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SL Green Realty Corp. (SLG)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us and welcome to SL Green Realty Corp.'s Third Quarter 2023 Earnings Results Conference Call. This conference call is being recorded.

At this time, the company would like to remind listeners that during the call, management may make forward-looking statements. You should not rely on forward-looking statements as predictions of future events, as actual results and events may differ from any forward-looking statements that management may make today. All forward-looking statements made by management on this call are based on their assumptions and beliefs as of today. Additional information regarding the risks, uncertainties, and other factors that could cause such differences to appear are set forth in the Risk Factors and MDA sections of the company's latest Form 10-K and other subsequent reports filed by the company with the Securities and Exchange Commission.

Also, during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's third quarter 2023 earnings and in our supplemental information included in our Current Report on Form 8-K relating to our third quarter 2023 earnings.

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

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Okay. Thank you. Good afternoon, everyone. We're obviously holding this call at a moment of great global stress, but we will do our best today to focus in on the company's third quarter performance and what we're seeing in the market. While the current market remains challenging, we did have a number of very positive developments and milestones summarized for you right now because they were hard fought and we're proud of them.

First, we celebrated completion of One Madison Avenue with the receipt of our Temporary Certificate of Occupancy, marking the completion of the building construction three months ahead of schedule and well under budget. Importantly, this milestone triggered the final $577 million equity payment from our joint venture partners, which we already received and used to repay an equivalent amount of unsecured debt.

Earlier this month, we launched sales at 760 Madison Avenue, the beautifully designed and executed Giorgio Armani Residences, with half of the 10 units already spoken for and negotiations pending on additional units. We have also substantially completed the Armani retail store and restaurant, and are in the process of turning the space over to Armani to commence the lease.

Building off our positive experience and sales momentum at 760 Madison, I'm now happy to report that we have successfully acquired the fee interest in 625 Madison Avenue through a UCC foreclosure of our mezzanine loan, and we are now in control of the fee. All litigation with the previous fee owner has been resolved and we are finalizing our business plan, which we intend to unveil in December.

With JV partners, we closed on two extremely well-executed loan extensions at 719 Seventh Avenue and 115 Spring Street, bringing our total refinancings, extensions, and modifications to $3.2 billion for the year, reducing our combined debt by $1 billion, and additional extensions and pay-downs are planned for the near future. And yesterday, we announced the sale of our interests alongside our partners in 21 East 66th Street for a gross total value of $40 million, demonstrating the resiliency of demand for Upper Madison Avenue boutique and retail properties.

Perhaps and most significantly for the first time in the last 16 quarters, you got to go all the way back to December of 2019, I can report that same-store occupancy trended up in this past quarter with projections of a slow but steady climb that should continue into the next quarter and on into 2024. This is an important moment that signifies the stabilizing of the operating portfolio assets. The trend is in our favor as companies continue calling people back to work with news this past week of another 500,000 workers being called back and expected back this January.

It's important to note, we are sitting in a good position at 1.1 million square feet of pipeline leasing activity, with nearly half of that amount represented by 20 leases that are either in negotiation or out for signature, indicating a high probability of closure of those particular transactions. Those leases are split about evenly by square footage between new and renewal leases.

Decision timelines for tenants are lengthier than average, which has delayed some of the occupancy gains we had hoped to achieve this year. But directionally, it appears that predictions of an existential crisis from New York City office buildings is way, way overblown. And in fact, more and more of New York City's leading businesses are championing physical presence in the workplace as the best and most meaningful way of building community, promoting teamwork, establishing relationships, and maximizing productivity. We will continue to enhance and amenitize our core properties to provide maximum convenience and benefits to a workforce today that is looking for elevated workplace experiences.

We, along with the rest of the real estate industry, are impacted by the sharp and rapid rate increase experienced over just the past 18 months, but we are implementing our strategic plan to complete our development projects, lease up the portfolio, selling JV certain assets, pay down indebtedness, refinance and extend debt maturities, and hedge our exposure to future increasing interest rates; and we are going to succeed.

We will talk at greater length about our 2024 strategic plan at our upcoming Investor Conference, but rest assured that we are ready for this moment of great opportunity, and we intend to take advantage of market repricing and the liquid borrower dislocation through growth in our asset management business. So, as we look into 2024, we see reasons for real optimism. We have a plan to execute and a new generation of leaders to help execute it.

That last part is bittersweet for me and for the company as we prepare to say farewell to Andrew Mathias. After 26 years of – and over on my estimation, 100 earnings calls, today will be his last earnings call for the company. While this was an extraordinarily hard decision, it's the right time for the company and probably the right time for Andrew as well, he can speak to that. But he's – one thing that's for certain is that he's made an invaluable contribution from the time we first embarked on a new trajectory to become the biggest and best real estate company in New York City, and the rest is history.

Andrew is a partner and a friend and I'm happy that he will continue in his role as a director of the company and as an advisor to me. Andrew will undoubtedly have the opportunity to move on to other things and we will have the opportunity to bring up some of the younger talent we've been mentoring to assume positions of leadership as we ready for incredible opportunities that will be before us in the New Year.

I want to take this opportunity to thank Andrew on behalf of the entire company. Andrew's dedication and loyalty have been essential in accomplishing things for this company that were unimaginable 25 years ago. On a personal note, Andrew and I have been side by side for nearly 30 years in work and in friendship. What an incredible ride it's been.

Now, I'd like to hand it off to Andrew to say a few words.

Andrew W. Mathias

President & Director, SL Green Realty Corp.

Thank you, Marc. It has truly been a long and amazing run for the kid from Buffalo who never expected anything like this kind of experience in his life. I appreciate all the relationships with shareholders and analysts I've formed over the years. I've seen many come, many go, many stay and kept in touch with them in their new positions. And it's quite an industry, quite a business, and we've ridden a lot of ups and downs together. I would just say, we have a great and deep bench of talent at this company, some young, some not so young anymore, but I'm confident that SL Green will be the best positioned company, by far, for a recovery when it comes, and it will inevitably come. And I look forward to continued involvement in the company's success as a board member as long as they'll have me and as an advisor to Marc. And all the words and kind reach-out I've gotten over the last couple of weeks is greatly appreciated. So, thank you.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

That's great. Thank you, Andrew. And I guess, we'll end on that note and open it up for questions, operator.

QUESTION AND ANSWER SECTION

Operator. Thank you. [Operator Instructions] Please stand by while we compile the Q&A roster. Our first question comes from the line of John Kim from BMO Capital Markets.

John P. Kim

Analyst, BMO Capital Markets Corp.

Q

Thank you. Congratulations and best wishes to Andrew. Can you talk more [ph] or a little (00:10:55) bit more on the decision at this time for him to leave the company? Who's going to take over his day-to-day responsibilities, if he's got a non-compete, and what the G&A savings will be going forward?

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Okay. So, I think, John, if I – it was a little muffled, but if I heard you correctly, first question was about timing or why now. And it's a very hard decision and I guess you never really know, none of us know when it's time and when's the right time but I think there's a recognition that we are starting a new chapter here at SL Green starting in 2024 with extraordinary new opportunity and we have this unbelievable talent of younger professionals that, in and of themselves, have been here 10, 15, in some cases, 20 years. And we just felt that this was the right time and the best time for this restructuring, if you will, to allow for that talent to step up at a moment in time where we can maximize their relationships with kind of a new generation of lenders and partners and co-investors out there that we think is just in the interest of the company.

And knowing that Andrew's still on the board and still an advisor to me serves a critical role for me that I don't feel this is a loss, but I feel it's additive overall to something that I think is a good move for the company and probably a good move for Andrew because I'm sure he's going to have a limitless amount of great opportunities in front of him.

In terms of – I think you mentioned division of responsibility or something to that effect. As we always do, we don't like to be reactive, I like to be measured. The board and I are going to take the next several months, we'll meet, we'll talk about how we want to work on that division and successorship role going forward. And I would imagine sometime in 2024, we'll have some additional announcements to make. But for the time being, we're just going to – Andrew is still here through year end, there's a lot to do.

As you know, in SL Green style, we'll be doing it right to the last day at December 31 of the year. And then, we'll take stock and make sure that we're extremely well positioned. No – nothing will be unattended and no stone will be unturned. When we get to 2024, we'll be off and running.

The last piece I think dealt with some of the numerical issues which, Matt, do you want to address?

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

A

Yeah. G&A savings on a run rate basis between $10 million and $11 million.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. Wanted to ask about condo sales at 760 Madison. You report NAREIT FFO [ph] not a core (00:14:03) number, so is it fair to assume that condo sales gains will be included in earnings next year?

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

A

Condo sales – well, proceeds from condo sales, to the extent they close in 2024, would have an earnings benefit. The gains on those sales themselves are not FFO, [ph] though (00:14:23).

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

But this is a new development, correct?

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

A

It's – this is – 760 Madison was a retail condo leased to – long-term lease to Armani at the base, that's been turned over to Armani condos, 10 units up top, half of which are spoken for. They said the proceeds, we would hope, come in in late 2024. Those will be utilized. And then, – but the gains from those are not FFO, which I think was the genesis of your question.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Yes. Okay. Thank you very much.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Steve Sakwa from Evercore ISI.

Steve Sakwa
Analyst, Evercore ISI

Q

Thanks. Good afternoon, and congrats to Andrew. Best wishes. I guess maybe on the leasing front, Marc or Steve, could you maybe just break down the pipeline a little bit? And just maybe talk about the types of buildings that you see the most demand for and the types of tenants, whether they be financial services, law firms, any big tech that's kind of peering its head out of its kind of hibernation.

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

A

Sure. So, as Marc said, we've got a million – 1.1 million square feet in the current pipeline. There's a big long list of other prospects behind that that are premature to include in our pipeline number. Of the pipeline that we've got out right now, 67% of those leases are from fire tenants. The balance is a mixed bag between health care, government, non-profits, business services, things like that.

So, financial services, clearly as you might expect, is driving the boat right now. A lot of the big deals – a lot of the larger leases that we have out are in the better-quality buildings. Park Avenue, in particular, is very busy. 280 Park, 245 Park, 100 Park are all very active with leases or deals pending. The good news behind that is – as we said in the last earnings call, is we continue to see increased foot traffic and proposals at the – in the rest of the portfolio, in the buildings that are more price sensitive type of product. And I think that's a positive note. The next step is, that needs now to convert over to leases. And I think we're going to continue to see traction on that as the – as we come to the end of the year and going into early next year.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay. Thanks. And then second question, I don't know, maybe Marc or Andrew, you guys had talked about doing some additional asset sales and dispositions. One Vanderbilt, possibly. Maybe even selling down a little bit more of 245. Can you maybe just talk about the disposition market and what you're seeing just in light of where interest rates are in the economic uncertainty? How are you thinking about that and the impact to maybe leverage moving forward over the next year?

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

A

Sure, Steve. It's Andrew. We're still actively out there. As you saw Marc mentioned, the sale of the retail condo on Madison. We're talking to groups really from around the world regarding some of the other interests, either further interest in 245, which we haven't really made a decision on yet, and certainly the interest in One Vanderbilt. And it's just trying to balance the right timing and matching up with the requirements that a lot of these firms have.

So, I'd like to turn it over to Harry to have him speak a little further – he just got back from Asia – about what he's seeing from investor demand out there.

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Sure. Thanks, Andrew. So, as Andrew mentioned, we just returned from our quarterly road show in Asia. We're continuing to hear from foreign investors that they're interested in making select new office investments, and they really do believe in the fundamentals for quality office. More specific to us, they believe in our ability to underwrite business plans, execute in this market and get stuff done.

So, the one variable that foreign investors are still very focused on are US interest rates and, in some cases, the impact that has on forex rates, specifically as it relates to the US dollar to certain Asian currencies. We're helping push back against that with the fact in some of these countries, they have very low borrowing rates. You saw us successfully navigate through that last quarter at 245 Park.

We're very focused on OVA. It was – it's a high priority of ours. We're going to be putting a lot of pressure to get that done, and I would expect to see good momentum for that in the next few months.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Thank you.

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

A

And I've been – sorry. I've been very happy with the response we're getting obviously – that we got on 245 Park, premier asset, premier location; and that we're getting on One Vanderbilt, multiple party, counterparties, highly interested, different parts of not only Asia, but around the world; and working hard to try and get something done by year end, and we'll see how that comes up.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Thank you.

Operator: Thank you. One moment for our next question.

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

A

I'm sorry. Next question?

Operator: Our next question comes from the line of Alexander Goldfarb from Piper Sandler.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey. Good afternoon. And, Andrew, congrats, mazel tov. I guess this is it for you having to do the earnings call. So, congrats and look forward to where the New York gossip columns have your next real estate deals.

Two questions here. The first question, Matt, of capitalized interest, always sort of the bane of modeling. You guys, you did the One Madison delivery. You got the $577 million. You also closed on 625 Madison. So, maybe you could just put some framework about how we should think about interest expense next year, the impact of capitalized interest just given those moving pieces.

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

A

Yeah. Capitalized interest is a tough thing to model even here. It's a complicated exercise, particularly when you have joint venture interests in multiple development – redevelopment projects. But specific to your question, something like the proceeds at One Madison, which is a fully capitalized property because it's in full development, when you get $577 million in, that reduces our investment in the asset by $577 million, and therefore you can't capitalize interest on that $577 million. Use whatever interest rate you want. We're – it's based on our consolidated weighted average interest rate. So, call that 4.5%. 4.5% times $577 million is a big number that's lower capitalized interest.

Other assets like 625 or anything else for that matter that gets leased up as leasing comes on, capitalized interest goes down. So, there is an offset NOI coming on from interest capitalization. So, yeah, there will be some significant changes as you roll through 2024 and into maybe even 2025 as One Madison comes on line, NOI benefit, capitalized interest reduction. And so I'm optimistic that people will start to flow those through their models. I haven't seen it flow through just yet. But I'm sure as people tune up their forward-looking models, that will appear.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Well, it sounds like the big one is obviously the One Madison. That's helpful. And then 625, just for clarity, because you just brought that on, that would be – that would reduce interest because now you're – that building is on your books and you're capitalizing it, or were you sort of already running it through? I just want to make sure that we – by bringing 625 on, that we account for that correctly.

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

A

We had a leasehold investment previously, right? We wrote it off back in the second quarter. Prior to it being written off, there would have been capitalized interest against that investment. Now, there will be a capitalized – there would be capitalized interest against the new investment. So, there will also be...

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay.

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

A

...capitalized interest, but on a different investment amount.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And then second question is, with Andrew's departure, Marc, you mentioned bringing up the younger – the bench and having other people step forward. On the mezz and preferred business that you guys have that you've long held, Andrew was big into that, but is – should we take the comments as other people will step into that and you will regrow this mezz business once interest rate and transaction market start to normalize? Or is this sort of a wind-down? Does this Andrew's departure signal a wind-down of the mezz business?

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

A

Yeah. It's good question, Alex. Andrew sort of presided over the whole company, which included an investment's bench, probably 20 investment professionals led by Harry Sitomer, Brett Herschenfeld, Rob Schiffer, all of whom have worked on, I don't know, countless billions and billions of debt and equity investments under Andrew's and my tutelage over the years. Remember, we've been doing this business for, well, since 1998 or 1999, I forget.

So, it's always been core to us, I would say, on average [indiscernible] (00:25:13) to $1 billion to $3 billion a year of gross originations. And backing up that team, we have Andrew Falk, who's Head of Special Servicing, and runs that business and has a team under him, helping him. There are other young guys behind that with – that Harry can elaborate on.

But the bench is deep. The bench is very experienced. We are very much going to stay in that business. Like, no illusion whatsoever that we're not going to be in that business in what I hope will be a very, very big way in 2024, 2025, and 2026. I think there's going to be three years of very solid opportunities.

A year ago, I said 12 months. Six months ago, I said six months. What you're going to hear in December, I think, is the opportunity is now. And we're – you should expect that as we have settled out the other aspects of our business plan with respect to paying down debt, hedging, monetizing assets. Then full focus is going to pivot to new investments and assume that we are in deep conversations with many capital partners about putting the capital together, both in a discretionary and in a managed account situation for various ways of taking advantage of this market opportunity that I think is going to be nothing like what we've seen in probably 30 years.

I have to dial back to my first experiences in late 1980s and early 1990s to sort of get a comparable bench point. So, yeah. I mean, active or continue with the program, I'd say, is an understatement.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Camille Bonnel from Bank of America.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Hello. Can you talk about the drivers behind the update for full year guidance, which implies your midpoint has changed, excluding onetime items? And with only one more quarter to go, can you talk to the big swing factors that we should consider, given you kept the range so wide?

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

A

Yeah. Camille, it's Matt. I – you're a little muffled, so the – I think the first question was just talking about the details, but a little bit more of the details behind our guidance revision. We have to take a $0.25 – I'm sorry, $0.27 total nonrecurring charge related to Andrew. That's $0.10 of severance and $0.17 that's accelerated stock-based comp that would have been recognized over the coming years. That, in part, contributes to the $10 million to $11 million of G&A savings on a run rate basis.

Offsetting that though, performance in the rest of the company has been modestly better than expected. So, were it not for the charges, we would be taking up the rest of the range by a few pennies. And we still leave a fairly wide range because even with three months left to go, we do have a significant amount of execution left. And, in part, depending on where the One Vanderbilt JV [ph] inter-sale (00:28:42) falls, whether it be in 2023 or 2024, that has an impact on FFO. So, we had to leave the range at the same $0.30 level it was previously, while adjusting primarily for interest charges.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Got it. And thinking about your operating model and continued transition through asset-light strategy, are there any further cost saving programs you're considering to implement from an operating or a G&A standpoint?

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

A

Can you repeat the question?

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

A

Are there any cost saving or G&A saving programs [indiscernible] (00:29:20) for asset management?

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

A

Well, let me – I mean, generally, we as a team are meeting, I would say, almost like daily. Or the operational and construction members of the team are meeting daily, scrubbing through property-level operational expense budgets for next year. We're appropriately looking for areas of savings, trying to keep our expenses as close to like net zero increase, and, in other words, inflationary environment; but making sure that we're still delivering best-of-class service so we're never going to do anything to jeopardize the reputation and excellence that we are delivering to that program now. But we're hyper-focused on that.

And looking at our capital programs, we've benefited by investing so much in the buildings over the years that we can go a little capital-light in 2024, maybe 2024 and 2025, not to the detriment of any building simply because most of the buildings have been completely repositioned, amenitized, new lobbies, security system, local [indiscernible] (00:30:33) work, and roof replacements out of the way. And that's not to say there's 30 million feet. There's always something more to do. But I feel like we'll be able to really enter the market in 2024 with a strong hand in terms of operating expense control and capital cost control.

As it relates to G&A, if that was a specific question or item, I'd say we are one of the leaders in our peer group, if you will, in terms of not only controlling G&A or maintaining it, but reducing it. We had G&A, I wouldn't say at its peak of $100 million or so.

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

A

It was $110 million.

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

$110 million. So – and this year, it will ring in at around...

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

$90 million.

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

...$90 million. And I would expect next year through all sorts of smart planning, austerity measures, et cetera, to come in below that. We haven't done – we'll know in December, but I'd say it's safe to say below $90 million.

So, that's a trend that I think is unusual or unequalled in our industry and sector, and yet we're able to do more with less. And the building performance and I think level of service is as high as it's ever been. So, I don't know if that answers the question, but that's what we're working on between now and December; and maybe December can elaborate further on that. But, yes, operating expense conservation, capital cost efficiency, and reduction in G&A are all things we're going to be focused on going into next year.

Camille Bonnel
Analyst, BofA Securities, Inc.
Q

That's helpful. And final question for Matt on the balance sheet. I know you've managed to swap your exposure to – your swap expiries to its respective debt maturities. But how are you thinking about cap maturities? For instance, 10 East 53rd Street and 220 East 42nd Street have final debt maturities in 2025, but the caps are maturing next year.

A – [0CTYJH-E Matt DiLiberto]>: Sure. Happy to answer it, and I'll save the operator the trouble of reminding people two questions only, please. But, Camille, I'll give you a free one. We do hedge when we swap as far out as the debt to which those swaps are associated goes. As it relates to caps, caps are often a requirement of the underlying financing. And specific to the two instances you referenced, we have JV partners. So, we are not able to make a unilateral decision to put a cap in place without the sign-off of our partner. We agree with our partners on the terms with regard to those two. We agreed to time it to a one-year cap, and those caps need to be put back as is required by the financing.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Blaine Heck from Wells Fargo.

Blaine Heck
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks. Can you just talk about the lending environment? And maybe touch on where interest rates stand for high-quality office buildings now? How the pool of lenders that are actively lending to office may have changed? And what they're looking for with respect to loan-to-value and debt service coverage ratios?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.
A

Sure. This is Harry. So, look, we're continuing to navigate through the current debt capital markets environment. Given the prominence of who we are and what we mean to this market, we're working with our depth of relationships, modifying existing – modifying extending existing secured debt. We're seeing a capitulation in the market from the lenders, and we think we're really well-positioned right now to work with these lenders on terms that make sense, given their confidence in us to be the right steward of this portfolio.

We're getting very well-ahead of our existing debt maturities in most cases. We're looking three years out at this point. As Marc mentioned earlier, we already executed two deals in this quarter, and I would expect to see us do some larger ones over the course of the next few months leading into the end of the year.

In each refinancing that we're looking at, we're assessing prudently, putting in new capital and trying to very conservatively underwrite any money that's going in as we think about these refinancings.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

All right. That's helpful. For my second question, Matt, you talked about the fixed charge coverage ratio on the last call and your expectation for it to tighten, relative to your covenant before expanding. Can you just comment on the movement quarter-over-quarter and whether that magnitude was in line with your expectation, whether we should see the third quarter as likely to be the bottom for the metric? And I guess any stress testing you've done relative to kind of where rates would have to go to trip that covenant?

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

A

Yeah. You're right. On the last call, I did say I would expect to trend down into Q3. I'll remind people how this calc works. It's a consolidated-only calculation. So, there's only a handful of properties that flow through it. Layered on top of that is our debt and preferred equity income, offset by G&A. And then essentially corporate debt and any consolidated debt is the other side of the equation.

So, that metric – and it's done on a trailing 12-month basis. So, that metric has been and will continue to be for several more quarters weighed down by 245 and a higher corporate debt load. So, we got $577 million of proceeds from our partners at One Madison. We got that towards the tail end of the quarter. That had no effect on the quarter, but will obviously benefit the forward quarters as that flows through over the next 12 months.

Same effect as 245 Park, which was a consolidated property for the better part of the year before we sold the JV interest. It comes out of the consolidated calc, but does so over a 12-month period. So, it has to roll through over time.

The trajectory we're on was, third quarter is – we would trend lower into third quarter, and then bounce off of that. Obviously, the timing of things could affect that. If we – I referenced One Vanderbilt that has an effect because that is an income generator for the fourth quarter. If we did that in the fourth versus the first, that might have an effect. But the trajectory on this is to be naturally higher through EBITDA growth, and also through lower interest expense as a result of consolidated interest expense as a result of reduced corporate debt and reduced consolidated property debt.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. And, Andrew, thanks for the help over the years, and best of luck with everything.

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

A

Thanks very much.

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

Peter Abramowitz
Analyst, Jefferies LLC

Q

Thank you. Yeah. Just first one to ask, within that leasing pipeline, kind of what's the interest in the remaining space at One Madison? What sort of coverage do you have on that? And how are kind of the rents there trending, relative to your expectations?

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

A

We're in active term sheet negotiation with four different tenants right now, covering, let's see, about 200,000 square feet of space. It's a mix between tech, fintech-type tenants I would say is just sort of the dominant theme there. All of the rents that are being discussed are at or above underwrite. And I'm not going to get too far out of all of them, but other than to say that I feel really positive about our prospects on at least two or three of those tenants. And hopefully we will have more to report if not by the end of the year, then very shortly thereafter.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. Thanks, Steve. And then one other. Just as we kind of look forward in our models thinking about 2024, just a reminder in terms of the moving parts. Any large expirations to think about in the portfolio or known move-outs?

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

A

Well, two things. I would say that we have, I think, absolute transparency on all of the expirations in 2024, and probably even into 2025, quite frankly, as to whether or not tenants are staying or going, certainly the tenants of size. All of those are built into our current projections and the budgets that we're building – currently building for next year. The only one of the maybe new news to people is CBS downsized. They renewed, and then downsized a little bit of 555, but it's not really moving the needle anywhere.

Peter Abramowitz
Analyst, Jefferies LLC

Q

All right. That's helpful. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Ronald Kamden (sic) [Ronald Kamdem] (00:40:13) from Morgan Stanley.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Hey, congrats, Matt, on a great job. Just really quickly, my two quick ones is, so 7 Dey and 185 Broadway I think were previous planned sales. I know the loan's maturing this quarter. What's the update there? Are you most likely to extend the loan on that – on those two assets?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.
A

With respect to the debt, we are very close to finalizing a multi-year extension there on very favorable terms. So, we'll be wrapping that up hopefully shortly. And then, with respect to the joint venture partnership, we're in active negotiations and discussions with groups that they're very interested in resi product. There's a lot of interest we're seeing throughout the globe on that. And we'll be looking to get something done there soon after we wrap up the debt.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC
Q

Great. And then, just coming back to the – I think last quarter, we talked a lot about a potential JV at One Vanderbilt. Just was wondering if – we've had so obviously a pretty big rate move, maybe can you provide just a little bit more sort of color on your thinking there? Is it still the same size? Have new investors come in, investors dropped out? Just what sort of happened in the past sort of month or two with the rate move and how that's impacting the conversations and your thinking there on One Vanderbilt? Thanks.

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

Yeah. I think, for foreign investors to have an appetite for core product, it almost makes the asset stand out as one of one, if you will, in terms of two or three attributes that are almost unequalled anywhere in the country. It's got size, it's got very long weighted average lease term, it has incredibly favorable locked in and low rate debt for, I think, another 8 or 8.5 years. It's – obviously, it's a great building and I think as the rates are moving up, it's differentiated as, I'm going to say, one of – I wouldn't say the only, but certainly one of the best core investments that people with core money can put to work either remainder of this year or early 2024, whenever we get that deal done. We're working hard on it.

And we have not seen any diminution in interest. As rates rise, obviously, the embedded debt becomes more valuable on a mark-to-market basis and the lead stream is unaffected, and I don't think you can make any extrapolations as to interest rates or cap rates 10 or 15 years out. I guess, you could but it would be conjecture. So, in that way, the building's as well insulated as any and we've had great reception and we're hoping to be able to conclude something there.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC
Q

Thanks so much.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Caitlin Burrows from Goldman Sachs.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Good afternoon, everyone. Maybe just on the occupancy front, you mentioned earlier in response to the guidance question that various parts of the business are going better than expected. It does seem like to meet the occupancy target for the same-store Manhattan portfolio, you'd need a significant pickup in the fourth quarter. So, just wondering, based on where we are today and the visibility that you have, kind of the outlook for occupancy increasing materially in the near-term?

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

A

Yeah. So, we had a very heady goal, north of 92%. We will not make that goal. Marc alluded to in his comments that we have a good pipeline. We've already done 1.3 million square feet of leasing. We have 1.1 million square feet of pipeline. But deals are taking longer to get done, and therefore the occupancy is picking up at a slower trajectory than we had anticipated. So, we do expect it to pick up into 2023 and into 2024 as we close on the pipeline, but we will be short of the 92% that we had laid out at the beginning of the year.

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

A

Yeah. And I just wanted to be clear on that, that I know it's – maybe it's too nuanced, but what we have internally projected versus what our goal is that we set for ourselves and what I call stretch goals, the 92-point-whatever was the – was a ambitious goal to get to 7.5% occupancy in a market that's 18% vacant – I'm sorry, 7.5% vacant in a market that's 18% vacant. I mean, obviously in doing that, we're trying to be realistic but we're trying push ourselves. I set anywhere from, I don't know, 18 to 20 to 21 goals a year. And if they were all projected [ph] or tapped and (00:45:29) we meet them all every year, and in fact, we generally meet anywhere from about 60% to 75% of those goals, that's by design.

So, the fact that I think as we sit here this year, our occupancy is trending up and will be in the 90s, we'll have to see where we cross the finish line at a point in time on December 31, is an amazing achievement in a market that otherwise has been relatively flat on vacancy at around 18% throughout the year. I do think the pipeline is more telling than where we are exactly at December 31, because what it's saying is we're going have a big December, January, and February because we have a 1.1 million square foot pipeline, and typically those deals take three to five months to close from the time they're in that pipeline. So, it sets up really well for next year.

So, I know how it works and the headlines are going to be, well, SL Green goal 92% and they come in at 90-point-something or 91%, who knows? But the reality is, it's all about the trends, it's about the pipeline, and it's about our confidence that we bottomed out in vacancy in the second quarter; third quarter turned the tide; fourth quarter, I think we're going to do the same on into 2024 and kind of march our way back hopefully to 92% and above. Next year, we don't have those numbers until December investor, and we'll see. But that's where it is.

No more or less relevant than saying, we set a stretch goal of 1.7 million square feet of lease signed. Today, we sit at almost 1.3 million signed. Actually, how much if you add in post-quarter? [indiscernible] (00:47:25) About 1.3 million. So, there's a good chance we'll be over in our leases signed, which also sets up well for 2024. But we're dancing on the heads of tens of basis points and I'm not throwing in the towel yet. Let's try and make 92% and let's keep at it the pipelines there. We just got to close these deals quick.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And yeah, appreciate that you guys have mentioned that those goals can be stretch goals. Maybe then separately, on the dividend. I know last call you mentioned you want to keep the dividend as close to the current levels as possible. So, just wanted to see if you thought the G&A savings you're pursuing could help you maintain the dividend next year or any updated thoughts to share?

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

Yeah. I – my comments I think on the last call as it related to dividend where there were some companies that were in the process of cutting or eliminating dividends was along the lines of, we think the dividend is a important and almost fundamental reason that people invest in the REIT stocks. I still believe that to be the case. And we're going to work hard to maintain that dividend as best we can, always in light of where our FFO and FAD is for the year. So, that's the one thing I just – we don't have next year's numbers published yet so we couldn't, on this call, begin to give you a sense of where that is.

It's about FFO, it's about FAD, it's about taxable income. But our goal and everything we do – when I mentioned earlier about cutting our capital to only that we need to spend next year, cutting our expenses, is all for the basic reason of meeting our obligations and paying a dividend. And we'll do everything possible. But you got to wait till December or maybe it's just before December when we announce – we meet as a board, we'll set the level for next year, it'll be based off of taxable income. And we recognize the importance. We're all aligned with shareholders and we'll try to maintain as best as we can.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Michael Griffin from Citi.

Michael A. Griffin
Analyst, Citi
Q

Great. Thanks. Maybe getting back to the potential asset sales. I'm curious if you can give some color around return hurdles or IRR that potential investment partners are looking for in order to get interested?

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

Well, that's – Michael, it's broad because the market coming up, there's going to be so many ways to play it and therefore the return hurdles would be a lot different. I mean, there'll be people trying to take position in first lien positions. Yeah, there'll be more debt and credit like, and there'll be mezzanine positions, there'll be equity positions. I think it's fair to say, whatever the return hurdles were sort of before the rate increases, if you will, that the return hurdles sort of generally across the board were probably up [ph] 250 to 300 (00:50:47) over for various positions, in that range.

So, maybe what was low-teens might be mid-teens; mid-teens, high-teens; whatever – what might have been a 7.5% unlevered discount might be a 10%. I mean, in that range is kind of the level of movement, but it just – it depends what's the asset class, where is it, where are you investing in that asset class, and are – is it from an ownership perspective or from a mezzanine origination perspective, et cetera. But I think [ph] 250 to 300 (00:51:21) up in return requirements is probably a good number. I don't know. Andrew, you think...

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

I would agree.

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

A

Yeah. What you're seeing in [indiscernible] (00:51:37).

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

A

I think that's probably a good number.

Michael A. Griffin
Analyst, Citi

Q

Great. Thanks. And then, Marc, I know you mentioned in your prepared remarks, the time that it's been taking to sign leases have increased. Should we take this as maybe the new normal for signing leases going forward or was there something specific about these leases this year getting signed in terms of being elongated that kind of put – was a drag on occupancy?

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

A

Yeah, I don't know. It's a good question. And for that, you got to kind of have an economic forecast for what next year will be like. I think the decision, the timeline is less about uncertainty and more at the moment about having more choice. So, people are just, more so than in the past, they're exploring all their choices because they have more choices. And there's no sense in my mind that the people who are out there that are serious, that are in the inventory of tenants that we would say are real tenants that will be signing leases, whether it's this year or next year, will cross the finish line and sign leases at plus or minus the amounts they're looking at.

I think they just have more opportunities and they're taking more time to vet those opportunities before they narrow in on the one they want. And so, what might have been a six-month exercise might be eight or nine months now, something like that. But I don't think – I think as the better space becomes more fully leased and it will because we're seeing that already and a lot of the vacant overhang pre-pandemic in terms of planned development is leased, then I think the options become fewer and then the timeline comes in again.

Operator: Thank you. I would now like to turn the conference back over to Marc Holliday for closing remarks.

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

Okay. The only closing remark I have for today is a special day for us coming up in December. I think it's December 4.

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

December 4.

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

December 4, 9:00 AM.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

9:00 AM here at One Vanderbilt. In-person with invitation only, but the entire presentation will be webcast and available via our website.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

And safe to say we are busy at work preparing a lot of good information and strategic positioning for that session to make it meaningful for people. So, hope everyone has a chance to call in or accept invites and come and we look forward to it every year. And for those that are coming or listening in, look forward to speaking with you then.

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