currently has 78% of its workforce covered by three collective bargaining agreements which service all of the Company's properties.

Recently Issued Accounting Pronouncements In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was scheduled to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. In 1999, the FASB delayed implementation of FASB 133 by one year. The Company expects to adopt the new Statement effective January 1, 2001. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

Marketable Securities Marketable securities held by the preferred stock subsidiaries in 1998 were classified as available for sale. The cost of these securities approximated their fair value.

Reclassification Certain 1998 balances have been reclassified to conform with the 1999 presentation.

3 PROPERTY ACQUISITIONS

1999 Acquisitions During January 1999, the Company purchased a sub-leasehold interest in 420 Lexington Avenue for \$27,300. The sub-leasehold expires on December 30, 2008 with one 21-year renewal term expiring on December 30, 2029.

During January 1999, the Company acquired a 65% controlling interest in 555 West 57th Street (the "BMW Building") for approximately \$66,700 (including 65% interest in the previously existing third-party mortgage debt totaling \$45,000). The 941,000 square foot property was approximately 100% leased as of the acquisition date. On November 5, 1999 the Company acquired the remaining 35% interest in the BMW Building for \$34,100. Simultaneous with this closing, the Company obtained a new \$70,000 first mortgage from Bank of New York and repaid the \$45,000 debt assumed (See Note 8).

During May 1999, the Company acquired four Manhattan properties located at 90 Broad Street ("90 Broad"), 286, 290 and 292 Madison Avenue (the "Madison Properties") (collectively, the "Tower Properties") for \$84,500. The properties total 675,000 square feet and were approximately 89% leased as of the acquisition date. During July 1999 the Company contributed 90 Broad into a joint venture arrangement (See Note 6).

1998 Acquisitions On January 8, 1998, the Company acquired fee title to its property located at 1372 Broadway. Prior to this date the Company held a mortgagee's interest in this property with a right to acquire the fee.

During March 1998, the Company purchased the operating leasehold interest in the property located at 420 Lexington Avenue (the "Graybar Building") and the fee interest in the property located at 1466 Broadway from the Helmsley organization (together the "Helmsley Properties") for \$142,000. The Graybar Building is located adjacent to Grand Central Station and encompasses approximately 1.2 million square feet and the property at 1466 Broadway is located at 42nd Street and Broadway encompassing approximately 290,000 square feet.

During March 1998 the Company purchased the property located at 321 West 44th Street for approximately \$17,000, consisting of approximately 209,000 square feet.

On April 14, 1998, the Company converted its mortgage interest in 36 West 44th Street into a fee interest and its mortgage interest in 36 West 43rd Street into a leasehold interest (collectively the "Bar Building") for an additional cost of approximately \$1,000.

On May 21, 1998 the Company acquired the outstanding mortgage of the property located at 711 Third Avenue for approximately \$44,600 in cash. The 20-story, 524,000 square foot building was

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

79% occupied at the date of acquisition. The Company's outstanding mortgage position provides for the Company to receive 100% of the economic benefit from the property, and accordingly for the period owned, the Company has recorded the operating results of the property in the statement of operations. On July 2, 1998 the Company acquired 50% of the fee interest in 711 Third Avenue for \$20,000 and 44,772 Operating Partnership Units.

On June 1, 1998 the Company acquired the property located at 440 Ninth Avenue for approximately \$32,000 in cash. The 18-story, 340,000 square foot building was 76% occupied at the date of acquisition. In connection with this purchase, the Company obtained a \$6,200 mortgage note receivable secured by the property located at 38 East 30th Street. The note's interest rate was 8% and was paid back during September 1998.

On August 6, 1998 the Company closed the acquisition of an existing first mortgage secured by the property located at 636 11th Avenue, which is a 469,000 square foot industrial and warehouse block front property located between 46th and 47th Streets for \$10,900. The mortgage bore interest at 8.875% at December 31, 1998. The Company had contracted to buy this mortgage on June 11, 1998 and simultaneously entered into an agreement to purchase the property during January 1999. This property was in Chapter 11 bankruptcy proceedings. During January 1999 the Company terminated this purchase agreement. The unrecoverable project costs and settlement costs resulted in a \$1,100 charge to 1998 earnings.

On August 14, 1998 the Company purchased the property located at 1412 Broadway (The Fashion Gallery Building) for \$72,000, plus approximately \$5,000 for reimbursement of loan prepayment charges and \$5,000 related to capital expenditures, commissions and other closing costs. The property is a 25-story office building totaling 389,000 square feet and had an occupancy rate at the date of acquisition, including pending leases, of 89.5%.

1997 Acquisitions In connection with the Formation Transaction (see Note 1), the Company acquired the first mortgage related to 1372 Broadway on August 21, 1997 which provides for substantially all of the economic interest in the property and has the sole right to purchase the fee interest; accordingly, the Company has accounted for the 1372 Broadway investment as ownership interest in the property. The Company purchased the fee interest in January 1998 for approximately \$1,000.

On September 15, 1997, the Operating Partnership acquired the land and building at 110 East 42nd Street for \$30,000. The acquisition was funded by proceeds of a Lehman Brothers Holdings, Inc. ("LBHI") loan and the Offering.

On December 19, 1997, the Operating Partnership exercised the Company's option to acquire an interest in 17 Battery Place for approximately \$59,000. In connection with this acquisition, the Company also loaned \$15,500 to the co-tenant at 17 Battery Place. The mortgage receivable bore interest at 12% and was due March 31, 1999 and was secured by a first mortgage on the mortgagor's condominium interest in the property. The borrower did not make the scheduled payment on March 31, 1999, putting the loan into default. The Company began collection proceedings and collected the principal in full in addition to collecting all accrued interest. The cash required to purchase the property and fund the loan were financed through borrowings under the Company's senior unsecured revolving credit facility.

On December 30, 1997 the Operating Partnership acquired a condominium ownership interest at 633 Third Avenue for \$10,500 and a capital reserve of \$1,000 (subsequently returned in 1998). The acquisition was funded by proceeds from a mortgage loan on 50 West 23rd Street and cash on hand.

Pro Forma The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the years ended December 31, 1999 and 1998 as though the 1999 Acquisitions and the 1998 Acquisitions described above and the May 1998 Offering (see Note 13) were made on January 1, 1998.

	1999	1998
Pro forma revenues	\$212,206	\$192,826
Pro forma net income	\$ 33,470	\$ 31,880
Pro forma basic earnings per common share	\$ 1.38	\$ 1.33
Pro forma diluted earnings per common share	\$ 1.38	\$ 1.33
Common and common equivalent share—basic	24,184	23,952
Common and common equivalent share—diluted	26,612	26,380

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

4 INVESTMENT IN UNCOMBINED JOINT VENTURES

The SL Green Predecessor's investments in three partnerships and a limited liability company had been accounted for under the equity method since control was shared with other parties.

Condensed combined statements of operations of the partnerships and the limited liability company, are as follows:

	January 1- August 20, 1997
Condensed statements of operations	
Rental revenue and escalations	\$ 13,463
Other revenue	89
Total revenues	<u>13,552</u>
Interest	5,320
Depreciation and amortization	2,510
Operating and other expenses	<u>7,142</u>
Total expenses	<u>14,972</u>
Operating loss before outside partner's interest	(1,420)
Elimination of inter-company management fees	240
Extraordinary gain on forgiveness of debt	33,418
Other partner share of the (income)	<u>(10,921)</u>
Income allocated to the SL Green Predecessor	<u>\$ 21,317</u>

There were several business relationships with related parties which involved management, leasing and construction fee revenues and maintenance expense. Transactions relative to the combined statements of operations and balance sheet for the equity investees include the following before elimination of intercompany transactions:

	January 1- August 20, 1997
Management fee expenses	\$ 448
Leasing commission expenses	295
Construction fees	1,796
Maintenance expenses	186

5 MORTGAGE LOANS RECEIVABLE AND PREFERRED EQUITY INVESTMENT

On January 15, 1999, the Company discontinued the current redevelopment and subsequent purchase of 636 11th Avenue, and did not purchase the 469,000 square foot industrial and warehouse property. Termination of the purchase agreement signed last June resulted in a 1998 charge of approximately \$1,100. The Company continued to hold a \$10,900 first mortgage which was fully secured by the property yielding a current rate of 8.875%, increasing to 9%, effective April 1, 1999. This loan was repaid in full in December 1999.

During April 1999, the Company originated and funded a \$20,000 second mortgage bridge loan to finance 521 Fifth Avenue Partners, LLC's acquisition of a 440,000 square foot Manhattan office building located at 521 Fifth Avenue. The second mortgage bridge loan which had an initial term of six months with a yield of 16%, was extended for an additional three months with an expected yield of 17%. Goldman Sachs Mortgage Company purchased a 50% participation in the investment. This loan was repaid in full in December 1999.

During May 1999, the Company acquired a \$20,000 preferred equity interest in a venture holding the loan secured by fee title of 1370 Avenue of the Americas located in Manhattan. The venture is entitled to receive all of the cash flows from the building, in addition to shared control over the management and leasing of the property. The venture also has the right to obtain fee title to the property after a prescribed period of time. The Company has also been reappointed manager of the property. The investment entitled the Company to receive a yield of 700 basis points over 30-day LIBOR preferentially on a current basis. In addition to receiving its preferred return, the Company may participate in the value it creates through a purchase option, entitling it to acquire 50% of the common equity of the venture at a fixed price, based on today's estimate of market value of the property. Further, the Company may obtain 100% of the venture through the exercise of a right of first offer.

6 INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

During July 1999, the Company entered into a joint venture agreement with Morgan Stanley Real Estate Fund III, L.P. to own 90 Broad located in Manhattan. The property was contributed to the venture by the Company and the Company retained a 35% economic interest in the venture. At the time of the contribution the property was valued at \$34,600 which approximated the Company's cost basis in the asset. In addition, the venture assumed the existing \$20,800 first mortgage that was collateralized by the property. The Company will continue to provide management, leasing and construction services at the property on a fee basis. During 1999, the Company earned \$62 for such services. The venture agreement provides the Company with an opportunity to receive a promotional interest with respect to sales proceeds and cash distributions once a fixed hurdle rate is achieved.

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

During August 1999, the Company entered into a joint venture agreement with Carlyle Realty to purchase 1250 Broadway located in Manhattan for \$93,000. The property is 670,000 square feet and was 97% leased at acquisition. The Company holds a 49.9% stake in the venture and provides management, leasing and construction services at the property on a fee basis. During 1999, the Company earned \$371 for such services. The acquisition was partially financed with a floating rate mortgage totaling \$64,700 maturing in 3 years. This facility has the ability to be increased to \$69,700 as funding of capital requirements is needed. The interest rate is 300 basis points over 30-day LIBOR (9.48% at December 31, 1999). The venture agreement provides the Company with an opportunity to receive a promotional interest with respect to sales proceeds and cash distributions once a fixed hurdle rate is achieved.

The condensed balance sheet for the unconsolidated joint ventures at December 31, 1999, is as follows:

	1999
Assets	
Commercial real estate property	\$ 130,585
Other assets	14,236
Total Assets	<u>\$ 144,821</u>
Liabilities and members' equity	
Mortgage payable	\$ 85,450
Other liabilities	7,278
Members' equity	52,093
Total liabilities and members' equity	<u>\$ 144,821</u>
Company's net investment in unconsolidated joint ventures	<u>\$ 23,441</u>

The condensed statement of operations for the unconsolidated joint ventures from acquisition date through December 31, 1999 is as follows:

	1999
Total revenues	\$ 9,433
Operating expense	3,069
Real estate taxes	1,522
Interest	2,606
Depreciation and amortization	1,356
Total expenses	<u>8,553</u>
Net income	<u>\$ 880</u>
Company's equity in earnings of unconsolidated joint ventures	<u>\$ 377</u>

7 DEFERRED COSTS

	1999	1998
Deferred costs consist of the following:		
Deferred financing	\$ 15,096	\$ 8,342
Deferred leasing	26,682	13,010
	<u>41,778</u>	<u>21,352</u>
Less accumulated amortization	(11,238)	(6,070)
	<u>\$ 30,540</u>	<u>\$ 15,282</u>

8 MORTGAGE NOTES PAYABLE AND REVOLVING CREDIT FACILITY

The mortgage notes payable collateralized by the respective properties and assignment of leases at December 31, 1999 and 1998 are as follows:

Property	Mortgage Notes	1999	1998
50 West 23rd Street	Note payable to GMAC with interest at 7.33%, due December 2007	\$ 21,000	\$ 21,000
29 West 35th Street	First mortgage note with interest payable at 8.464%, due February 1, 2001	2,825	2,903
673 First Avenue	First mortgage note with interest payable at 9.0%, due December 13, 2003	14,740	16,452
470 Park Avenue So.	First mortgage note with interest payable at 8.25%, due April 1, 2004	10,153	10,507
1414 Avenue of Americas, 633 Third Avenue, 36 West 44th Street and 70 West 36th Street	First mortgage note with interest payable at 7.9%, due May 1, 2009	50,800	-
1412 Broadway	First mortgage note with interest payable at 7.62%, due May 1, 2006	52,000	-
711 Third Avenue	First mortgage note with interest payable at 8.13%, due September 10, 2005	49,225	-
555 West 57th Street	First mortgage note with interest payable at 8.10%, due November 4, 2004 ⁽¹⁾	70,000	-
	Total fixed rate debt	<u>270,743</u>	<u>50,862</u>
420 Lexington Avenue	First mortgage note with interest payable at 9.25%, due May 21, 2001	55,000	-
Madison Properties	First mortgage note with interest payable at 7.98%, due June 1, 2000	26,950	-
	Total floating rate debt	<u>81,950</u>	<u>-</u>
	Total mortgage notes payable	<u>\$ 352,693</u>	<u>\$ 50,862</u>

⁽¹⁾ The Company entered into an interest rate protection agreement which fixed the LIBOR interest rate at 6.10% at December 31, 1999. If LIBOR exceeds 6.10%, the loan will float until the maximum cap of 6.58% is reached.

At December 31, 1999, the carrying value of the properties collateralizing the mortgage notes was \$567,680.

1999 Financings During April 1999, the Company closed on two fixed-rate mortgage financings totaling \$102,800 with maturities of 10 years (\$50,800 secured by 1414 Avenue of the Americas, 36 West 44th Street, 633 Third Avenue and 70 West 36th Street) and 7 years (\$52,000 secured by 1412 Broadway). The weighted average interest rate on these financings is 7.78%. These mortgages

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

replaced \$87,500 in secured floating-rate bridge financings (see 1998 Financings) and provided approximately \$13,000 in additional liquidity that was used to reduce the amount outstanding under the Company's revolving credit facility. The Company recorded a \$600 extraordinary loss during the quarter ended June 30, 1999 for the early extinguishment of debt related to the write-off of unamortized deferred financing costs associated with these secured bridge loans.

During May 1999, the Company closed on loans totaling \$117,700. The first loan of \$65,000 is secured by the Company's interest in 420 Lexington Avenue. The term of this loan is two years and bears interest at a rate of 275 basis points over the 30-day LIBOR rate (9.25% at December 31, 1999). In October 1999, the Company repurchased a \$10,000 non-investment grade tranche lowering the effective spread from LIBOR plus 275 basis points to LIBOR plus 203 basis points. Simultaneous with the closing, the Company entered into an interest rate protection agreement which caps LIBOR at 6.5% for the term of the loan. The second loan was a \$52,700 one-year floating rate facility, secured by the Madison Properties (\$26,900), 90 Broad (\$20,800) and 711 Third Avenue (\$5,000) and bears interest at a rate of 150 basis points over the 30-day LIBOR rate (7.98% at December 31, 1999).

During September 1999, the Company closed a \$49,200 fixed rate financing secured by the property located at 711 Third Avenue. This mortgage matures in 6 years and carries a fixed interest rate of 8.13%. The proceeds were used to repay a \$5,000 existing financing on the property (see above) with the balance used to reduce the amount outstanding under the Company's revolving credit facility.

During November 1999, simultaneous with the closing of the remaining 35 percent interest in the BMW Building, the Company obtained a new \$70,000 first mortgage from Bank of New York. The mortgage has a term of five years with a floating interest rate of 200 basis points over 30-day LIBOR. At the time of the financing, the Company entered into an interest rate protection agreement with Bank of New York. The agreement has fixed the LIBOR interest rate at 6.10%; however, the LIBOR interest rate on the loan will begin floating if the actual LIBOR rate exceeds 6.10% and is capped at a maximum LIBOR rate of 6.58%. At closing the loan's effective interest rate inclusive of the collar arrangement was 8.17%. This interest rate "collar" agreement is in effect for five years to correspond with the term of the loan. The Company recorded a \$400 extraordinary loss during the quarter ended December 31, 1999 for the early extinguishment of debt related to prepayment penalties incurred as a result of the early repayment of the \$45,000 debt assumed in January 1999.

On December 28, 1999, the Company closed on a \$30,000 credit facility with Prudential Securities Credit Corp. (the "PSCC Facility"). The current borrowing capacity is \$15,000, of which none was drawn down at December 31, 1999. The PSCC Facility is secured by the Company's preferred equity interest in 1370 Avenue of the Americas and a repurchased mortgage participation interest

in the mortgage at 420 Lexington Avenue. Interest-only is payable based on the 1-Month LIBOR plus 125 basis points. The PSCC Facility may be prepaid at any time during its term without penalty. The PSCC Facility matures on December 27, 2000.

1998 Financings During March 1998, the Company converted the notes payable that were collateralized by 50 West 23rd Street into fixed rate obligations at an interest rate of 7.33%.

During December 1998, the Company closed two short-term bridge financings. The first financing was a \$51,500 bridge loan with Prudential Securities at an interest rate equal to 200 basis points over the current one-month LIBOR (7.58% at December 31, 1998). The loan which was secured by the properties located at 1412 Broadway and 633 Third Avenue was repaid in April 1999. The second financing was a \$36,000 bridge loan with Lehman Brothers at an interest rate equal to 275 basis points over the current one-month LIBOR (8.29% at December 31, 1998). The loan which was secured by the properties located at 70 West 36th Street, 1414 Avenue of the Americas and The Bar Building was repaid in April 1999.

1997 Financing On December 19, 1997 the Company entered into a \$140,000 three year senior unsecured revolving credit facility (the "Credit Facility") due December 2000. Availability under the Credit Facility may be limited to an amount less than the \$140,000 which is calculated by several factors including recent acquisition activity and most recent quarterly property performance. Outstanding loans under the Credit Facility bear interest on a graduated rate per annum equal to the London Interbank Offered Rate ("LIBOR") applicable to each interest period plus 120 basis points to 145 basis points per annum. The Credit Facility requires the Company to comply with certain covenants, including but not limited to, maintenance of certain financial ratios. At December 31, 1999 the outstanding amount of indebtedness under the Credit Facility was \$83,000, and the interest rate on such indebtedness was 7.82% per annum. Availability under the Credit Facility was reduced further by the issuance of letters of credit in the amount of \$7,500 and \$6,200 for acquisition deposits for the years ended December 31, 1999 and 1998, respectively. At December 31, 1999, the Company's borrowing capacity under the Credit Facility was \$49,500.

Interest Rate Protection Agreements In anticipation of financing properties, the Company executed a forward treasury rate lock on September 2, 1998 for \$100,000 of future financing. The underlying rate for that position was 5.13%. On December 3rd this rate lock expired and was not renewed. The negative value of this hedge at expiration was \$3,200. In connection with the hedge, the Company had commitments to complete five permanent mortgage financ-

Notes to Consolidated Financial Statements *(continued)*

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ings totaling \$103,000 on properties located at 70 West 36th Street, 36 West 44th Street, 1414 Avenue of the Americas, 633 Third Avenue and 1412 Broadway. The hedge cost represents a deferred financing cost which will be amortized over the life of these financings, except for \$200 which related to a mismatch in terms resulting in a charge to 1998 earnings.

Principal Maturities Combined aggregate principal maturities of mortgages and notes payable as of December 31, 1999 are as follows:

	Total
2000	\$113,625
2001	63,012
2002	6,374
2003	9,150
2004	78,477
Thereafter	165,055
	<u>\$435,693</u>

Mortgage Recording Tax—Hypothecated Loan The Operating Partnership mortgage tax credit loans totaled approximately \$134,000 from LBHI at December 31, 1998. These loans were collateralized by the mortgages encumbering the Operating Partnership's interests in 711 Third Avenue. The loans were also collateralized by an equivalent amount of the Company's cash which was held by LBHI and invested in US Treasury securities. Interest earned on the cash collateral was applied by LBHI to service the loans with interest rate commensurate with that of the portfolio of six month US Treasury securities, which matured on May 18, 1999. The Operating Partnership and LBHI each have the right of offset and therefore the loans and the cash collateral were presented on a net basis in the consolidated balance sheet at December 31, 1998. The purpose of these loans was to temporarily preserve mortgage recording tax credits for future potential acquisitions of real property which the Company may make, the financing of which may include property based debt, for which these credits would be applicable and provide a financial savings. These mortgage tax credit loans were all paid off during 1999.

9 PROPERTIES HELD FOR SALE

At December 31, 1999, the Company had two properties comprising approximately 243,000 rentable square feet held for sale. These properties were under contract for sale in the aggregate amount of \$43,200, with deposits of \$2,000. There can be no assurance that such properties held for sale will be sold.

The following table discloses certain information regarding the two properties held for sale by the Company:

	1999	1998
Total Revenues	\$ 7,206	\$ 6,950
Operating Expenses	(2,813)	(3,008)
Depreciation and Amortization	(883)	(936)
Other	(1,240)	(336)
Net Income	<u>\$ 2,270</u>	<u>\$ 2,670</u>
Net Carrying Value (including related costs) at December 31, 1999	<u>\$ 25,835</u>	

On February 11, 2000, the Company sold 29 West 35th Street for \$11,700, before selling costs, realizing a gain of approximately \$5,000 on the sale.

10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of estimated fair value were determined by management, using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash equivalents, mortgage receivables, and variable and fixed rate debt are carried at amounts which reasonably approximate their fair values based on discounted cash flow models.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 1999. Although management is not aware of any factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

11 RENTAL INCOME

The Operating Partnership is the lessor and the sublessor to tenants under operating leases with expiration dates ranging from 2000 to 2019. The minimum rental amounts due under the leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the Company for increases in certain operating costs and

Notes to Consolidated Financial Statements *(continued)*

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real estate taxes above their base year costs. Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at December 31, 1999 are as follows:

2000	\$ 171,066
2001	175,187
2002	149,238
2003	140,316
2004	121,923
Thereafter	518,244
	<u>\$1,275,974</u>

12 RELATED PARTY TRANSACTIONS

There are several business relationships with related parties, entities owned by Stephen L. Green or relatives of Stephen L. Green exclusive of the uncombined joint ventures which involve management, leasing, and construction fee revenues, rental income and maintenance expenses in the ordinary course of business. These transactions for the years ended December 31, include the following:

	SL Green Realty Corp.			SL Green
	1999	1998	August 21- December 31, 1997	January 1- August 20, 1997
Management revenues	\$ 171	\$ 178	\$ 78	\$ 172
Leasing commission revenues	107	181	8	29
Construction fees	-	-	14	37
Rental income	-	-	-	43
Maintenance expense	4,707	2,118	119	163

Amounts due from related parties at December 31, consist of:

	1999	1998	1997
17 Battery Condominium Association	\$ 176	\$ 245	-
Morgan Stanley Real Estate Fund	197	-	-
Carlyle Group	13	-	-
Officers	141	528	\$ 725
	<u>\$ 527</u>	<u>\$ 773</u>	<u>\$ 725</u>

Amounts due to related parties at December 31, consist of:

	1999	1998	1997
29 West 35th Street Predecessor Partnership	\$ -	\$ -	\$ 45
36 West 44th Street Predecessor Partnership	-	12	56
70 West 36th Street Predecessor Partnership	-	12	67
1414 Avenue of the Americas Predecessor Partnership	-	25	88
470 Park Avenue South Predecessor Partnership	-	6	72
673 First Avenue Predecessor Partnership	-	8	39
	<u>\$ -</u>	<u>\$ 63</u>	<u>\$ 367</u>

13 STOCKHOLDERS' EQUITY

The authorized capital stock of the Company consists of 200,000,000 shares, \$.01 par value, of which the Company has authorized the issuance of up to 100,000,000 shares of Common Stock, \$.01 par value per share, 75,000,000 shares of Excess Stock, at \$.01 par value per share, and 25,000,000 shares of Preferred Stock, par value \$.01 per share. On August 20, 1997, the Company issued 11,615,000 shares of its Common Stock (including the underwriters' over-allotment option of 1,520,000 shares) through a public offering (the "Offering"). Concurrently with the consummation of the Offering, the Company issued 38,095 shares of restricted common stock pursuant to officer stock loans and 85,600 shares of restricted common stock to a financial advisor. In addition, the Company previously issued to its executive officers approximately 553,616 shares, as founders' shares. As of December 31, 1999, no shares of Excess Stock were issued and outstanding.

On May 12, 1998 (the "May 1998 Offering") the Company completed the sale of 11,500,000 shares of common stock and 4,600,000 shares of 8% Preferred Income Equity Redeemable Shares with a mandatory liquidation preference of \$25.00 per share (the "PIERS"). Gross proceeds from these equity offerings (\$353,000, net of underwriter's discount) were used principally to repay the Acquisition Facility (see Note 17) and acquire additional properties. These offerings resulted in the reduction of continuing investor's interest in the Operating Partnership from 16.2% to 9.2%.

As of December 31, 1999 and 1998, the minority interest unitholders owned 9.1% (2,428,217 units) and 9.2% (2,428,217 units) of the Operating Partnership, respectively.

At December 31, 1999, 10,102,217 shares of common stock were reserved for the conversion of 2,428,217 operating partnership units, 2,975,000 stock options and 4,699,000 PIERS.

Stock Option Plans During August 1997, the Company instituted the 1997 Stock Option and Incentive Plan (The "Stock Option Plan"). The Stock Option Plan authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code ("ISOs"), (ii) the grant of stock options that do not so qualify ("NQSOs"), (iii) the grant of stock options in lieu of cash Directors' fees and employee bonuses, (iv) grants of shares of Common Stock, in lieu of compensation and (v) the making of loans to acquire shares of Common Stock, in lieu of compensation. The exercise price of stock options will be determined by the Compensation Committee, but may not be less than 100% of the fair market value of the shares of Common Stock on the date of

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grant in the case of ISOs; provided that, in the case of grants of NQSOs granted in lieu of cash Director's fees and employee bonuses, the exercise price may not be less than 50% of the fair market value of the shares of Common Stock on the date of grant. At December 31, 1999, approximately 2,975,000 shares of Common Stock are reserved for exercise of warrants and stock options.

Options granted under the 1997 qualified stock option plan are exercisable at the fair market value on the date of grant and, subject to termination of employment, expire ten years from the date of grant, are not transferable other than on death, and are exercisable in three equal annual installments commencing one year from the date of grant (with the exception of 10,000 options which have a vesting period of one year).

The Company applies APB No. 25 and related interpretations in accounting for its plan. Statement of Financial Accounting Standards No. 123 ("FAS 123") was issued by the Financial Accounting Standards Board in 1995 and, if fully adopted, changes the methods for recognition of cost on plans similar to that of the Company. Adoption of FAS 123 is optional, however, pro forma disclosure as if the Company adopted the cost recognition requirements under FAS 123 are presented below. The Company did not record any compensation expense under APB 25.

A summary of the status of the Company's stock options as of December 31, 1999 and 1998 and changes during the years ended December 31, 1999 and 1998 are presented below:

	Outstanding Shares	Weighted Average Exercise Price
Balance at December 31, 1997	660,000	\$21.27
Granted	1,306,000	\$21.26
Exercised	-	-
Lapsed or cancelled	(168,000)	\$21.86
Balance at December 31, 1998	1,798,000	\$21.19
Granted	609,000	\$20.59
Exercised	-	-
Lapsed or cancelled	(356,000)	\$22.41
Balance at December 31, 1999	<u>2,051,000</u>	<u>\$20.80</u>
Options exercisable at December 31, 1998	186,666	\$21.23
Options exercisable at December 31, 1999	<u>529,364</u>	<u>\$21.06</u>

The weighted average exercise price of the 2,051,000 options outstanding was \$20.80 as of December 31, 1999. The remaining weighted average contractual useful life of the options was 9.3 years. The weighted average fair value of options granted during the year was \$2,300 and \$6,200 for the years ended December 31, 1999 and 1998, respectively. The fair value of each share

option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1999, 1998 and 1997.

	1999	1998	1997
Dividend yield	5.00%	5.00%	5.00%
Expected life of option	4 years	4 years	4 years
Risk-free interest rate	5.00%	5.00%	5.00%
Expected stock price volatility	28.76%	36.95%	36.95%

The compensation cost under FAS 123 for the stock performance-based plan would have been \$1,600, \$2,600 and \$285 in 1999, 1998 and 1997 respectively. Had compensation cost for the Company's grants for stock-based compensation plans been determined consistent with FAS 123, the Company's net income and net income per common share for 1999, 1998 and 1997 would approximate the pro forma amounts below:

	1999	1998	1997
Net income	\$ 31,705	\$20,900	\$ 3,400
Net income per common share—basic	\$ 1.31	\$ 1.06	\$ 0.28
Net income per common share—diluted	\$ 1.31	\$ 1.06	\$ 0.28

The effects of applying FAS 123 in this pro forma disclosure are not indicative of future amounts.

Earnings Per Share Earnings per share is computed as follows:

	For the year ended December 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	\$33,258	24,192,000	\$ 1.37
Effect of Dilutive Securities:			
Redemption of Units to common shares	3,356	2,428,000	
Stock Options	-	60,000	
Diluted Earnings:			
Income available to common shareholders	\$36,614	26,680,000	\$ 1.37

	For the year ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	\$23,482	19,675,000	\$ 1.19
Effect of Dilutive Securities:			
Redemption of Units to common shares	3,043	2,406,000	
Stock Options	-	64,000	
Diluted Earnings:			
Income available to common shareholders	\$26,525	22,145,000	\$ 1.19

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December 31, 1999, (Dollars in thousands, except per share data)

The conversion of the PIERS which are currently anti-dilutive using the "if converted" method may result in the dilution of future earnings per share.

Preferred Stock The Company's 8% PIERS are non-voting and are convertible at any time at the option of the holder into the Company's common stock at a conversion price of \$24.475 per share. The conversion of all PIERS would result in the issuance of 4,699,000 of the Company's common stock which has been reserved for issuance. The PIERS receive annual dividends of \$2.00 per share paid on a quarterly basis and dividends are cumulative. On or after July 15, 2003 the PIERS may be redeemed at the option of the Company at a redemption price of \$25.889 and thereafter at prices declining to the par value of \$25.00 on or after July 15, 2007, with a mandatory redemption on April 15, 2008 at a price of \$25.00 per share. The PIERS were recorded net of underwriters discount and issuance costs. These costs are being accreted over the expected term of the PIERS using the interest method.

14 BENEFIT PLANS

The building employees are covered by multi-employer defined benefit pension plans and post-retirement health and welfare plans. Contributions to these plans amounted to \$644, \$366, \$35 and \$44 during the years ended December 31, 1999 and 1998, the periods August 21, 1997 to December 31, 1997, and January 1, 1997 to August 20, 1997, respectively. Separate actuarial information regarding such plans is not made available to the contributing employers by the union administrators or trustees, since the plans do not maintain separate records for each reporting unit.

Executive Stock Compensation During July 1998, the Company issued 150,000 shares in connection with an employment contract. These shares vest annually at rates of 15% to 35% and were recorded at fair value. At December 31, 1999, 22,500 of these shares had vested and the Company recorded compensation expense of approximately \$534.

Effective January 1, 1999 the Company implemented a deferred compensation plan (the "Deferred Plan") covering certain executives of the Company. In connection with the Deferred Plan the Company issued 240,000 restricted shares. The shares issued under the Deferred Plan were granted to certain executives and vesting will occur annually upon the Company meeting established financial performance criteria. Annual vesting occurs at rates ranging from 15% to 35% once performance criteria are reached. As of December 31, 1999, 44,660 of these shares had vested and the Company recorded compensation expense of approximately \$893.

401(k) Plan During August 1997, the Company implemented a 401(k) Saving/Retirement Plan (the "401(k) Plan") to cover eligible employees of the Company and any designated affiliate. The 401(k) Plan permits eligible employees of the Company to defer up to 15% of their annual compensation, subject to certain limitations imposed by the Code. The employees' elective deferrals are immediately vested and non-forfeitable upon contribution to the 401(k) Plan. As of December 31, 1999, the Company has not made any contributions to the 401(k) Plan.

15 COMMITMENTS AND CONTINGENCIES

The Company and the Operating Partnership are not presently involved in any material litigation nor, to their knowledge, is any material litigation threatened against them or their properties, other than routine litigation arising in the ordinary course of business. Management believes the costs, if any, incurred by the Company and the Operating Partnership related to this litigation will not materially affect the financial position, operating results or liquidity of the Company and the Operating Partnership.

The Company has entered into employment agreements with certain executives. Eight executives have employment agreements which expire between July 2000 and July 2003. The cash based compensation associated with these employment agreements totals approximately \$1,500 annually.

In December 1999, the Company received 387,635 warrants from Onsite Access Inc. ("Onsite") in exchange for providing Onsite with access to its portfolio of properties. This arrangement provides certain marketing preferences to Onsite in exchange for which the Company will receive a share in the revenues of the service provider. The Company is also entitled to receive up to an additional 494,718 warrants based on the terms of the Warrant Issuance Agreement. Onsite provides comprehensive communications solutions for small and medium-sized business customers in multi-tenant commercial office buildings. The warrants had an estimated fair value of \$306 at December 31, 1999. This was recorded as Deferred Revenue at December 31, 1999 and will be amortized over the term of the agreement. The warrants are held in an LLC of which the Company owns a 75 percent managing member interest, and the remaining interest is held by certain members of management.

During March 1998, the Company acquired an operating sub-leasehold position at 420 Lexington Avenue. The operating sub-leasehold position requires annual ground lease payments totaling \$6,000 and sub-leasehold position payments totaling \$1,100 (excluding an operating sub-lease position purchased January 1999 - see Note 3). The ground lease and sub-leasehold positions expire 2008. The Company may extend the positions through 2029 at no additional cost.

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

In April 1988, the SL Green Predecessor entered into a lease agreement for property at 673 First Avenue in New York City, which has been capitalized for financial statement purposes. Land was estimated to be approximately 70% of the fair market value of the property. The portion of the lease attributed to land is classified as an operating lease and the remainder as a capital lease. The initial lease term is 49 years with an option for an additional 26 years. Beginning in lease years 11 and 25, the lessor is entitled to additional rent as defined by the lease agreement.

The property located at 1140 Avenue of the Americas operates under a net ground lease (\$348 annually) with a term expiration date of 2016 and with an option to renew for an additional 50 years.

The property located at 711 Third Avenue operates under an operating sub-lease which expires in 2083. Under the sub-lease, the Company is responsible for ground rent payments of \$1,600 annually increasing to \$3,100 in July 2001 for ten years. The ground rent is reset after year ten based on the estimated fair market value of the property.

The Company continues to lease the 673 First Avenue property which has been classified as a capital lease with a cost basis of \$12,208 and cumulative amortization of \$2,782 and \$2,533 at December 31, 1999 and 1998, respectively. The following is a schedule of future minimum lease payments under capital leases and noncancellable operating leases with initial terms in excess of one year as of December 31, 1999:

December 31,	Capital leases	Noncancellable Operating leases
2000	\$ 1,177	\$ 11,079
2001	1,290	11,687
2002	1,290	12,075
2003	1,290	12,075
2004	1,290	12,075
Thereafter	60,306	339,293
Total minimum lease payments	66,643	\$398,284
Less amount representing interest	(51,626)	
Present value of net minimum lease payments	\$ 15,017	

16 ENVIRONMENTAL MATTERS

The management of the Company believes that the properties are in compliance in all material respects with applicable federal, state and local ordinances and regulations regarding environmental issues. Management is not aware of any environmental liability that management believes would have a material adverse impact on the Company's financial position, results of operations or cash flows. Management is unaware of any instances in which it would incur significant environmental cost if any of the properties were sold.

17 EXTRAORDINARY ITEMS

In March 1998 the Company requested the Credit Facility banking group to temporarily relieve the Company from its obligations under the financial covenants of the Credit Facility, in order to close an additional financing necessary to acquire the Helmsley Properties (the "Acquisition Facility"). This Acquisition Facility closed on March 18, 1998 financed the Helmsley Properties acquisition, paid-off the outstanding balance on the Company's Credit Facility and provides on-going liquidity for future acquisition and corporate needs. The term of the Acquisition Facility was one year. The interest rate was determined by a schedule of the percent of the loan commitment outstanding and the duration of the loan commitment outstanding ranging from 170 basis points to 300 basis points over LIBOR. As a result of the Company's May 1998 Public Equity Offerings, on May 18, 1998 the Company repaid the Acquisition Facility prior to its scheduled maturity date of March 18, 1999. The Company's early extinguishment of the Acquisition Facility resulted in the write-off of unamortized deferred financing costs totaling approximately \$522 (net of minority interest of \$52) which were classified as an extraordinary loss during the quarter ended June 30, 1998.

Forgiveness of subordinated property mortgage debt totaling \$22,087 (net of other partners' share of \$11,332 for the period January 1, 1997 to August 20, 1997) is reflected in the accompanying SL Green Predecessor financial statements as an extraordinary gain.

Prepayment penalties of \$1,071 (net of minority interest of \$207) and unamortized deferred charges of \$803 (net of minority interest of \$155) related to mortgages paid in connection with the Formation Transactions were expensed and are reflected in the Company's financial statements as an extraordinary loss for the period August 21, 1997 to December 31, 1997. This debt was forgiven in connection with the Formation Transactions.

See Note 8 for extraordinary items relating to the year ended December 31, 1999.

Notes to Consolidated Financial Statements *(continued)*

December 31, 1999, (Dollars in thousands, except per share data)

18 QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly data for the last two years is presented in the tables below:

1999 Quarter Ended	December 31	September 30	June 30	March 31
Total revenues	\$ 53,890	\$ 54,652	\$ 50,809	\$ 46,666
Income net of minority interest and before extraordinary item	11,345	10,475	11,408	10,617
Extraordinary item	(361)	-	(628)	-
Net income	10,984	10,475	10,780	10,617
Preferred dividends and accretion	(2,399)	(2,400)	(2,399)	(2,400)
Income available to common Shareholders	\$ 8,585	\$ 8,075	\$ 8,381	\$ 8,217
Income per common share before extraordinary item	\$ 0.36	\$ 0.33	\$ 0.37	\$ 0.34
Net income per common share-basic and diluted	\$ 0.35	\$ 0.33	\$ 0.35	\$ 0.34

1998 Quarter Ended	December 31	September 30	June 30	March 31
Total revenues	\$ 39,328	\$ 39,750	\$ 33,663	\$ 21,811
Income net of minority interest and before extraordinary item	9,256	10,257	6,372	4,089
Extraordinary item	-	-	(522)	-
Net income	9,256	10,257	5,850	4,089
Preferred dividends and accretion	(2,346)	(2,433)	(1,191)	-
Income available to common shareholders	\$ 6,910	\$ 7,824	\$ 4,659	\$ 4,089
Income per common share before extraordinary item	\$ 0.29	\$ 0.33	\$ 0.28	\$ 0.33
Net income per common share - basic and diluted	\$ 0.29	\$ 0.33	\$ 0.25	\$ 0.33

19 SEGMENT INFORMATION

The Company is a REIT engaged in owning, managing, leasing and repositioning class B office properties Manhattan and has one reportable segment, office real estate. The Company evaluates real estate performance and allocates resources based on net income.

The Company's real estate portfolio is located in one geographical market of Manhattan. The primary sources of revenue are generated from tenant rents and escalations and reimbursement revenue. Real estate property operating expenses primarily consist of security, maintenance, utility costs and ground rent expense (at certain applicable properties). The single office real estate business segment meets the quantitative threshold for determining reportable segments. The Company has no tenant with rental revenue greater than 10% of the Company's revenue.

20 SUBSEQUENT EVENTS

On February 16, 2000, the Board of Directors of the Company authorized a dividend distribution of one preferred share purchase right ("Right") for each outstanding share of common stock which will be distributed to all holders of record of the common stock on March 31, 2000. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series B junior participating preferred stock, par value \$0.01 per share ("Preferred Shares"), at a price of \$60.00 per one one-hundredth of a Preferred Share ("Purchase Price"), subject to adjustment as provided in the rights agreement. The Rights expire on March 5, 2010, unless the expiration date is extended or the Right is redeemed or exchanged earlier by the Company.

The Rights are attached to each share of common stock. The Rights are generally exercisable only if a person or group becomes the beneficial owner of 17 percent or more of the outstanding common stock or announces a tender offer for 17 percent or more of the outstanding common stock ("Acquiring Person"). In the event that a person or group becomes an Acquiring Person, each holder of a Right, excluding the Acquiring Person, will have the right to receive, upon exercise, common stock having a market value equal to two times the Purchase Price of the Right.

On February 18, 2000, the Company acquired a 49.9 percent managing interest in 100 Park Avenue ("100 Park"), an 834,000 square foot, 36-story property, located in Manhattan. The purchase price of \$95,800 was funded through a combination of cash and debt. The Company will provide managing and leasing services for 100 Park.

On March 8, 2000, the Company sold 36 West 44th Street for \$31,500, before selling costs, realizing a gain of approximately \$9,900 on the sale.

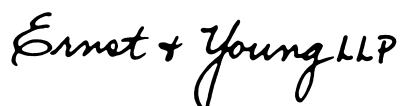
Report of Independent Auditors

To the Board of Directors and Shareholders of SL Green Realty Corp.

We have audited the accompanying consolidated balance sheets of SL Green Realty Corp. as of December 31, 1999 and 1998 and the related consolidated statements of income, stockholders' equity, and cash flows for the two years ended December 31, 1999 and for the period August 21, 1997 (date of commencement of operations) to December 31, 1997. These financial statements are the responsibility of SL Green Realty Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SL Green Realty Corp. at December 31, 1999 and 1998 and the consolidated results of their operations and their cash flows for the two years ended December 31, 1999 and for the period August 21, 1997 (date of commencement of operations) to December 31, 1997, in conformity with accounting principles generally accepted in the United States.



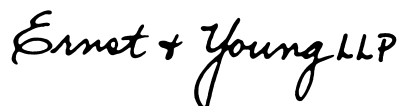
New York, New York
February 11, 2000
except for Note 20, as to which
the date is March 8, 2000

To the Board of Directors and Shareholders of SL Green Realty Corp.

We have audited the accompanying combined statement of income, owners' equity and cash flows of the uncombined joint ventures of SL Green Predecessor for the period from January 1, 1997 to August 20, 1997. These financial statements are the responsibility of SL Green Predecessor's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined results of the uncombined joint ventures of SL Green Predecessor's operations and their cash flows for the period from January 1, 1997 to August 20, 1997 in conformity with accounting principles generally accepted in the United States.



New York, New York
February 10, 1998

Corporate Directory

DIRECTORS — NON OFFICERS

John H. Alschuler, Jr.
Executive Committee; Audit Committee;
Compensation Committee
President;
Hamilton, Rabinowitz & Alschuler, Inc.

Edwin Thomas Burton, Jr.
Audit Committee, Chairman;
Compensation Committee
Visiting Professor of Commerce;
University of Virginia

John S. Levy
Audit Committee; Compensation Committee
Private Investor

OFFICERS

Stephen L. Green
Chairman of the Board and
Chief Executive Officer;
Executive Committee

David J. Nettina
President and Chief Operating Officer

Marc Holliday
Executive Vice President and
Chief Investment Officer

Benjamin P. Feldman
Executive Vice President —
Secretary and General Counsel;
Director; Executive Committee

Gerard T. Nocera
Executive Vice President — Leasing

Thomas E. Wirth
Chief Financial Officer

COUNSEL

Brown & Wood LLP
New York, NY

AUDITORS

Ernst & Young LLP
New York, NY

REGISTRAR & TRANSFER AGENT

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
Tel 212-936-5100

STOCK LISTING

NYSE Symbol: SLG, SLG PrA

ANNUAL REPORT, FORM 10K

Request Financials from the Company

ANNUAL MEETING

Tuesday, May 16, 2000
At the Grand Hyatt Hotel
Park Avenue at Grand Central (42nd Street)
at 10 am

SHAREHOLDERS

On March 21, 2000 the Company had
approximately 3000 shareholders

EXECUTIVE OFFICES

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