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SL Green Realty Corp. (SLG)

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CORPORATE PARTICIPANTS

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

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

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

OTHER PARTICIPANTS

Camille Bonnel
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Camille Bonnel

Analyst, BofA Securities, Inc.

Good afternoon, everyone. Welcome to our Global Real Estate Conference Roundtable Session with SL Green. My name is Camille Bonnel and I am the office REIT analyst here at Bank of America. I am also joined by Jeff Spector, who heads our team and Andrew Berger, who works closely with us.

Speaking today from the company is CFO Matt DiLiberto, CIO Harry Sitomer and Head of Leasing, Steve Durels.

We will pass it over to Matt to give some opening remarks on who you are, just given many people are flying in this week and then we will open it up for Q&A.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Good afternoon, everybody. Thanks for joining us here in person and listening online as well. SL Green for those who don't know us, we are the largest office landlord here in New York City, own about 30 million feet with interests in 7 million feet beyond that. We have been a public company for about 27 years now, supplementing our office portfolio, which is concentrated around Grand Central Park Avenue. We have a lending business, a special servicing business, an observatory/entertainment business and we are – you're going to hear over the next 30 minutes or so a story of a city in clear recovery in a market that is set up well for the portfolio that we have in place in a business that is gaining momentum. So, feeling very good where we are, where we are coming out of challenging last three or four years and what's yet to come.

QUESTION AND ANSWER SECTION

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

So, we are going to all the fun operating updates in the segment. But it seems fair to say that New York City is really starting to find its footing again, but I don't think that really explains how well SL Green has done year-to-date, especially in the context that leasing volumes are still well below pre-pandemic levels. So, curious, Matt, what's changed in your perspective?

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

A

I mean there is a whole host of things, Steve Durels is here to my right, can expand on leasing momentum. That's probably been the most notable and we called kind of a pivot in the market in 2023 that materialized and probably accelerated in the areas where our portfolio is [ph] concentrated (00:02:29), Grand Central and Park Avenue. Park Avenue is the tightest submarket in the country with availability 8% or sub-8%. That is where the bulk of our portfolio sits, anchored by One Vanderbilt at 42nd and Park and up to the 450 Park at 57th and Park. Seeing the ability to increase rents, seen a lot of trajectory. And what I think has gained even more momentum, at least in the people's conviction in the market improving is that that is broadening out beyond just Park Avenue. Park Avenue has seen clear strength, but you are seeing now overflow as we report updated leasing to date of 1.7 million square feet to date. We were just at 1.4 million feet in mid-July. So, we have done 300,000 feet since then. Our pipeline continues to stay very full at 1.3 million square feet today. That was 1.2 – somewhere between 1.2 and 1.4 going all the way back to last December. So, it's refilling as we are signing leases faster than we expected and it's in the corridors that are not just Park Avenue. So, the strength of Park Avenue kind of encourage people to take another look and feel better about where the market was headed, but to see tenants on [ph] Sixth and Lex (00:03:43) and Third Avenue be back in the market and not just the highest rent payers, but the more commodity tenant is what's become an even more compelling story for the – for the city. Steve, you want to expand on that?

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

A

An interesting stat is that year-to-date leasing in Midtown, Manhattan's leasing story is largely centered on Midtown Manhattan, is 50% ahead of where we were last year. So, this is going to be a very strong leasing year overall for Manhattan. But the focus is clearly on Midtown and within Midtown Grand Central in particular is seeing a lot of activity. Just to jump ahead a little bit and what we have really seen evolve over the past few years I guess is a change in the narrative where all of the headlines were focused on leasing in new construction or marquee level buildings, the best of the best. Then it started to migrate to the better quality buildings in the overall Midtown market. And now we are starting to see real strength come to light in the value part of the marketplace that mid-price point building, with a lot of the focus being on the upper half of those buildings. But that's where it starts to really get interesting because you start to see bigger velocities, more absorption in the marketplace and when the overall availability rate starts to trend line down, we start to see more pressure going on rents being raised on a broader basis.

Q

Steve, how would you – how – what's the percentage used for the [ph] SMB (00:05:26) portfolio based on those buckets?

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

A

Percentage of what we own or where we are seeing the leasing volume.

Q

[indiscernible] (00:05:34).

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

A

I would be guessing as to we have 30 million square feet and I would put into the kind of the new construction and marquee. I am going to guess that's probably 4 million to 5 million square feet of our 30 million square feet, of best of the best class. So, the ones that are living with that, maybe six, seven more, it's going to be One Madison, One Vanderbilt [indiscernible] (00:06:00) buildings like that. But then there is a host of buildings, everything from a Graybar Building, 810 Seventh Avenue, 919 Third Avenue that are call it mid-market buildings. And that's where we are seeing a lot of activity right now. That's what's driving our increase in overall occupancy. And it is across the board. It's not limited to one geographic location.

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

A

On my math it's close to a third.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

And we welcome questions from the audience. So, if you have any, feel free. But as part of that leasing update, I think One Vanderbilt, you got that to 100%. Is that the key now to unlocking that valuation and any updates on where you are in that process of selling a stake?

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

A

Yeah, we – it's great, great news from Steve, but it didn't really have much, building was 99.5% ahead of that, so it didn't have much of an impact. We are nearing completion of a transaction and hope to have more news to share shortly.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. And I imagine iconic assets like that aren't easy to come by. And it's a once in a decade opportunity. So, as you look through your portfolio locations, how much of that do you see as a potential to create something like One Vanderbilt again?

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

A

Well, I mean from – from a One Vanderbilt ground up development perspectives, we don't have anything that sets up for that. We would love to find the next opportunity to build a One Vanderbilt in that area. It's something we are highly focused on. In the meantime, we take buildings like 245, which is if you look at One Vanderbilt, then One

Madison now 245, that's the next big step we are taking on Park and that's renovation of an underappreciated, undermanaged building that we took ownership of in a unique way, but have seen a lot of leasing strength, mark-to-markets in the somewhere between 30% and 50% range including a 300,000 foot lease done in July on renderings and a plan to redevelop. But we haven't redeveloped it yet, those types of opportunities we will continue to look for short of finding the ground up development. Now, with 245 where, it is from a leasing perspective, which is north of 90% leased with some additional leases in the pipeline, but that large lease done we are going to go back out to market just launched for another 25% interest sale and we would hope to achieve pricing. Our goal is to achieve pricing better than what we did when we sold the 50% last year, because the market backdrop is better, the asset is performing better. So, it sets up well.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Just going back to the goals that you set at the beginning of the year and that guidance range, if you were to really pin down which targets really define that low to high end of your guidance, what would they be?

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

A

Of our FFO guidance?

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Yes.

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

A

We leave ourselves room for the unknowns. I mean as we sit today, I think we sit squarely in it. We have raised the guidance that we continue to say in that midpoint, we didn't need to – we were still within the range, which would have been the upper end. I think there is more trajectory to the upper end from a business perspective, particularly things like our special servicing fee-based businesses where timing can be difficult to predict, but when they come, they can come in big waves. We have more of that to come. Whether it happens in 2024 into 2025 is one wildcard into where we end up in the guidance range. Downside at this stage of the game fairly limited. It's much more execution of something like a 245, which obviously we have a high degree of confidence around and that will be timing. You know, does that happen in 2024 or given where we are in the year, does that slip to 2025, but feel really good about the guidance range we are in right now?

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. And on the point where you say you feel comfortable in the upper end range.

A

Yeah.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Is that on the core side? And how is that tracking today?

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

A

So, the core from a property perspective, we are trending ahead on leasing and we fully expect to reach – meet our occupancy target of 91.5%, up from just south of 90% at the end of last quarter. From an earnings perspective, that takes time to flow through, particularly in the filling vacancy. It's probably 12 months out before you start to see that roll through. So, that gives you a good runway into 2025 and beyond for the occupancy pickup between now and the end of the year, the opportunities to hit beyond the midpoint are much more limited to that fee-based income, but that business has been growing dramatically.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

So, maybe can you talk to the opportunity on that side, also the debt fund that you have been working out?

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

A

Sure. Yeah. On the special servicing side, that's a business that we have been rated by S&P since 2006, Fitch 2009 and Morningstar just actually a few months ago. So, we have been active in that business for quite some time. We made a very concerted, concerted effort at the beginning of this year to really pick up the activity within that business, just given the number of opportunities. We started the year with approximately 5 billion or 6 billion of names, special servicing, where we sit today with two deals in the pipeline that are in paperwork, we should be at about $13 billion. So, we have doubled that number of loans under management just in seven or eight months so far. The types of clientele that we serve, everyone from Nuveen, BlackRock, AIG, we were just appointed asset manager, sort of slightly different role of a property asset manager for Goldman Sachs at the TSX Hotel. That's where lenders have taken over assets, [indiscernible] (00:12:02) and brought us in. So, we continue to see growth in that business. As Matt said, the fees come in typically based on restructuring, so a little bit outside of our control, but we continue to see a lot of growth in that business far out surpassing what we are expecting beginning of this year. And I think the most positive sign there is the people that have brought us in for one or two or three assignments. We are now seeing it grow up to five, six, seven assignments. So, I continue to see a lot of growth for that business for us.

On the debt fund, as some of you may know, we launched our fundraise for our first credit fund focused on investing at the intersection between credit dislocation and fundamentally performing real estate. That fundraise is in process now. We expect first close very shortly. Our goal was $1 billion of raise. The first close, which we are expecting imminently is will be approximately $500 million and then the balance of the raise through the end of the year, early next year. But we are on target for our expectations on the fundraise, should be a little bit out surpassing what we expected.

And then finally, just to close the loop in terms of pipeline for that fund, we are seeing plenty of opportunities now in the credit space. We – we are going to start to pursue, you may read about some of those opportunities. We are going to start to pursue some of those deals on balance sheet ahead of the fund closing, but then we would expect to put those into the fund once it closes.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

It was in the press recently that you took over a loan from, I believe it was RFR and so given that the debt fund has been closed, does that sit within the different parts?

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

So, not – not going to comment on specific deals that might be rumored in the press. But to Harry's point, we did telegraph that we – there is a pipeline of opportunities in front of us. The window is to stay open forever if we need to close these on balance sheet ahead of the fund, we will do that. And then when the fund closes, you can contribute those. And because we – our expectation is to be 10% of the fund, we can do that in funded equity or in contribution of investments, make out of the closing.

Q

Is there a reason to close for the funding two parts I guess, the first $500 million is that and the second?

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

I would say that's fairly typical for a fund structure. I mean there is typically an anchor investor that will do the first close, set the terms and then we will use those terms to close out the balance of the investors. There is one specific investor that we are expecting to close in the second phase and they by design for whatever their structure is set up, they actually cannot close in the first round of a fund. So, and that's not the only group that has that constraint.

Camille Bonnel
Analyst, BofA Securities, Inc.
Q

And since you have been tracking ahead on refinancing, building liquidity, has that changed your appetite to put more into the debt fund?

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

Not specific to the debt fund. 10% has always been our target, but it has definitely changed or it's consistent with our – with our plan to pivot away from this defensive posture we have been in since really 2022 in the face of rising rates, uncertainty around the markets, the financing markets being in disarray. We went much more defensive and managed the balance sheet, doing asset sales and exclusively repaying debt to the tune of several billion dollars, roughly a third of our debt taken out by the end of this year upon consummation of the transactions that Harrison is working on. So, we are going to pivot back to offense. So, from a cost of capital perspective and the investments that are in front of us, we now see and the balance sheet being rightsized and comfortable from a leverage and liquidity perspective. We fully expect to go back on offense as we close out 2014, particularly into 2025, that's debt investments that are potentially interesting equity investments out there. It's time to go back on offense.

Camille Bonnel
Analyst, BofA Securities, Inc.
Q

And before we move further on to that point.

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

Yeah.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Just around the special [indiscernible] (00:16:20) business, I am not as familiar with how that is and the structure of it, but what's the typical like percentage or structure of those, like are you earning a 3% fee on AUM or...

A

Special servicing business?

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Yes.

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

A

That it's a fairly standardized structure, special servicers make 25 basis point taking fee on the outstanding loan amount and then a resolution fee that ranges between 50 basis points to 1%, each negotiated as part of the underlying TSA or the trust and servicing agreement. So, those will each be negotiated ahead of us being appointed a special servicer. In some cases not in all, special servicers are also entitled to a portion, if not all of the default interest that's earned as well. But that is specific to single deals, not necessarily all deals.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. And from an asset management side, would it be a more traditional structure? That's not including [ph] Webex (00:17:23).

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

A

I'm sorry. Yes.

Q

I was just going to follow up maybe with Steve on the leasing and [indiscernible] (00:17:29) I guess could you just talk about where the strength has been coming from, how would you change this versus the rest, where do we stand today between the different...

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

A

Profile tenants.

Q

Yeah.

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

A

Yeah. So, it's similar to what we have been saying I think probably for the past two years that it's dominated by financial services, led by legal firms, business services and the new news is we are starting to see a re-emergence of tech demand. There is somewhere between 5.5 million and 6 million square feet of known tech tenants searching the market right now. That's up almost double what it was a year ago. Where those tenants land is TBD and whether – whether that is a demand driver that's going to stay for the long term. It's still early days I think. But I think a lot of the tech guys, sort of reset their footprints over the last couple of years as they change their headcounts. They are back in the hiring. Some of it driven by AI demand. And they are starting to come back into the market. There is a couple of big requirements out there that are the 200,000 to 600,000 square foot range, then after that a lot of it is driven by tenants more in the 20,000 to 50,000 square foot range.

Beyond that, financial services still is probably a solid 40% of all the demand that's currently in the marketplace. The good news is as far as overall demand there is a million square feet of active tenant searches greater today than there was a year ago. So, we are seeing it a broadening of – a little bit of broadening of the profile of the tenant. There is more square footage that's being searched for. They are going into the – some of this demand is migrating into the mid-price point buildings. And it does not seem to be centered on one particular geographic location. Yes. Park Avenue South is super hot right now. It's a landlord's market. We have raised rents four times over the past year within our portfolio on Park Avenue. We are starting to see some price appreciation on Sixth Avenue. And as I said earlier, I think we will start to see across the portfolio on the upper floors, on all price point buildings, we will start to see some rent appreciation in the not too distant future.

Q

Have we completely leased on New York City, moved past the conversation around tenants downsizing versus expanding, and where do we stand?

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

A

Yeah. So, I mean from a negative side, [indiscernible] (00:20:15) in the rearview window, downsizing as a result of hybrid work environments, we are work from home, I think is largely in the rearview mirror. It's not to say that some industries, some tenants won't deploy some level of it, but it's nowhere near what the naysayers were saying a couple of years ago as to what – what work from home or hybrid work environments would mean, just the opposite. We are seeing more – more business leaders tell their employees, you must come back into the office. In order to facilitate that, the tenants are largely allocating more square footage per employee. They are driven by how much space they will give to your employee to work, but then also later on the fact that they need to provide amenities in a different work environment for their employees after they level off whatever amenities a landlord may provide for common shared use. But I think, right now, I think it is safe to say that we have come up to as far as the space allocation per employee. We are probably in that 300 to 325 square feet per employee versus pre-COVID. There was a thought that some banks would go as low as 200 square feet per employee and maybe there is one or two tenants to achieve that. That really never panned out. And I think most tenants we can forget about the idea of high density, some tenants do it a little bit, but by and large that – that's gone by the way side as well.

Q

You mentioned opportunities to play offense, thankfully your share price has gone quite well. Wanting to be [indiscernible] (00:21:59) what would you need to sort of raising the equity through [indiscernible] (00:22:06).

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

A

It depends what the opportunity is. So, the equity has done well and it's ended up in a little bit of a tweener kind of spot. It's still discount to NAV that's not insignificant. So, it's like, well, it's like a potential buying opportunity but for the right opportunities and we are seeing them start to materialize. It might be – it's certainly a more cost effective source of capital than it has been any time in the recent, recent history. So, I think having the tool in the toolbox is nice. We way back when we are users of – of ATMs and then we flipped the page and went to buybacks and they were back to that point where we have ATM is just kicking around for the opportunities, when we need incremental liquidities. I think we are good from a leverage point. I think we are in a good liquidity spot on the margins now. We will be sourcing liquidity for incremental investing and maybe the stock is getting to a place where that's an attractive source.

Q

[indiscernible] (00:23:11)?

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

A

Nice try, higher, higher than wherever we are today.

Q

[indiscernible] (00:23:18).

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

A

I will let you say that.

Q

[indiscernible] (00:23:22) attractive again or is it the transportation in the [indiscernible] (00:22:39)?

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

A

I think there is two drivers. If you look at one, what we have experienced at One Madison Avenue. Right. That's the sort of 1.4 million square foot building. The top of the building is new construction, 530,000 square feet of brand new construction. We have fully leased off the tower of the building at rents that range between $140 and $180 a square foot. And that was by and large financial services or fintech-type businesses?

I think – so I think if you have got great product and the size footprint of what tenant demand is, the market is fine for Midtown South as evidenced by that. I think life will be easier when we see tech come back in scale because certainly for us what we have remaining at that building are large footprints. And there has been a shortage of large tenants shopping in the Midtown South Market. That's historically been the tech guys. So, I think it is a broader array of types of tenants in the 20,000 to 30,000 square foot sized tenants. But when you get to big footprints, it was historically the tech guys sort of they come back, then life would be a whole lot easier.

Q

20,000 to 50,000 square foot, that [indiscernible] (00:25:06).

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

A

We are still Midtown South. I mean Apple will probably end up staying in the Penn Plaza area only because that's where they are today. And they will expand. I think Amazon is likely to be more Midtown because that's just where their headquarters building, the [indiscernible] (00:25:24) building. So, it's just – it just happens to be where they are. So, that will be convenient for them. For the rest of the market that – that's been shopped, is largely been focused on the Midtown South market, but those have been structural of the smaller tech tenants. They haven't been the – the 100,000 or 300,000 square foot type tenants. When we see that kind of tenant come into the market, then – then it's game on.

Q

Did you ever talk to some of your peers about their markets?

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

A

Never.

Q

Not New York City, but just a general on the whole office conversation, right, it would help the entire sector, right. If every city was starting to see, we are seeing what New York City has been seeing in the past year, it was helpful. Is New York City still unique, but you look at other cities and see your tenants that they are changing their mindset in other cities?

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

A

I really don't. I mean I am – my conversations are limited. Our business is Manhattan. My conversations are limited to Manhattan. I'd be fooled if I said I have a real strong point of view as to what's going on in the rest of the country other than the feedback that we get from folks like you guys is that things are slower in the rest of the country. When you ask – when you ask why is New York special? Is because we have always known for a long time New York is a special place. The employees want to be here. The diversity of type of businesses that are here. We are not a one trick pony with one industry dependent on our marketplace between healthcare and education, a lot of other drivers of what happens in the city, it makes it the special place. And therefore the businesses come back here because this is where people want to live and work.

Q

Maybe we will take that same question in terms of capital. I mean what's their attitude [indiscernible] (00:27:14)?

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

A

There is a huge differentiation right now. I mean it's – especially with foreign capital. I would say starting with foreign capital, the demand and the differentiation that they have created for New York is significant. A lot of meetings that I am taking now, whether it be in Asia, Middle East or the rest of North America, the first thing you hear is we are not doing investing in any other city. But New York let's discuss. And I think that that is because they are chasing yield to some extent. They see opportunity in the office sector, but they are not ready to take the risk for good reason in some other cities. Domestically, I would say you are not seeing that as much. I think some of that is because some of the large LPs are in cities that still have struggling office markets and they are not in New York that often. And I think it's harder for them to figure out that differentiation. I think it's to some extent you are also seeing people that are still working their wounds from previous exposure they had to – to other office markets. So, for us most of our capital LP base has been foreign. So, it doesn't really have any impact on us whatsoever. But I think that we will continue to – continue to see us travel outside the US to find most of our LP investors.

Q

And then I guess taking that same question down to just New York City, Steve. I mean at least for me in your messaging, is this brought in from Park Avenue and Central to these other avenues in other parts of the city? Do you have any, do you have a big picture view on New York City as a whole, and we may see more equilibrium, the side – look again there is pockets of them with market, but there is a whole world here, [indiscernible] (00:29:06) for New York City?

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

A

Well, the one thing that we haven't talked about today is the impact of office to resi conversions, so that's going to be a – that's a big headline change for our marketplace. There is 22 million square feet of known conversions that are rather actively in place right now or in the planning stages. The expectation is probably another 10 million to 20 million square feet of likely conversions behind that. So, if you are at 350 million to 400 million square foot market, you take off 20 million to 40 million square feet, that's a massive dynamic to get to that closer to that equilibrium. And I think it's – there is no new supply coming on the market for the foreseeable future. And from a macroeconomic point of view, all the narrative that we hear back from our tenants is they feel confident about their business, is they continue to hire, the profits are good. And the trend line is that absorption is taking place, that the supply – that the supply is coming off the marketplace, the demand remains steady. So, I think it's a matter of time before we are back in a very healthy place.

Q

So, for all the concerns over our land, the recession, you have been running DC for a long time, you are not seeing any signposts, any early signposts of your customers reverting back in recent weeks?

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

A

No, no. I think it's a little old to say that that won't change because it's always something unexpected that comes around the next quarter that changes the world from a macro perspective. But we Are hearing nothing of – we are hearing no signs of caution from our tenants, just the opposite. They are saying I want to use my space differently. I want to bring my employees back. I am willing to spend capital to make my space better. And in order to make that happen, I need to make long-term commitments. And I will pick up and go to a better quality building and I will pay the rent commensurate in order to achieve that.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

And can we spend some time talking about SUMMIT? You extended the operating hours there, potentially opening a new site, I think it was in Paris. Just talk about the operating or pricing model there and how much that can scale?

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

A

Yeah, the SUMMIT has continued to outperform. It outperformed our expectations for the first half of the year as part of the contribution to our earnings guidance revision upward and through the two months since then, it's continued to outperform those expectations primarily from an attendance perspective. The hours and the days of operation are pretty standard at this point. So, it becomes a question of price. We are pretty much at max capacity. It's a self-imposed limit on capacity to maintain the experience for the visitors. So, if you are at capacity, then it's just a function of price. So, we are looking at what pricing looks like for the holiday season and [indiscernible] (00:32:18) relative – our price point relative to other options still puts it at the more cost effective level. So, there is – there is room. There is the growth out of SUMMIT at One Vanderbilt and then I think we are even more excited about the prospects to grow SUMMIT as an entertainment division elsewhere around the world. SUMMIT has been – SUMMIT Paris has been announced. We haven't given a lot of details on it, but those will come. Our goal is to have another location announced this year. We are working on several international and domestic locations. Hopefully one of those would get to a point of announcing for the end of the year we will see. But there will be several locations and they all have a similar SUMMIT kind of DNA in them. But then they will also be very specific to the geographies. That's a growth trajectory that looks out several years from now, but is very exciting. It's these – I put SUMMIT and our special servicing fee-based businesses, which is super high margin, high multiple business, potential casino, all of these things are diversifying income streams, as you know as exciting as the recovery on the office side of our business.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

And you said attendance is tracking well, so you are not seeing any signs that like with the consumer getting a little more cautious to slow down.

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

A

None, none, our attendance has continued to track above our expectations. It's a very strong summer for SUMMIT in the city from a tourism perspective.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

We are coming up to time soon.

Q

Maybe just one more big picture.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Yeah.

Q

Again back to office, you are leading the talk about extensions and some of the extended content still will be triggered, [indiscernible] (00:34:07) what are your thoughts on that, like from an extension standpoint it's smart, it's working like things are improving at least here or...

A

From a...

Q

From the beginning, it's this negative headline, people see it, right?

A

Yeah. Look, we made a concerted effort to break the portfolio into two pieces, the ASP portfolio and the core portfolio. Within the core portfolio, we have a goal of $5 billion of debt extensions. We have completed all but two of those. The other remaining two are near the finish line and we expect – fully expect them to be done before the end of the year. And in all of those assets we are investing into or extending debt that are fundamentally performing and see no reason that when interest rates start to come down, they will trade at levels at or above where they were in 2019 or 2018. I mean there is really no other reason the buildings are back to near stabilization. The expenses are managed. They have been invested in. And so really the debt that we are extending is to get to a clear path of where the interest rate environment is.

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

A

And in doing these extensions, people are fearful of, well, what is the pay down kind of requirement? What's the spread change on $2.6 billion that we have done to date, $50 million of pay down. That's it. And no change in spread on any of it. That's not everybody can tap that.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

And you've like, as a result you have managed to raise the bar on guidance at here, so do potential investors recognize this when we look forward to your earnings in 2025 and look past the implied deceleration or is there something in your pocket where you can drive another $2 per share in earnings next year?

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

A

Well, I heard, I triggered on implied deceleration. I know what the implied deceleration is because in our minds run an acceleration of portfolio, occupancy is headed this direction, rents are headed this direction, that's acceleration. The fee-based business is increasing. So, I don't see any areas of deceleration. And I think the consensus generally is rates are coming down. So, that will benefit the liability side. I think we are set up as well as we possibly could be headed into 2025 and beyond.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. Thank you. We have three rapid fire questions before we wrap up.

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

A

Will answer one or two of those [indiscernible] (00:36:38).

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

First, do you expect real estate transactions to increase if the Fed cuts? And if so when do you expect it to pick up fourth quarter of this year, first half of next year, or back up?

A

These are increased and already in process. I think coming out of Labor Day we have seen a significant pickup in activity, discussions, phone calls, negotiations. The market feels putting aside a short window in 2021 where just debt was cheap and free and everyone was just going bananas. I would say right now things feel the best they felt in at least four-and-a-half years and we are seeing some significant activity out there.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Thank you. And how would you characterize demand for today increasing steady or weakening?

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

A

Demand from a tenant leasing perspective?

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Yeah.

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

A

I think it's – it feels much like we are back to a pre-COVID demand level. And I think that that's going to hold steady for as far as we can see looking forward.

Q

It's down for increasing or steady?

A

Things are strong and steady.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay.

A

Oh, that's not, come on. [indiscernible] (00:37:55)

A

You have to give an answer to me.

A

Increased.

A

There you go.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

And lastly how would you characterize your AI spending plans for next year, higher, lower, no change.

A

I have to ask ChatGPT [indiscernible] (00:38:13).

A

No change.

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

A

No change.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. Thank you.

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

A

All right. Thank you, everybody.