UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File No. 1-13199

SL GREEN REALTY CORP.
(Exact name of registrant as specified in its charter)

Maryland	**13-3956775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

420 Lexington Avenue, New York, New York 10170
(Address of principal executive offices - zip code)

(212) 594-2700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No o

The number of shares outstanding of the registrant's common stock, $0.01 par value was 42,133,418 at October 31, 2005.

SL GREEN REALTY CORP.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SL Green Realty Corp.
Condensed Consolidated Balance Sheets
(Amounts in thousands, except per share data)

	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Commercial real estate properties, at cost:		
Land and land interests	$ 288,080	$ 206,824
Building and improvements	1,408,858	1,065,654
Building leasehold and improvements	474,121	471,418
Property under capital lease	12,208	12,208
	2,183,267	1,756,104
Less: accumulated depreciation	(205,443)	(176,238)
	1,977,824	1,579,866
Cash and cash equivalents	14,193	35,795
Restricted cash	56,215	56,417
Tenant and other receivables, net of allowance of $10,146 and $8,921 in 2005 and 2004, respectively	21,928	15,248
Related party receivables	3,598	5,027
Deferred rents receivable, net of allowance of $8,566 and $6,541 in 2005 and 2004, respectively	73,983	61,302
Structured finance investments, net of discount of $1,582 and $1,895 in 2005 and 2004, respectively	400,049	350,027
Investments in unconsolidated joint ventures	659,860	557,089
Deferred costs, net	68,518	47,869
Other assets	76,162	43,241
Total assets	$ 3,352,330	$ 2,751,881
Liabilities and Stockholders' Equity		
Mortgage notes payable	$ 866,640	$ 614,476
Revolving credit facilities	135,000	110,900
Term loans	525,000	425,000
Derivative instruments at fair value	—	1,347
Accrued interest payable	7,589	4,494
Accounts payable and accrued expenses	77,329	72,298
Deferred revenue/gain	25,596	18,648
Capitalized lease obligation	16,228	16,442
Deferred land leases payable	16,179	15,723
Dividend and distributions payable	28,176	27,553
Security deposits	23,962	22,056
Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities	100,000	—
Total liabilities	1,821,699	1,328,937
Commitments and Contingencies	—	—
Minority interest in Operating Partnership	76,625	74,555
Minority interest in other partnerships	14,493	509
Stockholders' Equity		
Series C preferred stock, $0.01 par value, $25.00 liquidation preference, 6,300 issued and outstanding at	151,981	151,981

September 30, 2005 and December 31, 2004, respectively		
Series D preferred stock, $0.01 par value, $25.00 liquidation preference, 4,000 issued and outstanding at September 30, 2005 and December 31, 2004, respectively	96,321	96,321
Common stock, $0.01 par value 100,000 shares authorized and 41,942 and 40,876 issued and outstanding at September 30, 2005 and December 31, 2004, respectively	419	409
Additional paid-in-capital	956,604	917,613
Deferred compensation plans	(19,681)	(15,273)
Accumulated other comprehensive income	13,691	5,647
Retained earnings	240,178	191,182
Total stockholders' equity	1,439,513	1,347,880
Total liabilities and stockholders' equity	$ 3,352,330	$ 2,751,881

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

SL Green Realty Corp.
Condensed Consolidated Statements of Income
(Unaudited, and amounts in thousands, except per share data)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues				
Rental revenue, net	$ 75,717	$ 59,856	$ 220,369	$ 173,202
Escalation and reimbursement	16,358	12,746	41,666	31,310
Preferred equity and investment income	10,652	8,281	33,723	30,667
Other income	17,564	4,985	31,479	14,426
Total revenues	120,291	85,868	327,237	249,605
Expenses				
Operating expenses including approximately $2,700, $7,000 (2005) and $2,500, $5,900 (2004) paid to affiliates	29,117	22,464	77,698	63,683
Real estate taxes	15,286	11,956	45,515	34,279
Ground rent	4,922	3,758	14,350	11,490
Interest	20,580	15,969	57,253	44,839
Depreciation and amortization	17,204	13,025	47,855	36,561
Marketing, general and administrative	13,418	5,574	32,250	20,944
Total expenses	100,527	72,746	274,921	211,796
Income from continuing operations before equity in net income of unconsolidated joint ventures, minority interest and discontinued operations	19,764	13,122	52,316	37,809
Equity in net income of unconsolidated joint ventures	13,250	10,632	38,643	32,017
Income from continuing operations before minority interest and discontinued operations	33,014	23,754	90,959	69,826
Equity in net gain on sale of interest in unconsolidated joint ventures	11,550	—	11,550	22,012
Minority interest in other partnerships	(38)	(55)	(252)	(30)
Minority interest in Operating Partnership attributable to continuing operations	(2,227)	(977)	(4,973)	(4,404)
Income from continuing operations	42,299	22,722	97,284	87,404
Net income from discontinued operations, net of minority interest	—	2,428	474	5,532
Gain on sale of discontinued operations, net of minority interest	—	—	33,856	—
Net income	42,299	25,150	131,614	92,936
Preferred stock dividends	(4,969)	(4,843)	(14,906)	(11,289)
Net income available to common stockholders	$ 37,330	$ 20,307	$ 116,708	$ 81,647
Basic earnings per share:				
Net income from continuing operations before gain on sale and discontinued operations	$ 0.61	$ 0.46	$ 1.70	$ 1.40
Net income from discontinued operations	—	0.06	0.01	0.14
Gain on sale of discontinued operations		—	0.81	—
Gain on sale of unconsolidated joint ventures	0.28	—	0.28	0.57
Net income available to common stockholders	$ 0.89	$ 0.52	$ 2.80	$ 2.11
Diluted earnings per share:				
Net income from continuing operations before gain on sale and discontinued operations	$ 0.62	$ 0.43	$ 1.67	$ 1.37
Net income from discontinued operations	—	0.06	0.01	0.14
Gain on sale of discontinued operations	—	—	0.79	—
Gain on sale of unconsolidated joint ventures	0.25	—	0.25	0.52
Net income available to common stockholders	$ 0.87	$ 0.49	$ 2.72	$ 2.03
Dividends per share	$ 0.54	$ 0.50	$ 1.62	$ 1.50
Basic weighted average common shares outstanding	41,923	39,386	41,674	38,670
Diluted weighted average common shares and common share equivalents outstanding	45,674	43,317	45,426	42,566

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

SL Green Realty Corp.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited, and amounts in thousands, except per share data)

	Series C Preferred Stock	Series D Preferred Stock	Common Stock Shares	Common Stock Par Value	Additional Paid-In-Capital	Deferred Compensation Plans	Accumulated Other Comprehensive Income	Retained Earnings	Total	Comprehensive Income
Balance at December 31, 2004	**$ 151,981**	**$ 96,321**	**40,876**	**$ 409**	**$ 917,613**	**$ (15,273)**	**$ 5,647**	**$ 191,182**	**$ 1,347,880**	
Comprehensive Income:										
Net income								131,614	131,614	$ 131,614
Net unrealized gain on derivative instruments							8,044		8,044	8,044
SL Green's share of joint venture net unrealized loss on derivative instruments										(462)
Preferred dividends								(14,906)	(14,906)	
Redemption of units and DRIP proceeds			261	2	14,561				14,563	
Deferred compensation plan & stock award, net			230	2	7,778	(7,542)			238	
Amortization of deferred compensation plan						3,134			3,134	
Proceeds from stock options exercised			575	6	15,781				15,787	
Stock-based compensation – fair value					871				871	
Cash distribution declared ($1.62 per common share of which none represented a return of capital for federal income tax purposes)								(67,712)	(67,712)	
Balance at September 30, 2005	$ 151,981	$ 96,321	41,942	$ 419	$ 956,604	$ (19,681)	$ 13,691	$ 240,178	$ 1,439,513	$ 139,196

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

SL Green Realty Corp.
Condensed Consolidated Statements of Cash Flows
(Unaudited, and amounts in thousands, except per share data)

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Operating Activities		
Net income	$ 131,614	$ 92,936
Adjustment to reconcile net income to net cash provided by operating activities:		
Non-cash adjustments related to income from discontinued operations	2,182	4,380
Depreciation and amortization	47,855	36,561
Gain on sale of discontinued operations	(33,856)	—
Equity in net income from unconsolidated joint ventures	(38,643)	(32,017)
Equity in net gain on sale of unconsolidated joint ventures	(11,550)	(22,012)
Minority interest	5,225	4,434
Deferred rents receivable	(14,334)	(5,174)
Other non-cash adjustments	4,046	7,129
Changes in operating assets and liabilities:		
Restricted cash – operations	(9,452)	1,437
Tenant and other receivables	(7,905)	(8,056)
Related party receivables	1,429	1,307
Deferred lease costs	(11,793)	(13,995)
Other assets	4	7,208
Accounts payable, accrued expenses and other liabilities	16,404	8,664
Deferred revenue and land lease payable	2,800	(360)
Net cash provided by operating activities	84,026	82,442
Investing Activities		
Acquisitions of real estate property	(422,149)	(282,049)
Additions to land, buildings and improvements	(30,524)	(13,230)
Escrowed cash – capital improvements/acquisition deposits	7,679	10,345
Investments in unconsolidated joint ventures	(122,251)	(74,714)
Distributions from unconsolidated joint ventures	68,638	176,398
Proceeds from disposition of real estate	59,673	—
Other investments	(27,207)	—
Structured finance investments net of repayments/participations	(43,534)	(108,765)
Net cash used in investing activities	(509,675)	(292,015)
Financing Activities		
Proceeds from mortgage notes payable	315,546	—
Repayments of mortgage notes payable	(63,382)	(2,517)

Proceeds from revolving credit facilities, term loans and trust preferred securities	897,000	647,900
Repayments of revolving credit facilities and term loans	(672,900)	(637,578)
Proceeds from stock options exercised	15,788	18,228
Net proceeds from sale of common stock	—	138,630
Net proceeds from sale of preferred stock	—	96,321
Dividends and distributions paid	(72,432)	(61,432)
Deferred loan costs and capitalized lease obligation	(15,573)	(5,226)
Net cash provided by financing activities	404,047	194,326
Net (decrease) increase in cash and cash equivalents	(21,602)	15,247
Cash and cash equivalents at beginning of period	35,795	38,546
Cash and cash equivalents at end of period	$ 14,193	$ 23,299
Supplemental cash flow disclosures		
Interest paid	$ 57,882	$ 44,130

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

SL Green Realty Corp.
Notes To Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2005

1. Organization and Basis of Presentation

SL Green Realty Corp., also referred to as the Company or SL Green, a Maryland corporation, and SL Green Operating Partnership, L.P., or 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. 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 which are referred to as the Service Corporation. The Company has qualified, and expects to qualify in the current fiscal year, as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, and operates as a self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level. Unless the context requires otherwise, all references to “we,” “our” and “us” means the Company and all entities owned or controlled by the Company, including the Operating Partnership.

Substantially all of our assets are held by, and our operations are conducted through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership. As of September 30, 2005, minority investors held, in the aggregate, a 5.6% limited partnership interest in our Operating Partnership.

As of September 30, 2005, our wholly-owned properties consisted of 21 commercial properties encompassing approximately 9.3 million rentable square feet located primarily in midtown Manhattan, a borough of New York City, or Manhattan. As of September 30, 2005, the weighted average occupancy (total leased square feet divided by total available square feet) of the wholly-owned properties was 94.9%. Our portfolio also includes ownership interests in unconsolidated joint ventures, which own seven commercial properties in Manhattan, encompassing approximately 8.8 million rentable square feet, and which had a weighted average occupancy of 97.3% as of September 30, 2005. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

Partnership Agreement

In accordance with the partnership agreement of the Operating Partnership, or the Operating Partnership Agreement, we allocate all distributions and profits and losses in proportion to the percentage ownership interests of the respective partners. As the managing general partner of the Operating Partnership, we are required to take such reasonable efforts, as determined by us in our sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient dividends by us 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 units of limited partnership interest for cash, or if we so elect, shares of our common stock on a one-for-one basis. In addition, we are prohibited from selling 673 First Avenue and 470 Park Avenue South before August 2009.

Basis of Quarterly Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The 2005 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These financial statements should be read in conjunction with the financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2004.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries, which are wholly-owned or controlled by us or entities which are variable interest entities in which we are the primary beneficiary under the Financial Accounting Standards Board, or FASB, Interpretation No. 46, or FIN 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51." See Note 5 and Note 6. Entities which we do not control and entities which are variable interest entities, but where we are not the primary beneficiary are accounted for under the equity method. We consolidate variable interest entities in which we are determined to be the primary beneficiary. In December 2003, the FASB issued a revision of FIN 46, "Interpretation No. 46R," to clarify the provisions of FIN 46. The application of Interpretation No. 46R is required in financial statements of public companies for periods ending after March 15, 2004. The adoption of this pronouncement effective July 1, 2003 for the Service Corporation had no impact on our results of operations or cash flows, but resulted in a gross-up of assets and liabilities by approximately $2,543,000 and $629,000, respectively. See Note 7. The adoption of this pronouncement effective January 2004, for our structured finance portfolio and joint ventures, had no impact on our financial condition, net income or cash flows as none of these investments were determined to be variable interest entities. 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.

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," a property to be disposed of is reported at the lower of its carrying amount or its estimated fair value, less its cost to sell. Once an asset is determined to be held for sale, depreciation expense and straight-line rent adjustments are no longer recorded and the historic results are reclassified as discontinued operations. See Note 4.

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 term of the lease
Property under capital lease	remaining lease term
Furniture and fixtures	four to seven years
Tenant improvements	shorter of remaining term of the lease or useful life

Depreciation expense (including amortization of the capital lease asset) amounted to approximately $13.6 million, $39.0 million, $10.6 million and $29.4 million for the three and nine months ended September 30, 2005 and 2004, respectively.

On a periodic basis, we assess whether there are any indicators that the value of our real estate properties may be impaired or that its carrying value may not be recoverable. A property's value is considered 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. We do not believe that the value of any of our rental properties was impaired at September 30, 2005 and December 31, 2004.

Results of operations of properties acquired are included in the Statement of Income from the date of acquisition.

In accordance with SFAS No. 141, "Business Combinations," we allocate the purchase price of real estate to land and building and, if determined to be material, intangibles, such as the value of above, below and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building and other intangible assets over their estimated useful lives, which generally range from three to 40 years. The values of the above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The value associated with in-place leases and tenant relationships are amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal, and its estimated term. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). We assess fair value of the leases based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

As a result of our evaluations, under SFAS No. 141, of acquisitions made, we recognized an increase of approximately $237,000 and $793,000 and a decrease of $58,000 and $175,000 in rental revenue for the three and nine months ended September 30, 2005 and 2004, respectively, for the amortization of above market leases and a reduction in lease origination costs, resulting from the reallocation of the purchase price of the applicable properties. We recognized a reduction in interest expense for the amortization of the above market rate mortgage of approximately $180,000, $530,000, $166,000 and $487,000 for the three and nine months ended September 30, 2005 and 2004, respectively.

Scheduled amortization on existing intangible liabilities on real estate investments is as follows (in thousands):

	Intangible Liabilities
Three months ended December 31, 2005	$ 237
2006	937
2007	937
2008	937
2009	937
Thereafter	237
	$ 4,222

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investment in Unconsolidated Joint Ventures
We account for our investments in unconsolidated joint ventures under the equity method of accounting as we exercise significant influence, but do not control these entities and are not considered to be the primary beneficiary under FIN 46R. We consolidate those joint ventures where we are considered to be the primary beneficiary, even though we do not control the entity. In all the joint ventures, the rights of the minority investor are both protective as well as participating. Unless we are determined to be the primary beneficiary, these rights preclude us from consolidating these investments. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in net income (loss) of unconsolidated joint ventures over the lesser of the joint venture term or 40 years. See Note 6. None of the joint venture debt is recourse to us.

Restricted Cash
Restricted cash primarily consists of security deposits held on behalf of our tenants as well as capital improvement and real estate tax escrows required under certain loan agreements.

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 our employees provide leasing services to the wholly-owned properties. A portion of their compensation, approximating $0.6 million, $1.7 million, $0.4 million and $1.3 million for the three and nine months ended September 30, 2005 and 2004, 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 or repaid before maturity. Costs incurred in seeking financial transactions which do not close are expensed in the period in which it is determined that the financing will not close.

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. We establish, on a current basis, an allowance for future potential tenant credit losses which may occur against this account. The balance reflected on the balance sheet is net of such allowance.

In addition to base rent, our tenants also generally will pay their pro rata share of increases in real estate taxes and operating expenses for the building over a base year. In some leases, in lieu of paying additional rent based upon increases in building operating expenses, the tenant will pay additional rent based upon increases in the wage rate paid to porters over the porters' wage rate in effect during a base year or increases in the consumer price index over the index value in effect during a base year. In addition, many of our leases contain fixed percentage increases over the base rent to cover escalations.

Electricity is most often supplied by the landlord either on a sub-metered basis, or rent inclusion basis (i.e., a fixed fee is included in the rent for electricity, which amount may increase based upon increases in electricity rates or increases in electrical usage by the tenant). Base building services other than electricity (such as heat, air conditioning and freight elevator service during business hours, and base building cleaning) typically are provided at no additional cost, with the tenant paying additional rent only for services which exceed base building services or for services which are provided other than during normal business hours.

These escalations are based on actual expenses incurred in the prior calendar year. If the expenses in the current year are different from those in the prior year, then during the current year, the escalations will be adjusted to reflect the actual expenses for the current year.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of its tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We record a gain on sale of real estate when title is conveyed to the buyer, subject to the buyer's financial commitment being sufficient to provide economic substance to the sale and we have no substantial economic involvement with the buyer.

Interest income on structured finance investments is recognized over the life of the investment using the effective interest method and recognized on the accrual basis. Fees received in connection with loan commitments are

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deferred until the loan is funded and are then recognized over the term of the loan as an adjustment to yield. Anticipated exit fees, whose collection is expected, are also recognized over the term of the loan as an adjustment to yield. Fees on commitments that expire unused are recognized at expiration.

Income recognition is generally suspended for structured finance investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Asset management fees are recognized on a straight-line basis over the term of the asset management agreement.

Reserve for Possible Credit Losses
The expense for possible credit losses in connection with structured finance investments is the charge to earnings to increase the allowance for possible credit losses to the level that we estimate to be adequate considering delinquencies, loss experience and collateral quality. Other factors considered relate to geographic trends and product diversification, the size of the portfolio and current economic conditions. Based upon these factors, we establish the provision

for possible credit losses by category of asset. When it is probable that we will be unable to collect all amounts contractually due, the account is considered impaired.

Where impairment is indicated, a valuation write-down or write-off is measured based upon the excess of the recorded investment amount over the net fair value of the collateral, as reduced by selling costs. Any deficiency between the carrying amount of an asset and the net sales price of repossessed collateral is charged to the allowance for credit losses. No reserve for impairment was required at September 30, 2005 and December 31, 2004.

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 sheets.

Income Taxes

We are taxed as a REIT under Section 856(c) of the Code. As a REIT, we generally are not subject to Federal income tax. To maintain our qualification as a REIT, we must distribute at least 90% of our REIT taxable income to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income tax on our taxable income at regular corporate rates. We may also be subject to certain state, local and franchise taxes. Under certain circumstances, Federal income and excise taxes may be due on our undistributed taxable income.

Pursuant to amendments to the Code that became effective January 1, 2001, we have elected or may elect to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or TRS. In general, a TRS of ours may perform non-customary services for our tenants, hold assets that we cannot hold directly and generally may engage in any real estate or non-real estate related business. A TRS is subject to corporate Federal income tax. Our TRS's generate no income or are marginally profitable, resulting in minimal or no Federal income tax liability for these entities.

Stock-Based Employee Compensation Plans

We have a stock-based employee compensation plan, described more fully in Note 14. Prior to 2003, we accounted for this plan under Accounting Principles Board Opinion No. 25, or APB 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost was reflected in net income

prior to January 1, 2003, as all awards granted under such plan had an intrinsic value of zero on the date of grant. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under the prospective method of adoption we selected under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," the recognition provisions apply to all employee awards granted, modified, or settled after January 1, 2003. In December 2004, the FASB revised SFAS No. 123 through the issuance of SFAS No. 123 "Shared Based Payment," revised, or SFAS No. 123-R. SFAS No. 123-R is effective for us commencing in the first quarter of 2006. SFAS No. 123-R, among other things, eliminates the alternative to use the intrinsic value method of accounting for stock-based compensation and requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). The fair-value based method in SFAS No. 123-R is similar to the fair-value based method in SFAS No. 123 in most respects, subject to certain key differences. We are in the process of evaluating the impact of such key differences between SFAS No. 123 and SFAS No. 123-R, but do not currently believe that the adoption of SFAS No. 123-R will have a material impact on us, as we have applied the fair value method of accounting for stock-based compensation since January 1, 2003.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our plan has characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

Compensation cost for stock options, if any, is recognized ratably over the vesting period of the award. Our policy is to grant options with an exercise price equal to the quoted closing market price of our stock on the grant date. 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.

The fair value of each stock 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 2005 and 2004.

	2005	2004
Dividend yield	3.60%	5.00%
Expected life of option	6 years	5 years
Risk-free interest rate	3.70%	4.00%
Expected stock price volatility	17.23%	14.40%

The following table illustrates the effect on net income available to common stockholders and earnings per share if the fair value method had been applied to all outstanding and unvested stock options for the three and nine months ended September 30, 2005 and 2004 (in thousands, except per share amounts):

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net income available to common stockholders	$ 37,330	$ 20,307	$ 116,708	$ 81,647
Deduct stock option expense-all awards	(416)	(323)	(1,164)	(1,322)
Add back stock option expense included in net income	155	68	384	263
Allocation of compensation expense to minority interest	23	17	66	73
Pro forma net income available to common stockholders	$ 37,092	$ 20,069	$ 115,994	$ 80,661
Basic earnings per common share-historical	$ 0.89	$ 0.52	$ 2.80	$ 2.11
Basic earnings per common share-pro forma	$ 0.88	$ 0.51	$ 2.78	$ 2.08
Diluted earnings per common share-historical	$ 0.87	$ 0.49	$ 2.72	$ 2.03
Diluted earnings per common share-pro forma	$ 0.86	$ 0.48	$ 2.70	$ 2.01

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of the impact future awards may have on our results of operations.

Derivative Instruments
In the normal course of business, we use a variety of derivative instruments to manage, or hedge, interest rate risk. We require that hedging derivative instruments are effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential for qualifying for hedge accounting. Some derivative instruments are associated with an anticipated transaction. In those cases, hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract.

To determine the fair values of derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

In the normal course of business, we are exposed to the effect of interest rate changes and limit these risks by following established risk management policies and procedures including the use of derivatives. To address exposure to interest rates, derivatives are used primarily to fix the rate on debt based on floating-rate indices and manage the cost of borrowing obligations.

We use a variety of commonly used derivative products that are considered plain vanilla derivatives. These derivatives typically include interest rate swaps, caps, collars and floors. We expressly prohibit the use of unconventional derivative instruments and using derivative instruments for trading or speculative purposes. Further, we have a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors.

We may employ swaps, forwards or purchased options to hedge qualifying forecasted transactions. Gains and losses related to these transactions are deferred and recognized in net income as interest expense in the same period or periods that the underlying transaction occurs, expires or is otherwise terminated.

Hedges that are reported at fair value and presented on the balance sheet could be characterized as either cash flow hedges or fair value hedges. Interest rate caps and collars are examples of cash flow hedges. Cash flow hedges address the risk associated with future cash flows of debt transactions. All hedges held by us are deemed to be fully effective in meeting the hedging objectives established by our corporate policy governing interest rate risk management and as such no net gains or losses were reported in earnings. The changes in fair value of hedge instruments are reflected in accumulated other comprehensive income. For derivative instruments not designated as hedging instruments, the gain or loss, resulting from the change in the estimated fair value of the derivative instruments, is recognized in current earnings during the period of change.

Earnings Per Share
We present both basic and diluted earnings per share, or EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during 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. This also includes units of limited partnership interest.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 us to concentrations of credit risk consist primarily of cash investments, structured finance investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our structured finance investments is primarily located in the greater New York area. See Note 5. We perform ongoing credit evaluations of our tenants and require certain tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total 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 re-tenanting the space. Although the properties in our real estate portfolio are primarily located in Manhattan, the tenants located in these buildings operate in various industries. Other than the tenant at 750 Third Avenue, which is subject to a master lease through December 2005 and who contributes approximately 10.0% of our annualized rent, no single tenant in the wholly-owned properties contributes more than 2.9% of our annualized rent, including our share of joint venture annualized rent at September 30, 2005. Approximately 15%, 11% and 10% of our annualized rent was attributable to 420 Lexington Avenue, 220 East 42nd Street and 750 Third Avenue, respectively, for the quarter ended September 30, 2005. Two borrowers each accounted for more than 10.0% of the revenue earned on structured finance investments at September 30, 2005.

Reclassification
Certain prior year balances have been reclassified to conform with the current year presentation and to comply with SFAS No. 144.

3. Property Acquisitions

In July 2005, we, through a joint venture with Jeff Sutton, acquired the fee interests in two adjoining buildings at 1551 and 1555 Broadway and in a third building at 21 West 34th Street for an aggregate purchase price of $102.5 million, excluding closing costs. The buildings comprise approximately 43,700 square feet. We own approximately 50% of the equity in the joint venture. The joint venture entered into a $103.9 million credit facility to finance the acquisition and redevelopment of these three properties. The loan, which will bear interest at 200 basis points over the 30-day LIBOR, is for three years. At closing, the joint venture drew approximately $85.4 million to fund the acquisition. The joint venture agreement provides Jeff Sutton with the opportunity to earn incentive fees based upon the financial performance of the properties. We loaned approximately $10.2 million to Jeff Sutton to fund a portion of his equity. These loans are secured by a pledge of Jeff Sutton's partnership interest in the joint venture. As we have been designated as the primary beneficiary of the joint venture under FIN 46(R), we have consolidated the accounts of the joint venture.

In August 2005, we, through another joint venture with Jeff Sutton, acquired the ground and second floors in a mixed-use property at 141 Fifth Avenue for $13.25 million, excluding closing costs. Our portion of the building comprises approximately 21,500 square feet. We own approximately 50% of the equity in the joint venture. The joint venture entered into a $12.58 million credit facility to finance the acquisition of the property. The loan, which will bear interest at 225 basis points over the 30-day LIBOR, is for two years and has three one-year extension options. At closing, the joint venture drew approximately $10.0 million to fund the acquisition. In addition, the venture retained a 22.5% carried interest in floors 3 to 12, which were sold to a third party for $46.75 million, excluding closing costs, and which are to be converted to residential condominiums. The joint venture agreement provides Jeff Sutton with the opportunity to earn incentive fees based upon the financial performance of the property. In connection with this transaction, we loaned approximately $8.5 million to Jeff Sutton. This loan is secured by a pledge of Jeff Sutton's partnership interest in the joint venture. As we have been designated as the primary beneficiary of the joint venture under FIN 46(R), we have consolidated the accounts of the joint venture.

In June 2005, we purchased from our partner, the City Investment Fund, or CIF, an interest in 19 West 44th Street resulting in majority ownership and control of the property. The transaction valued the property at approximately $91.2 million, excluding closing costs. Pursuant to the terms of the initial joint venture agreement, we would have been entitled to an incentive fee of approximately $7.3 million upon a sale of the property. As a result of acquiring partnership interests, the incentive fee income was deferred and reflected as a reduction to our basis in the property

to approximately $79.2 million. In addition, we originated a loan secured by CIF's remaining ownership stake. CIF also granted us an option to purchase CIF's remaining equity interest. We consolidate this property as we control the asset and are entitled to all of the underlying economics.

In April 2005, we acquired the fee interest in One Madison Avenue for approximately $919.0 million, excluding closing costs. The property consists of two contiguous buildings, the South Building and the North Tower totaling approximately 1.44 million square feet. We entered into a joint venture agreement with Gramercy Capital Corp. (NYSE: GKK), or Gramercy, whereby we will own a 55% interest in the 1.176 million square foot South Building, which is occupied almost entirely by Credit Suisse First Boston, New York pursuant to a lease that expires in 2020. We, along with Gramercy, acquired the South Building on a pari passu basis for approximately $803.0 million. This was financed in part through a $690.0 million mortgage on the South Building. We, along with Credit Suisse First Boston (USA), Inc., will share in the profits from a planned conversion of the North Tower from office use to residential condominiums. The North Tower was acquired for approximately $116.0 million and was financed in part by a $115.0 million loan facility of which we drew down approximately $98.3 million at closing.

In February 2005, we acquired the fee interest in 28 West 44th Street for $105.0 million, excluding closing costs. The property is a 21-story, 359,000 square foot building located two blocks from Grand Central Station, and is directly across the street from 19 West 44th Street, also owned by an affiliate of ours. The property was acquired with funds drawn under our unsecured revolving credit facility.

Pro Forma

The following table (in thousands, except per share amounts) summarizes, on an unaudited pro forma basis, our combined results of operations for the nine months ended September 30, 2005 and 2004 as though the acquisitions of 750 Third Avenue and the equity investment in 485 Lexington Avenue (July 2004), the acquisition of 625 Madison Avenue (October 2004), 28 West 44th Street (February 2005) and One Madison Avenue-North Building (April 2005) were completed on January 1, 2004 and the January and August 2004 common stock and the April and July 2004 7.875% Series D cumulative redeemable preferred stock, or the Series D preferred stock, were issued on that date.

	2005	2004
Pro forma revenues	$ 329,431	$ 289,415
Pro forma net income	$ 114,888	$ 76,301
Pro forma earnings per common share-basic	$ 2.76	$ 1.90
Pro forma earnings per common share and common share equivalents-diluted	$ 2.64	$ 1.84
Pro forma common shares-basic	41,674	40,118
Pro forma common share and common share equivalents-diluted	45,426	44,376

4. Property Dispositions and Assets Held for Sale

In April 2005, we sold the fee interest in 1414 Avenue of the Americas for approximately $60.5 million, excluding closing costs. The property is approximately 121,000 square feet. We recognized a gain on sale of approximately $35.9 million, which is net of approximately $2.1 million of costs incurred in connection with the defeasance of its existing mortgage debt and a $5.0 million employee compensation award accrued in connection with the realization of this investment gain as a bonus to certain employees that were instrumental in realizing the gain on this sale.

During the nine months ended September 30, 2004, we did not dispose of any wholly-owned properties.

At September 30, 2005, discontinued operations included the results of operations of real estate assets sold prior to that date. This included 17 Battery Place North, which was sold in October 2004 and 1466 Broadway, which was sold in November 2004 and 1414 Avenue of the Americas, which was sold in April 2005.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gain on sale of discontinued operations (net of minority interest) for the three and nine months ended September 30, 2005 and 2004 (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues				

Rental revenue	$ —	$ 6,253	$ 1,352	$ 17,916
Escalation and reimbursement revenues	—	825	186	2,524
Other income	—	192	24	225
Total revenues	—	7,270	1,562	20,665
Operating expense	—	2,032	511	6,417
Real estate taxes	—	1,175	250	3,531
Interest	—	269	189	805
Depreciation and amortization	—	1,229	110	4,059
Total expenses	—	4,705	1,060	14,812
Income from discontinued operations	—	2,565	502	5,853
Gain on disposition of discontinued operations	—	—	35,900	—
Minority interest in operating partnership	—	(137)	(2,072)	(321)
Income from discontinued operations, net of minority interest	$ —	$ 2,428	$ 34,330	$ 5,532

5. Structured Finance Investments

During the nine months ended September 30, 2005 and 2004, we originated approximately $147.9 million and $277.5 million in structured finance and preferred equity investments (net of discount), respectively. There were also approximately $97.9 million and $170.7 million in repayments and participations during those periods, respectively. At September 30, 2005 and December 31, 2004 all loans were performing in accordance with the terms of the loan agreements.

As of September 30, 2005 and December 31, 2004, we held the following structured finance investments, excluding preferred equity investments, with a current yield of approximately 9.9% (in thousands):

Loan Type	Gross Investment	Senior Financing	2005 Principal Outstanding	2004 Principal Outstanding	Initial Maturity Date
Mezzanine Loan (1) (2)	$ 15,000	$ 102,000	$ 14,070	$ 14,471	October 2013
Mezzanine Loan (1) (3)	3,500	28,000	3,500	3,500	September 2021
Mezzanine Loan (1) (4)	—	—	—	40,000	February 2014
Mezzanine Loan	20,000	90,000	20,000	20,000	June 2006
Mezzanine Loan (5)	—	—	—	31,278	January 2006
Mezzanine Loan (1) (6)	29,750	240,000	30,096	—	December 2020
Mezzanine Loan	28,500	—	28,500	—	August 2008
Junior Participation (7)	—	—	—	11,000	May 2005
Junior Participation (8)	—	—	—	15,045	September 2005
Junior Participation (1)	37,500	477,500	37,500	37,500	January 2014
Junior Participation (1) (2)	4,000	44,000	3,945	3,964	August 2010
Junior Participation	36,000	130,000	36,000	36,000	April 2006
Junior Participation	25,000	39,000	25,000	25,000	June 2006
Junior Participation	6,994	133,000	5,313	5,269	June 2014
Junior Participation (1)	11,000	53,000	11,000	11,000	November 2009
Junior Participation (1)	21,000	115,000	21,000	21,000	November 2009
	$ 238,244	$ 1,451,500	$ 235,924	$ 275,027	

(1) This is a fixed rate loan.
(2) This is an amortizing loan.
(3) The maturity date may be accelerated to July 2006 upon the occurrence of certain events.
(4) The loan was sold to an affiliate of ours in July 2005, but we retained an interest-only strip.
(5) This investment was subject to an $18.9 million loan at a rate of 200 basis points over the 30-day LIBOR. The loan matured and was repaid in January 2005. This asset was sold in June 2005.
(6) The difference between the pay and accrual rates gets added to the principal balance outstanding.
(7) This investment was redeemed in May 2005.
(8) This loan was redeemed at maturity.

Preferred Equity Investments

As of September 30, 2005 and December 31, 2004, we held the following preferred equity investments with a current yield of approximately 11.0% (in thousands):

Type	Gross Investment	Senior Financing	2005 Amount Outstanding	2004 Amount Outstanding	Initial Maturity Date
Preferred equity (1) (2)	$ 75,000	$ 481,000	$ 75,000	$ 75,000	July 2014
Preferred equity (1)	15,000	2,350,000	15,000	—	February 2015
Preferred equity	10,000	—	10,000	—	February 2007
Preferred equity (1) (2)	6,125	25,000	6,125	—	June 2015
Preferred equity (3)	51,000	224,000	51,000	—	February 2014
Preferred equity (1)	7,000	75,000	7,000	—	August 2015
	$ 164,125	$ 3,155,000	$ 164,125	$ 75,000	

(1) This is a fixed rate investment.
(2) An affiliate of ours owns an interest in the first mortgage of the underlying property.
(3) An affiliate of ours holds a mezzanine loan on this asset.

6. Investment in Unconsolidated Joint Ventures

We have investments in several real estate joint ventures with various partners, including The Rockefeller Group International Inc., or RGII, CIF, the Witkoff Group, or Witkoff, SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ, SEB Immobilier – Investment GmbH, or SEB, Prudential Real Estate Investors, or Prudential and Gramercy. As we do not control these joint ventures, we account for them under the equity method of accounting. The table below provides general information on each joint venture as of September 30, 2005 (in thousands):

Property	Partner	Economic Interest	Square Feet	Acquired	Acquisition Price (1)
1221 Avenue of the Americas (2)	RGII	45.00%	2,550	12/03	$ 1,000,000
485 Lexington Avenue (3)	CIF and Witkoff	30.00%	921	07/04	225,000
One Park Avenue (4)	SEB	16.67%	913	05/01	318,500
1250 Broadway	SITQ	55.00%	670	08/99	121,500
1515 Broadway (5)	SITQ	55.00%	1,750	05/02	483,500
100 Park Avenue	Prudential	49.90%	834	02/00	95,800
1 Madison Avenue – South Building	Gramercy	55.00%	1,176	04/05	803,000

(1) Acquisition price represents the actual or implied purchase price for the joint venture.

(2) We acquired our interest from The McGraw-Hill Companies, or MHC. MHC is a tenant at the property and accounted for approximately 14.5% of property's annualized rent at September 30, 2005. We do not manage this joint venture.

(3) At closing, TIAA-CREF entered into an operating lease for the entire building. Upon expiration of the operating lease in December 2005, it is anticipated that TIAA-CREF will vacate all of the space it occupies in 485 Lexington (approximately 870,000 square feet).

(4) In May 2004, Credit Suisse First Boston LLC, or CSFB, through a wholly owned affiliate, acquired a 75% interest in One Park. The interest was acquired from a joint venture comprised of SITQ and us. CSFB's affiliated entity transferred its interest to SEB in April 2005.

(5) Under a tax protection agreement established to protect the limited partners of the partnership that transferred 1515 Broadway to the joint venture, the joint venture has agreed not to adversely affect the limited partners' tax positions before December 2011. One tenant, whose leases end between 2008 and 2015, represents approximately 83.4% of this joint venture's annualized rent at September 30, 2005.

In August, our joint venture with Morgan Stanley Real Estate Fund, or MSREF, sold the fee interest in 180 Madison Avenue for $92.7 million. The joint venture recognized a gain of approximately $40.0 million from the sale, of which our share was approximately $19.3 million. Approximately $7.7 million of a gain was deferred and will be recognized upon redemption of the preferred equity investment retained in the property. 180 Madison Avenue represents the last property to be sold through our joint ventures with MSREF. In connection with the resolution of the joint venture, we recognized an incentive fee of approximately $10.8 million.

In June 2005, we acquired substantially all of CIF's partnership interest in the joint venture that owned 19 West 44th Street. We previously held a 35% interest in this joint venture. See Note 3 for additional details.

In May 2005, we acquired a 10% interest in a joint venture that acquired a 670,000 square feet property located at 55 Corporate Drive, N.J. The acquisition was funded with an $84.0 million interest-only mortgage. The mortgage which matures in June 2007 carries an interest rate of 215 basis points over the 30-day LIBOR, and has three one-year as-of-right extension options.

We finance our joint ventures with non-recourse debt. The first mortgage notes payable collateralized by the respective joint venture properties and assignment of leases at September 30, 2005 and December 31, 2004, respectively, are as follows (in thousands):

Property	Maturity Date	Interest Rate(1)	2005	2004
1221 Avenue of the Americas (2)	12/2010	4.32%	$ 170,000	$ 175,000
485 Lexington Avenue (3)	07/2007	5.51%	$ 177,928	$ 175,585
One Park Avenue	05/2014	5.80%	$ 238,500	$ 238,500
1250 Broadway (4)	08/2006	4.71%	$ 115,000	$ 115,000
1515 Broadway (5)	07/2006	4.47%	$ 425,000	$ 425,000
100 Park Avenue (6)	08/2010	8.00%	$ 116,105	$ 116,857
1 Madison Avenue – South Building	05/2020	5.91%	$ 688,937	—

(1) Interest rate represents the effective all-in weighted average interest rate for the three months ended September 30, 2005.
(2) This loan has an interest rate based on the Libor plus 75 basis points.
(3) Simultaneous with the closing, the joint venture closed on a $240,000 loan. The loan, which bears interest at 200 basis points over the

30-day LIBOR, is for three years and has two one-year extension options. At closing, the joint venture drew down approximately $175,300. The balance will be used to fund the redevelopment program on an as-needed basis.

(4) The interest only loan carries an interest rate of 120 basis points over the 30-day LIBOR. The loan is subject to three one-year as-of-right renewal extensions.

(5) The interest only loan carries an interest rate of 90 basis points over the 30-day LIBOR. The mortgage is subject to three one-year as-of-right renewal options.

(6) In October 2005, the loan was increased by $60.0 million to $175.0 million. It will mature in 2015 and carries an interest rate of approximately 6.52%. Proceeds from the refinancing will be used to redevelop the property.

We act as the operating partner and day-to-day manager for all our joint ventures, except for 1221 Avenue of the Americas. We are entitled to receive fees for providing management, leasing, construction supervision and asset management services to our joint ventures. We earned approximately $2.5 million, $8.9 million, $2.3 million and $6.2 million from these services for the three and nine months ended September 30, 2005 and 2004, respectively. In addition, we have the ability to earn incentive fees based on the ultimate financial performance of the joint venture properties.

Gramercy Capital Corp.

In April 2004, we formed Gramercy as a commercial real estate specialty finance company focused on originating and acquiring, for their own account, fixed and floating rate mortgage loans, bridge loans, subordinate interests in mortgage loans, distressed debt, mortgage-backed securities, mezzanine loans and preferred equity interests in entities that own commercial real estate, primarily in the United States. Gramercy also makes equity investments in commercial real estate properties net leased to tenants, primarily for the recurring earnings, tax benefits and long-term residual benefits these transactions often hold. Gramercy intends to operate as and qualify as a REIT for federal income tax purposes. In July 2004, Gramercy sold 12,500,000 shares of common stock in its initial public offering at a price of $15.00 per share, for a total offering of $187.5 million. Certain of our executive officers purchased from us shares of common stock of Gramercy issued to one of our subsidiaries as part of Gramercy's initial capitalization prior to its initial public offering at the same price as the estimated fair value of such shares at the time of formation. As part of the offering, which closed on August 2, 2004, we purchased 3,125,000 shares, or 25%, of Gramercy, for a total investment of approximately $46.9 million. In January 2005, we purchased an additional 1,275,000 shares of common stock of Gramercy, increasing out total investment to approximately $68.9 million. In September 2005, Gramercy sold 2,875,000 shares of common stock to the public. Simultaneous with the September 2005 offering, we purchased an additional 958,333 shares of common stock of Gramercy, increasing our total investment to approximately $93.6 million. We currently hold 5,668,000 shares of Gramercy's common stock.

Gramercy is a variable interest entity, but we are not the primary beneficiary. Due to the significant influence we have over Gramercy, we account for our investment under the equity method of accounting.

GKK Manager LLC, or the Manager, an affiliate of ours, entered into a management agreement with Gramercy, which provides for an initial term through December 2007, with automatic one-year extension options and is subject to certain termination rights. Gramercy pays us an annual management fee equal to 1.75% of their gross stockholders' equity (as defined in the management agreement). In addition, Gramercy will also pay the Manager a collateral management fee (as defined in the collateral management agreement) of 0.25% per annum on the outstanding investment grade bonds in Gramercy's May 2005 collateralized debt obligation. For the three and nine months ended September 30, 2005, we received an aggregate of approximately $1.7 million and $4.2 million, respectively, in fees under the management agreement and none under the collateral management agreement.

To provide an incentive for the Manager to enhance the value of the common stock, we, along with the Manager, are entitled to an incentive return payable through the Class B limited partner interests in Gramercy's operating partnership, equal to 25% of the amount by which funds from operations (as defined in Gramercy's partnership agreement) plus certain accounting gains exceed the product of the weighted average stockholders' equity of Gramercy multiplied by 9.5% (divided by 4 to adjust for quarterly calculations). We will record any distributions on the Class B limited partner interests as incentive distribution income in the period when earned and when receipt of such amounts have become probable and reasonably estimable in accordance with Gramercy's partnership agreement as if such agreement had been terminated on that date. We earned approximately $1.0 million under this agreement for the three and nine months ended September 30, 2005. Due to the control we have over the Manager, we consolidate the accounts of the Manager into ours.

In May 2005, our Compensation Committee approved long-term incentive performance awards pursuant to which certain of our officers and employees, including some of whom are our senior executive officers, were awarded a portion of the interests previously held by us in the Manager as well as in the Class B limited partner interests in Gramercy's operating partnership. These awards are dependent upon, among other things, tenure of employment and the performance by SL Green Realty Corp. and its investment in Gramercy. After giving effect to these awards, we own 65.83 units of the Class B limited partner interests and 65.83% of the Manager. The officers and employees who received these awards own 15.75 units of the Class B limited partner interests and 15.75% of the Manager. These awards are dependent upon, among other things, tenure of employment and performance by SL Green Realty Corp. and its investment in Gramercy.

Gramercy is obligated to reimburse the Manager for its costs incurred under an asset servicing agreement and an outsource agreement between the Manager and us. The asset servicing agreement provides for an annual fee of 0.15% of the carrying value of Gramercy's investments, excluding certain defined investments. The outsourcing agreement provides a fee of $1.25 million per year, increasing 3% annually over the prior year. For the three and nine months ended September 30, 2005, the Manager received an aggregate of approximately $0.6 million and $1.6 million, respectively, under the outsourcing and asset servicing agreements.

In connection with the 5,500,000 shares of common stock that were sold on December 31, 2004 and settled on December 31, 2004 and January 3, 2005 in a private placement, Gramercy agreed to pay the Manager a fee of $1.0 million as compensation for financial advisory, structuring and other services performed on Gramercy's behalf.

Effective May 1, 2005 Gramercy entered into a lease agreement with an affiliate of ours, for their corporate offices at 420 Lexington Avenue, New York, NY. The lease is for approximately five thousand square feet with an option to lease an additional approximately two thousand square feet and carries a term of ten year with rents of approximately $249,000 per annum for year one rising to $315,000 per annum in year ten.

See Note 3 for a discussion on Gramercy's joint venture investment, along with us, in 1 Madison Avenue.

The condensed combined balance sheets for the unconsolidated joint ventures, including Gramercy, at September 30, 2005 and December 31, 2004, are as follows (in thousands):

	September 30, 2005	December 31, 2004
Assets		
Commercial real estate property	$ 3,310,849	$ 2,420,851
Structured finance investments	936,401	411,478
Other assets	524,250	304,230
Total assets	$ 4,771,500	$ 3,136,559
Liabilities and members' equity		
Mortgages and loans payable	$ 2,925,970	$ 1,576,201
Other liabilities	146,885	98,960
Members' equity	1,698,645	1,461,398
Total liabilities and members' equity	$ 4,771,500	$ 3,136,559
Our net investment in unconsolidated joint ventures	$ 659,860	$ 557,089

The condensed combined statements of operations for the unconsolidated joint ventures, including Gramercy since August 2004, from acquisition date through September 30, 2005 and 2004 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Total revenues	$ 141,106	$ 87,077	$ 360,933	$ 247,772
Operating expenses	30,452	20,857	79,501	59,801
Real estate taxes	15,983	15,356	47,814	43,881
Interest	39,940	12,981	87,302	33,079
Depreciation and amortization	19,942	14,652	52,319	41,327
Total expenses	106,317	63,846	266,936	178,088
Net income before gain on sale	$ 34,789	$ 23,231	$ 93,997	$ 69,684
Our equity in net income of unconsolidated joint ventures	$ 13,250	$ 10,632	$ 38,643	$ 32,017

7. Investment in and Advances to Affiliates

Service Corporation

In order to maintain our qualification as a REIT while realizing income from management, leasing and construction contracts from third parties and joint venture properties, all of the management operations are conducted through the Service Corporation. We, through our Operating Partnership, own 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation. Through dividends on its equity interest, our Operating Partnership receives substantially all of the cash flow 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 one of our affiliates. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. The Service Corporation is considered to be a variable interest entity under FIN 46 and we are the primary beneficiary. Therefore, effective July 1, 2003, we consolidated the operations of the Service Corporation. For the three and nine months ended September 30, 2005 and 2004, the Service Corporation earned approximately $2.4 million, $8.5 million, $2.0 million and $5.7 million of revenue and incurred approximately $2.1 million, $6.1 million, $1.8 million and $5.2 million in expenses, respectively. Effective January 1, 2001, the Service Corporation elected to be taxed as a TRS.

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

eEmerge

In May 2000, our Operating Partnership formed eEmerge, Inc., a Delaware corporation, or eEmerge, in partnership with Fluid Ventures LLC, or Fluid. In March 2001, we bought out Fluid's entire ownership interest in eEmerge. eEmerge is a separately managed, self-funded company that provides fully-wired and furnished office space, services and support to businesses.

We, through our Operating Partnership, owned all the non-voting common stock of eEmerge. Through dividends on our equity interest, our Operating Partnership received approximately 100% of the cash flow from eEmerge operations. All of the voting common stock was held by an affiliate. This controlling interest gave the affiliate the power to elect all the directors of eEmerge. We accounted for our investment in eEmerge on the equity basis of accounting because although we had significant influence with respect to management and operations, we did not control the entity. In March 2002, we acquired all the voting common stock previously held by the affiliate. As a result, we control all the common stock of eEmerge. Effective with the quarter ended March 31, 2002, we consolidated the operations of eEmerge. Effective January 1, 2001, eEmerge elected to be taxed as a TRS.

In June 2000, eEmerge and Eureka Broadband Corporation, or Eureka, formed eEmerge.NYC LLC, a Delaware limited liability company, or ENYC, whereby eEmerge has a 95% interest and Eureka has a 5% interest in ENYC. ENYC operates a 71,700 square foot fractional office suites business. ENYC entered into a 10-year lease with our Operating Partnership for its 50,200 square foot premises, which is located at 440 Ninth Avenue, Manhattan. ENYC entered into another 10-year lease with our Operating Partnership for its 21,500 square foot premises at 28 West 44th Street, Manhattan. Allocations of net profits, net losses and distributions are made in accordance with the Limited Liability Company Agreement of ENYC. Effective with the quarter ended March 31, 2002, we consolidated the operations of ENYC.

The net book value of our investment as of September 30, 2005 and December 31, 2004 was approximately $3.2 million and $3.4 million, respectively. Management currently believes that, assuming future increases in rental revenue in excess of inflation, it will be possible to recover the net book value of the investment through future operating cash flows. However, there is a possibility that eEmerge will not generate sufficient future operating cash flows for us to recover our investment. As a result of this risk factor, management may in the future determine that it is necessary to write down a portion of the net book value of the investment.

8. Deferred Costs

Deferred costs at September 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	2005	2004
Deferred financing	$ 31,833	$ 20,356
Deferred leasing	73,016	62,184
	104,849	82,540
Less accumulated amortization	(36,331)	(34,671)
	$ 68,518	$ 47,869

9. Mortgage Notes Payable

The first mortgage notes payable collateralized by the respective properties and assignment of leases at September 30, 2005 and December 31, 2004, respectively, are as follows (in thousands):

Property	Maturity Date	Interest Rate	2005	2004
70 West 36th Street (1)	5/1/09	7.87%	$ **11,465**	$ 11,611
1414 Avenue of the Americas (1) (3)	—	—	**—**	13,325
711 Third Avenue (1) (4)	6/1/15	4.99%	**120,000**	47,602
420 Lexington Avenue (1)	11/1/10	8.44%	**118,014**	119,412
673 First Avenue (1)	2/11/13	5.67%	**34,634**	35,000
125 Broad Street (2)	10/11/07	8.29%	**74,982**	75,526
220 East 42nd Street (1)	12/9/13	5.23%	**210,000**	210,000
625 Madison Avenue	11/1/15	6.27%	**102,000**	102,000
Total fixed rate debt			**671,095**	614,476
1 Madison Avenue (5)	5/1/07	6.36%	**99,764**	—
1551/1555 Broadway and West 21st 34th Street (6)	8/1/08	5.54%	**85,781**	—
141 Fifth Avenue (6)	9/1/07	6.15%	**10,000**	—
Total floating rate debt			**195,545**	—
Total mortgage notes payable			$ **866,640**	$ 614,476

(1) Held in bankruptcy remote special purpose entity.
(2) This mortgage has an initial maturity date of October 11, 2007 and a contractual maturity date of October 11, 2030.
(3) This mortgage was repaid in March 2005 in connection with the sale of the property.
(4) This mortgage was refinanced in the second quarter of 2005.
(5) This relates to the North Tower.
(6) We have a 50% interest in the joint venture that holds these loans. These loans are non-recourse to us.

At September 30, 2005 and December 31, 2004, the gross book value of the properties collateralizing the mortgage notes was approximately $1.2 billion and $852.1 million, respectively.

Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable, secured and unsecured revolving credit facilities, term loans and our share of joint venture property debt as of September 30, 2005, excluding extension options, are as follows (in thousands):

	Scheduled Amortization	Principal Repayments	Revolving Credit Facilities	Term Loans and Trust Preferred Securities	Total	Joint Venture Debt
2005	$ 954	$ —	$ —	$ —	$ 954	$ 672
2006(1)	4,125	—	—	—	4,125	300,143
2007	9,387	183,104	—	—	192,491	67,885
2008	9,553	85,781	135,000	1,766	232,100	6,421
2009	10,083	10,629	—	327,648	348,360	6,908
Thereafter	38,361	514,663	—	295,586	848,610	529,931
	$ 72,463	$ 794,177	$ 135,000	$ 625,000	$ 1,626,640	$ 911,960

(1) These joint venture maturities include automatic as-of extension rights through 2009.

We capitalized $3.7 million and none of interest for the nine months ended September 30, 2005 and 2004, respectively.

10. Credit Facilities

2005 Unsecured Revolving Credit Facility

In September 2005, we closed on a new $500.0 million unsecured revolving credit facility. We have an option to increase the capacity under the 2005 unsecured revolving credit facility to $800.0 million at any time prior to the maturity date in September 2008. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 85 basis points to 125 basis points over LIBOR, based on our leverage ratio, and has a one-year extension

option. The 2005 unsecured revolving credit facility also requires a 12.5 to 25 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had an outstanding balance of $135.0 million at September 30, 2005. Availability under the 2005 unsecured revolving credit facility was further reduced by the issuance of approximately $5.4 million in letters of credit. The effective all-in interest rate on the 2005 unsecured revolving credit facility was 4.71% for the nine months ended September 30, 2005. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Unsecured Revolving Credit Facility
In September 2005, we terminated our $300.0 million unsecured revolving credit facility. It bore interest at a spread ranging from 105 basis points to 135 basis points over LIBOR, based on our leverage ratio. The unsecured revolving credit facility also required a 15 to 25 basis point fee on the unused balance payable annually in arrears. The unsecured revolving credit facility included certain restrictions and covenants (see restrictive covenants below).

Secured Revolving Credit Facility
In September 2005, we terminated our $125.0 million secured revolving credit facility. It bore interest at a spread ranging from 105 basis points to 135 basis points over LIBOR, based on our leverage ratios, and was secured by various structured finance investments. The secured revolving credit facility included certain restrictions and covenants which are similar to those under the unsecured revolving credit facility (see restrictive covenants below).

In connection with a structured finance transaction, which closed in June 2004, we entered into a secured term loan for $18.9 million. This loan, which was scheduled to mature in December 2004, was extended to January 2005. It carried an interest rate of 200 basis points over the one-month LIBOR. This loan was repaid in January 2005.

Term Loans
In December 2002, we obtained a $150.0 million unsecured term loan. Effective June 2003, the unsecured term loan was increased to $200.0 million and the term was extended by six months to June 2008. In August 2004, the unsecured term loan was further increased to $325.0 million and the maturity date was further extended to August 2009. This term loan bears interest at a spread ranging from 110 basis points to 140 basis points over LIBOR, based on our leverage ratio. As of September 30, 2005, we had $325.0 million outstanding under the unsecured term loan at the rate of 140 basis points over LIBOR. To limit our exposure to the variable LIBOR rate we entered into various swap agreements to fix the LIBOR rate on the entire unsecured term loan. The LIBOR rate was fixed for a blended all-in rate of 4.50%. The effective all-in interest rate on the unsecured term loan was 4.79% for the nine months ended September 30, 2005.

In December 2003, we closed on a $100.0 million five-year non-recourse term loan secured by a pledge of our ownership interest in 1221 Avenue of the Americas. This term loan had a floating rate of 150 basis points over the current LIBOR rate. During April 2004, we entered into a serial step-swap commencing April 2004 with an initial 24-month all-in rate of 3.83% and a blended all-in rate of 5.10% with a final maturity date in December 2008. In May 2005, we increased this loan by $100.0 million to $200.0 million, reduced the interest rate spread to 125 basis points (effective all-in rate of 4.11% for the nine months ended September 30, 2005) and extended the maturity to May 2010.

Restrictive Covenants
The terms of the 2005 unsecured revolving credit facility and the term loans include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, and fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal Income Tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of September 30, 2005 and December 31, 2004, we were in compliance with all such covenants.

Junior Subordinate Deferrable Interest Debentures
In June 2005, we issued $100.0 million in unsecured floating rate trust preferred securities through a newly formed trust, SL Green Capital Trust I, or Trust, that is a wholly-owned subsidiary of our Operating Partnership. The securities mature in 2035 and bear interest at a fixed rate of 5.61% for the first ten years ending July 2015, a period of up to eight consecutive quarters if our Operating Partnership exercises its right to defer such payments. The trust preferred securities are redeemable, at the option of our Operating Partnership, in whole or in part, with no prepayment premium any time after July 2010. We do not consolidate the Trust even though it is a variable interest entity under FIN46 as we are not the primary beneficiary. Because the Trust is not consolidated, we have issued debt and the related payments are classified as interest expense.

11. 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 we 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, accounts receivable, accounts payable, and revolving credit facilities balances reasonably approximate their fair values due to the short maturities of these items. Mortgage notes payable and the unsecured term loans have an estimated fair value based on discounted cash flow models of approximately $1.3 billion, which exceeded the book value of the related fixed rate debt by approximately $7.2 million. Structured finance investments are carried at amounts, which reasonably approximate their fair value as determined by us.

Disclosure about fair value of financial instruments is based on pertinent information available to us as of September 30, 2005. Although we are 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.

12. Rental Income

Our Operating Partnership is the lessor and the sublessor to tenants under operating leases with expiration dates ranging from October 1, 2005 to 2023. 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 us for increases in certain operating costs and 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 September 30, 2005 for our wholly-owned properties and our share of joint venture properties are as follows (in thousands):

	Wholly-Owned Properties	Joint Venture Properties
2005	$ 73,787	$ 35,343
2006	304,452	144,095
2007	295,709	146,435
2008	279,329	138,903
2009	256,606	135,283
Thereafter	1,213,990	855,759
	$ 2,423,873	$ 1,455,818

13. Related Party Transactions

Cleaning Services
First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services with respect to certain of the properties owned by us. First Quality is owned by Gary Green, a son of Stephen L. Green, the chairman of our board of directors. First Quality also provides additional services directly to tenants on a separately negotiated basis. The aggregate amount of fees paid by us to First Quality for services provided (excluding services

provided directly to tenants) was approximately $1.4 million, $3.6 million, $1.4 million and $3.0 million for the three and nine months ended September 30, 2005 and 2004, respectively. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. First Quality leases 12,290 square feet of space at 70 West 36th Street pursuant to a lease that expires on December 31, 2012 and provides for annual rental payments of approximately $323,000.

Security Services
Classic Security LLC, or Classic Security, provides security services with respect to certain properties owned by us. Classic Security is owned by Gary Green, a son of Stephen L. Green. The aggregate amount of fees paid by us for such services was approximately $1.2 million, $3.1 million, $1.1 million and $2.8 million for the three and nine months ended September 30, 2005 and 2004, respectively.

Messenger Services
Bright Star Couriers LLC, or Bright Star, provides messenger services with respect to certain properties owned by us. Bright Star is owned by Gary Green, a son of Stephen L. Green. The aggregate amount of fees paid by us for such services was approximately $132,000, $340,000, $47,000 and $148,000 for the three and nine months ended September 30, 2005 and 2004, respectively.

Leases
Nancy Peck and Company leases 2,013 square feet of space at 420 Lexington Avenue, pursuant to a lease that expired on June 30, 2005 and provided for annual rental payments of approximately $65,000. This space is now leased on a month-to-month basis. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due pursuant to the lease is offset against a consulting fee of $10,000 per month an affiliate pays to her pursuant to a consulting agreement, which is cancelable upon 30-days notice.

Brokerage Services
Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2005, we paid approximately $457,000 to Sonnenblick in connection with securing a $120.0 million first mortgage for the property located at 711 Third Avenue. In 2004, our 1515 Broadway joint venture paid approximately $855,000 to Sonnenblick in connection with securing a $425.0 million first mortgage for the property.

Management Fees
S.L. Green Management Corp. receives property management fees from an entity in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entity was approximately $55,000, $164,000, $69,000 and $195,000 for the three and nine months ended September 30, 2005 and 2004, respectively.

Amounts due from (to) related parties at September 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	2005	2004
17 Battery Condominium Association	$ 93	$ 207
Officers and employees	1,541	1,681
Other	1,964	3,139
Related party receivables	$ 3,598	$ 5,027

Management Indebtedness
In January 2001, Mr. Marc Holliday, then our president, received a non-recourse loan from us in the principal amount of $1.0 million pursuant to his amended and restated employment and non-competition agreement he executed at the time. This loan bears interest at the applicable federal rate per annum and is

secured by a pledge of

certain of Mr. Holliday's shares of our common stock. The principal of and interest on this loan is forgivable upon our attainment of specified financial performance goals prior to December 31, 2006, provided that Mr. Holliday remains employed by us until January 17, 2007. In April 2000, Mr. Holliday received a loan from us in the principal amount of $300,000 with a maturity date of July 2003. This loan bears interest at a rate of 6.60% per annum and is secured by a pledge of certain of Mr. Holliday's shares of our common stock. In May 2002, Mr. Holliday entered into a loan modification agreement with us in order to modify the repayment terms of the $300,000 loan. Pursuant to the agreement, $100,000 (plus accrued interest thereon) is forgivable on each of January 1, 2004, January 1, 2005 and January 1, 2006, provided that Mr. Holliday remains employed by us through each of such date. The principal balance outstanding on this loan was approximately $100,000 on September 30, 2005. In addition, the balance outstanding under the $300,000 loan shall be forgiven if and when the $1.0 million loan that Mr. Holliday received pursuant to his amended and restated employment and non-competition agreement is forgiven.

Gramercy Capital Corp.

See Note 6. Investment in Unconsolidated Joint Ventures – Gramercy Capital Corp. for disclosure on related party transactions between Gramercy and us.

14. Stockholders' Equity

Common Stock

Our authorized capital stock consists of 200,000,000 shares, $.01 par value, of which we have 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. As of September 30, 2005, 41,941,904 shares of common stock and no shares of excess stock were issued and outstanding.

We filed a $500.0 million shelf registration statement, which was declared effective by the Securities and Exchange Commission, or SEC, in March 2004. This registration statement provides us with the ability to issue common and preferred stock, depository shares and warrants. We currently have $334.5 million available under the shelf.

Perpetual Preferred Stock

In December 2003, we issued 6,300,000 shares of our Series C preferred stock, (including the underwriters' over-allotment option of 700,000 shares) with a mandatory liquidation preference of $25.00 per share. Net proceeds from this offering (approximately $152.0 million) were used principally to repay amounts outstanding under our secured and unsecured revolving credit facilities. The Series C preferred stock receive annual dividends of $1.90625 per share paid on a quarterly basis and dividends are cumulative, subject to certain provisions. On or after December 12, 2008, we may redeem the Series C preferred stock at par for cash at our option. The Series C preferred stock was recorded net of underwriters discount and issuance costs.

In 2004, we issued 4,000,000 shares of our 7.875% Series D cumulative redeemable preferred stock, or the Series D preferred stock, with a mandatory liquidation preference of $25.00 per share. Net proceeds from these offerings (approximately $96.3 million) were used principally to repay amounts outstanding under our secured and unsecured revolving credit facilities. The Series D preferred stock receive annual dividends of $1.96875 per share paid on a quarterly basis and dividends are cumulative, subject to certain provisions. On or after May 27, 2009, we may redeem the Series D preferred stock at par for cash at our option. The Series D preferred stock was recorded net of underwriters discount and issuance costs.

Rights Plan

In February 2000, our board of directors authorized a distribution of one preferred share purchase right, or Right, for each outstanding share of common stock under a shareholder rights plan. This distribution was made to all holders of record of the common stock on March 31, 2000. Each Right entitles the registered holder to purchase from us one one-hundredth of a share of Series B junior participating preferred stock, par value $0.01 per share, or Preferred Shares, at a price of $60.00 per one one-hundredth of a Preferred Share, or Purchase Price, subject to adjustment as

provided in the rights agreement. The Rights expire on March 5, 2010, unless we extend the expiration date or the Right is redeemed or exchanged earlier. 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% or more of the outstanding common stock or announces a tender offer for 17% or more of the outstanding common stock, or 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 Preferred Shares.

Dividend Reinvestment and Stock Purchase Plan

We filed a registration statement with the SEC for our dividend reinvestment and stock purchase plan, or DRIP, which was declared effective on September 10, 2001, and commenced on September 24, 2001. We registered 3,000,000 shares of our common stock under the DRIP.

During the nine months ended September 30, 2005 and 2004, approximately 232,000 and 145,000 shares were issued and approximately $13.7 million and $6.3 million of proceeds were received, respectively, from dividend reinvestments and/or stock purchases under the DRIP. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors has adopted a long-term, seven-year compensation program for senior management. The program, which measures our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provides that holders of our common equity are to achieve a 40% total return during the measurement period over a base of $30.07 per share before any restricted stock awards are granted. Management will receive an award of restricted stock in an amount between 8% and 10% of the excess return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our Stock Option Plan (as defined below), which was previously approved through a stockholder vote in May 2002. We record the expense of the restricted stock award in accordance with SFAS 123. The fair value of the award on the date of grant was determined to be $3.2 million. Forty percent of the value of the award will be amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six, and 14.29% of year seven will be recorded in year one.

The total value of the award (capped at $25.5 million) will determine the number of shares assumed to be issued for purposes of calculating diluted earnings per share. Compensation expense of $162,500 and $487,500 was recorded during each of the three and nine months ended September 30, 2005 and 2004, respectively.

Deferred Stock Compensation Plan for Directors

Under our Independent Director's Deferral Program, which commenced July 2004, our non-employee directors may elect to defer up to 100% of their annual retainer fee, chairman fees and meeting fees. Unless otherwise elected by a participant, fees deferred under the program shall be credited in the form of phantom stock units. The phantom stock units are convertible into an equal number of shares of common stock upon such directors' termination of service from the Board of Directors or a change in control by us, as defined by the program. Phantom stock units are credited to each non-employee director quarterly using the closing price of our common stock on the applicable dividend record date for the respective quarter. Each participating non-employee director's account is also credited for an equivalent amount of phantom stock units based on the dividend rate for each quarter.

During the nine months ended September 30, 2005, 3,916 phantom stock units were earned. As of September 30, 2005, there were approximately 4,916 phantom stock units outstanding.

1997 Stock Option and Incentive Plan

During August 1997, we instituted the 1997 Stock Option and Incentive Plan, or the 1997 Plan. The 1997 Plan was amended in December 1997, March 1998, March 1999 and May 2002. The 1997 Plan, as amended, authorized (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code, or ISOs, (ii) the grant of stock options that do not qualify, or NQSOs, (iii) the grant of stock options in lieu of cash Directors' fees and (iv) grants of shares of restricted and unrestricted common stock. The exercise price of stock options are determined by our compensation committee, but may not be less than 100% of the fair market value of the shares of

our common stock on the date of grant. At September 30, 2005, approximately 2,309,128 shares of our common stock were reserved for issuance under the 1997 Plan.

2005 Stock Option and Incentive Plan

Subject to adjustments upon certain corporate transactions or events, up to a maximum of 3,500,000 shares, or the Fungible Pool Limit, may be subject to Options, Restricted Stock, Phantom Shares, dividend equivalent rights and other equity-based awards under the 2005 Plan; provided that, as described below, the manner in which the Fungible Pool Limit is finally determined can ultimately result in the issuance under the 2005 Plan of up to 4,375,000 shares (subject to adjustments upon certain corporate transactions or events). Each share issued or to be issued in connection with ''Full-Value Awards'' (as defined below) that vest or are granted based on the achievement of certain performance goals that are based on (A) FFO growth, (B) total return to stockholders (either in absolute terms or compared with other companies in the market) or (C) a combination of the foregoing (as set forth in the 2005 Plan), shall be counted against the Fungible Pool Limit as 2.6 units. "Full-Value Awards" are awards other than Options, Stock Appreciation Rights or other awards that do not deliver the full value at grant thereof of the underlying shares (e.g., Restricted Stock). Each share issued or to be issued in connection with any other Full-Value Awards shall be counted against the Fungible Pool Limit as 3.9 units. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire 10 years from the date of grant shall be counted against the Fungible Pool Limit as 1 unit. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire five years from the date of grant shall be counted against the Fungible Pool Limit as 0.8 of a unit. Thus, under the foregoing rules, depending on the type of grants made, as many as 4,375,000 shares can be the subject of grants under the 2005 Plan. At the end of the third calendar year following the effective date of the 2005 Plan, (i) the three-year average of (A) the number of shares subject to awards granted in a single year, divided by (B) the number of shares of our outstanding common stock at the end of such year shall not exceed the (ii) greater of (A) 2% or (B) the mean of the applicable peer group. For purposes of calculating the number of shares granted in a year in connection with the limitation set forth in the foregoing sentence, shares underlying Full-Value Awards will be taken into account as (i) 1.5 shares if our annual common stock price volatility is 53% or higher, (ii) two shares if our annual common stock price volatility is between 25% and 52%, and (iii) four shares if our annual common stock price volatility is less than 25%. No award may be granted to any person who, assuming exercise of all options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. In addition, subject to adjustment upon certain corporate transactions or events, a participant may not receive awards (with shares subject to awards being counted, depending on the type of award, in the proportions ranging from 0.8 to 3.9, as described above) in any one year covering more than 700,000 shares; thus, under this provision, depending on the type of grant involved, as many as 875,000 shares can be the subject of option grants to any one person in any year, and as many as 269,230 shares may be granted as Restricted Stock (or be the subject of other Full-Value Grants) to any one person in any year. If an option or other award granted under the 2005 Plan expires or terminates, the common stock subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards. Shares of our common stock distributed under the 2005 Plan may be treasury shares or authorized but unissued shares. Unless the 2005 Plan is previously terminated by the Board, no new Award may be granted under the 2005 Plan after the tenth anniversary of the date that such 2005 Plan was initially approved by the Board. At September 30, 2005, approximately 4,348,950 shares of our common stock were reserved for issuance under the 2005 Plan.

Options granted under the plans 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 generally exercisable in three to five annual installments commencing one year from the date of grant.

A summary of the status of the Company's stock options as of September 30, 2005 and December 31, 2004 and changes during the periods then ended are presented below:

	2005		2004	
	Options Outstanding	**Weighted Average Exercise Price**	**Options Outstanding**	**Weighted Average Exercise Price**
Balance at beginning of year	**2,169,762**	**$ 29.39**	3,250,231	$ 26.80
Granted	**120,503**	**$ 56.98**	132,333	$ 43.77
Exercised	**(574,545)**	**$ 27.47**	(1,080,835)	$ 23.40

Lapsed or cancelled	**(16,333)**	**$**	**38.86**	(131,967)	$	28.67
Balance at end of period	**1,699,387**	**$**	**31.90**	2,169,762	$	29.39

All options were granted within a price range of $18.44 to $63.69. The remaining weighted average contractual life of the options was 6.9 years.

Earnings Per Share

Earnings per share for the three and nine months ended September 30, is computed as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Numerator (Income)				
Basic Earnings:				
Income available to common stockholders	**$ 37,330**	$ 20,307	**$ 116,708**	$ 81,647
Effect of Dilutive Securities:				
Redemption of units to common shares	**2,227**	1,114	**7,045**	4,726
Stock options	**—**	—	**—**	—
Diluted Earnings:				
Income available to common stockholders	**$ 39,557**	$ 21,421	**$ 123,753**	$ 86,373

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Denominator (Weighted Average Shares)				
Basic Earnings:				
Shares available to common stockholders	**41,923**	39,386	**41,674**	38,670
Effect of Dilutive Securities:				
Redemption of units to common shares	**2,504**	2,225	**2,516**	2,245
Stock-based compensation plans	**1,247**	1,706	**1,236**	1,651
Diluted Shares	**45,674**	43,317	**45,426**	42,566

15. Minority Interest

The unit holders represent the minority interest ownership in our Operating Partnership. As of September 30, 2005 and December 31, 2004, the minority interest unit holders owned 5.6% (2,501,786 units) and 5.8% (2,530,942 units) of the Operating Partnership, respectively. At September 30, 2005, 2,501,786 shares of our common stock were reserved for the conversion of units of limited partnership interest in our Operating Partnership.

16. 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 approximately, $1.2 million, $3.5 million, $0.8 million and $2.7 million during the three and nine months ended September 30, 2005 and 2004, 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.

17. Commitments and Contingencies

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

We entered into employment agreements with certain executives. Six executives have employment agreements which expire between November 2005 and January 2010. The minimum cash-based compensation, including base salary and guaranteed bonus payments, associated with these employment agreements totals approximately $3.8 million for 2005.

During March 1998, we acquired an operating sub-leasehold position at 420 Lexington Avenue. The operating sub-leasehold position requires annual ground lease payments totaling $6.0 million and sub-leasehold position payments totaling $1.1 million (excluding an operating sub-lease position purchased January 1999). The ground lease and sub-leasehold positions expire in 2008. We may extend the positions through 2029 at market rents.

The property located at 1140 Avenue of the Americas operates under a net ground lease ($348,000 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, we are responsible for ground rent payments of $1.55 million annually through July 2011 on the 50% portion of the fee we do not own. The ground rent is reset after July 2011 based on the estimated fair market value of the property. We have an option to buy out the sub-lease at a fixed future date.

The property located at 461 Fifth Avenue operates under a ground lease (approximately $1.8 million annually) with a term expiration date of 2027 and with two options to renew for an additional 21 years each, followed by a third option for 15 years. We also have an option to purchase the ground lease for a fixed price on a specific date.

The property located at 625 Madison Avenue operates under a ground lease (approximately $4.6 million annually) with a term expiration date of 2022 and with two options to renew for an additional 23 years.

In April 1988, the SL Green predecessor entered into a lease agreement for property at 673 First Avenue, 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.

We continue to lease the 673 First Avenue property, which has been classified as a capital lease with a cost basis of $12.2 million and cumulative amortization of approximately $4.3 million and $4.2 million at September 30, 2005 and December 31, 2004, 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 September 30, 2005 (in thousands):

September 30,	Capital Leases	Non-Cancellable Operating Leases
2005	$ 353	$ 4,645
2006	1,416	17,794
2007	1,416	16,594
2008	1,416	16,594
2009	1,416	16,594
Thereafter	53,321	329,972
Total minimum lease payments	59,338	$ 402,193
Less amount representing interest	(43,110)	
Present value of net future minimum lease payments	$ 16,228	

18. Financial Instruments: Derivatives and Hedging

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which became effective January 1, 2001, requires us 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. SFAS No. 133 may increase or decrease reported net income and stockholders' equity prospectively, depending on future levels of interest rates and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows.

The following table summarizes the notional and fair value of our derivative financial instruments at September 30, 2005. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks (in thousands).

	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
Interest Rate Swap	$ 65,000	3.300%	8/2005	9/2006	$ 623
Interest Rate Swap	—	4.330%	9/2006	6/2008	208
Interest Rate Swap	$ 100,000	4.060%	12/2003	12/2007	813
Interest Rate Swap	$ 35,000	4.113%	12/2004	6/2008	311
Interest Rate Swap	$ 100,000	2.330%	4/2004	5/2006	1,101
Interest Rate Swap	—	4.650%	5/2006	12/2008	(280)
Interest Rate Swap	$ 125,000	2.710%	9/2004	9/2006	1,859
Interest Rate Swap	—	4.352%	9/2006	8/2009	651
Interest Rate Swap	$ 60,000	3.770%	5/2005	1/2007	473
Interest Rate Swap	—	4.364%	1/2007	5/2010	343
Interest Rate Cap	$ 12,580	6.600%	8/2005	9/2007	2

On September 30, 2005, the derivative instruments were reported as an asset at their fair value of approximately $6.1 million. This is included in Other Assets on the consolidated balance sheet at September 30, 2005. Offsetting adjustments are represented as deferred gains or losses in Accumulated Other Comprehensive Income of $13.7 million, including a gain of approximately $7.2 million from the settlement of a forward swap, which is being amortized over the ten-year term of the related mortgage obligation from December 2003. Currently, all of our derivative instruments are designated as effective hedging instruments.

We are hedging exposure to variability in future cash flows for forecasted transactions in addition to anticipated future interest payments on existing debt.

19. Environmental Matters

Our management 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 it believes would have a materially adverse impact on our 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 our properties were sold.

20. Segment Information

We are a REIT engaged in owning, managing, leasing, acquiring and repositioning office properties in Manhattan and have two reportable segments, office real estate and structured finance investments. We evaluate real estate performance and allocate resources based on earnings contribution to income from continuing operations.

Our real estate portfolio is primarily located in the geographical market of Manhattan. The primary sources of revenue are generated from tenant rents and escalations and reimbursement revenue. Real estate property operating expenses consist primarily of security, maintenance, utility costs, real estate taxes and ground rent expense (at certain applicable properties). See Note 5 for additional details on our structured finance investments.

Selected results of operations for the three and nine months ended September 30, 2005 and 2004, and selected asset information as of September 30, 2005 and December 31, 2004, regarding our operating segments are as follows (in thousands):

	Real Estate Segment	Structured Finance Segment	Total Company
Total revenues			
Three months ended:			
September 30, 2005	$ 109,639	$ 10,652	$ 120,291
September 30, 2004	77,587	8,281	85,868
Nine months ended:			
September 30, 2005	$ 293,514	33,723	327,237
September 30, 2004	218,938	30,667	249,605
Income from continuing operations before minority interest:			
Three months ended:			
September 30, 2005	$ 27,362	$ 5,652	$ 33,014
September 30, 2004	17,684	6,070	23,754
Nine months ended:			
September 30, 2005	$ 70,213	20,746	90,959
September 30, 2004	60,942	8,884	69,826
Total assets			
As of:			
September 30, 2005	$ 2,952,281	$ 400,049	$ 3,352,330
December 31, 2004	2,401,854	350,027	2,751,881

Income from continuing operations represents total revenues less total expenses for the real estate segment and total investment income less allocated interest expense for the structured finance segment. Interest costs for the structured finance segment are imputed assuming 100% leverage at our unsecured revolving credit facility borrowing cost. We do not allocate marketing, general and administrative expenses (approximately $13.4 million, $32.2 million, $5.6 million and $20.9 million for the three and nine months ended September 30, 2005 and 2004, respectively) to the structured finance segment, since we base performance on the individual segments prior to allocating marketing, general and administrative expenses. All other expenses, except interest, relate entirely to the real estate assets. There were no transactions between the above two segments.

The table below reconciles income from continuing operations before minority interest to net income available to common stockholders for the three and nine months ended September 30, 2005 and 2004 (in thousands):

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Income from continuing operations before minority interest	$ 33,014	$ 23,754	$ 90,959	$ 69,826
Gain on sale of unconsolidated joint venture	11,550	—	11,550	22,012
Minority interest in operating partnership attributable to continuing operations	(2,227)	(977)	(4,973)	(4,404)
Minority interest in partially-owned entities	(38)	(55)	(252)	(30)
Net income from continuing operations	42,299	22,722	97,284	87,404
Income/ gains from discontinued operations, net of minority interest	—	2,428	34,330	5,532
Net income	42,299	25,150	131,614	92,936
Preferred stock dividends	(4,969)	(4,843)	(14,906)	(11,289)
Net income available to common stockholders	$ 37,330	$ 20,307	$ 116,708	$ 81,647

21. Supplemental Disclosure of Non-Cash Investing and Financing Activities

A summary of our non-cash investing and financing activities for the nine months ended September 30, 2005 and 2004 is presented below (in thousands):

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Issuance of common stock as deferred compensation	$ 7,780	$ 14,096
Redemption of units and dividend reinvestments	14,563	4,498
Derivative instruments at fair value	6,103	(4,822)
Assumption of our share of joint venture mortgage note payable	—	16,520
Tenant improvements and capital expenditures payable	(6,372)	24,620

Acquisition of real estate	—	2,755
Assumption of joint venture interest	9,952	—
Exchange of joint venture interest for structured finance investment	6,175	—
Real estate investments consolidated under FIN 46	3,284	—

22. Subsequent Events

In October 2005, our joint venture with Prudential refinanced the mortgage at 100 Park Avenue. The mortgage, which was increased by $60.0 million to $175.0 million, carries a fixed interest rate of 6.52% and will mature in 2015. The proceeds from the refinancing will be used to redevelop the property.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

SL Green Realty Corp., or the Company, a Maryland corporation, and SL Green Operating Partnership, L.P., or 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. We are a self-managed real estate investment trust, or REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. Unless the context requires otherwise, all references to "we," "our" and "us" means the Company and all entities owned or controlled by the Company, including the Operating Partnership.

The following discussion related to our consolidated financial statements should be read in conjunction with the financial statements appearing in this report and in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2004.

As of September 30, 2005, our wholly-owned properties consisted of 21 commercial properties encompassing approximately 9.3 million rentable square feet located primarily in midtown Manhattan, a borough of New York City, or Manhattan. As of September 30, 2005, the weighted average occupancy (total leased square feet divided by total available square feet) of the wholly-owned properties was 94.9%. Our portfolio also includes ownership interests in unconsolidated joint ventures, which own seven commercial properties in Manhattan, encompassing approximately 8.8 million rentable square feet, and which had a weighted average occupancy of 97.3% as of September 30, 2005. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Rental Property

On a periodic basis, our management team assesses whether there are any indicators that the value of our real estate properties, including joint venture properties and assets held for sale, and structured finance investments may be impaired. If the carrying amount of the property is greater than the estimated expected future cash flow (undiscounted and without interest charges) of the asset or sales price, impairment has occurred. We will then record an impairment loss equal to the difference between the carrying amount and the fair value of the asset. We do not believe that the value of any of our rental properties or structured finance investments was impaired at September 30, 2005 and December 31, 2004.

In accordance with SFAS No. 141, "Business Combinations," we allocate the purchase price of real estate to land and building and, if determined to be material, intangibles, such as the value of above, below and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building and other intangible assets over their estimated useful lives, which generally range from three to 40 years. The values of the above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease.

The value associated with in-place leases and tenant relationships are amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal, and its estimated term. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). We assess fair value of the leases based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Investment in Unconsolidated Joint Ventures

We account for our investments in unconsolidated joint ventures under the equity method of accounting as we exercise significant influence, but do not control these entities and are not considered to be the primary beneficiary under FIN 46R. We consolidate those joint ventures where we are considered to be the primary beneficiary, even though we do not control the entity. In all the joint ventures, the rights of the minority investor are both protective as well as participating. Unless we are determined to be the primary beneficiary, these rights preclude us from consolidating these investments. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in net income (loss) of unconsolidated joint ventures over the lesser of the joint venture term or 40 years. See Note 6. None of the joint venture debt is recourse to us.

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. We establish, on a current basis, an allowance for future potential tenant credit losses which may occur against this account. The balance reflected on the balance sheet is net of such allowance.

Interest income on structured finance investments is recognized over the life of the investment using the effective interest method and recognized on the accrual basis. Fees received in connection with loan commitments are deferred until the loan is funded and are then recognized over the term of the loan as an adjustment to yield. Anticipated exit fees, whose collection is expected, are also recognized over the term of the loan as an adjustment to yield. Fees on commitments that expire unused are recognized at expiration.

Income recognition is generally suspended for structured finance investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required.

Reserve for Possible Credit Losses

The expense for possible credit losses in connection with structured finance investments is the charge to earnings to increase the allowance for possible credit losses to the level that we estimate to be adequate considering delinquencies, loss experience and collateral quality. Other factors considered relate to geographic trends and product diversification, the size of the portfolio and current economic conditions. Based upon these factors, we establish the provision for possible credit losses by category of asset. When it is probable that we will be unable to collect all amounts contractually due, the account is considered impaired.

Where impairment is indicated, a valuation write-down or write-off is measured based upon the excess of the recorded investment amount over the net fair value of the collateral, as reduced by selling costs. Any deficiency between the carrying amount of an asset and the net sales price of repossessed collateral is charged to the allowance for credit losses. No reserve for impairment was required at September 30, 2005 and December 31, 2004.

Derivative Instruments

In the normal course of business, we use a variety of derivative instruments to manage, or hedge, interest rate risk. We require that hedging derivative instruments be effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential for qualifying for hedge accounting. Some derivative instruments are associated with an anticipated transaction. In those cases, hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract.

To determine the fair values of derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option-pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Results of Operations

Comparison of the three months ended September 30, 2005 to the three months ended September 30, 2004

The following comparison for the three months ended September 30, 2005, or 2005, to the three months ended September 30, 2004, or 2004, makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by us at January 1, 2004 and at September 30, 2005 and total 17 of our 21 wholly-owned properties, representing approximately 75% of our annualized rental revenue, (ii) the effect of the "Acquisitions," which represents all properties acquired in 2004, namely, 750 Third Avenue (July 2004) and 625 Madison Avenue (October 2004) and in 2005, namely, 28 West 44th Street (February 2005), 1 Madison Avenue-North Tower (April 2005), and 19 West 44th Street (June 2005) and (iii) "Other," which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. Assets classified as held for sale in 2004, namely 1466 Broadway and 17 Battery Place and in 2005, namely, 1414 Avenue of the Americas, are excluded from the following discussion.

Rental Revenues (in millions)	**2005**	**2004**	**$ Change**	**% Change**
Rental revenue	$ 75.7	$ 59.9	$ 15.8	26.4%
Escalation and reimbursement revenue	16.4	12.7	3.7	29.1
Total	$ 92.1	$ 72.6	$ 19.5	26.9%
Same-Store Properties	$ 72.2	$ 70.0	$ 2.2	3.1%
Acquisitions	19.8	2.7	17.1	633.3
Other	0.1	(0.1)	0.2	200.0

Total	$ 92.1	$ 72.6	$ 19.5	26.9%

Occupancy in the Same-Store Properties decreased slightly from 95.5% at September 30, 2004 to 95.2% at September 30, 2005. The increase in the Acquisitions is primarily due to owning these properties for a period during the quarter in 2005 compared to a partial period or not being included in 2004.

At September 30, 2005, we estimated that the current market rents on our wholly-owned properties were approximately 15.8% higher than then existing in-place fully escalated rents. Approximately 4.3% of the space leased at wholly-owned properties expires during the remainder of 2005. We believe that occupancy rates will increase slightly at the Same-Store Properties in 2005.

The increase in escalation and reimbursement revenue was due to the recoveries at the Same-Store Properties ($1.0 million) and the Acquisitions ($2.7 million). The increase in recoveries at the Same-Store Properties was primarily due to electric reimbursements ($2.2 million), which were partially offset by a reduction in real estate tax escalations ($1.1 million).

Investment and Other Income (in millions)	2005	2004	$ Change	% Change
Equity in net income of unconsolidated joint ventures	$ 13.3	$ 10.6	$ 2.7	25.5%
Investment and preferred equity income	10.7	8.3	2.4	28.9
Other income	17.6	5.0	12.6	252.0
Total	$ 41.6	$ 23.9	$ 17.7	74.1%

The increase in equity in net income of unconsolidated joint ventures was primarily due to contributions from 1221 Avenue of the Americas ($1.5 million) and Gramercy Capital Corp., or Gramercy, ($2.1 million). This was partially offset by decreases at 1515 Broadway ($0.7 million) and 1 Madison Avenue-South Building ($0.6 million). Occupancy at our joint venture properties increased from 96.0% in 2004 to 97.3% in 2005. At September 30, 2005, we estimated that current market rents at our joint venture properties were approximately 39.8% higher than then existing in-place fully escalated rents. Approximately 11.2% of the space leased at our joint venture properties expires during the remainder of 2005.

The increase in investment income from structured finance investments was primarily due to a higher weighted average balance invested as well as higher LIBOR rates. The weighted average investment balance outstanding and weighted average yield were $398.4 million and 10.26%, respectively, for 2005 compared to $302.1 million and 10.17%, respectively, for 2004.

The increase in other income was primarily due to fee income earned by GKK Manager, an affiliate of ours and the external manager of Gramercy, (approximately $2.2 million), fee income earned by the Service Corporation (approximately $0.4 million) and an incentive fee recognized in 2005 in connection with the resolution of the MSREF joint ventures (approximately $10.8 million). This was partially offset by a reduction in other income at Same-Store properties primarily due to a reduction in lease buy-out income ($0.6 million).

Property Operating Expenses (in millions)	2005	2004	$ Change	% Change
Operating expenses	$ 29.1	$ 22.5	$ 6.6	29.3%
Real estate taxes	15.3	12.0	3.3	27.5
Ground rent	4.9	3.8	1.1	29.0
Total	$ 49.3	$ 38.3	$ 11.0	28.7%
Same-Store Properties	$ 37.7	$ 35.4	$ 2.3	6.5%
Acquisitions	8.4	—	8.4	—
Other	3.2	2.9	0.3	10.3
Total	$ 49.3	$ 38.3	$ 11.0	28.7%

Same-Store Properties operating expenses, excluding real estate taxes ($0.3 million), increased approximately $2.0 million. There were increases in repairs, maintenance and payroll expenses ($0.5 million), utilities ($1.5 million) and condominium management fees ($0.3 million), respectively. This was primarily offset by decreases in advertising and insurance costs ($0.3 million).

The increase in real estate taxes was primarily attributable to the Same-Store Properties ($0.3 million) due to higher assessed property values and the Acquisitions ($3.0 million).

Other Expenses (in millions)	2005	2004	$ Change	% Change
Interest expenses	$ 20.6	$ 16.0	$ 4.6	28.8%
Depreciation and amortization expense	17.2	13.0	4.2	32.3
Marketing, general and administrative expense	13.4	5.6	7.8	139.3
Total	$ 51.2	$ 34.6	$ 16.6	48.0%

The increase in interest expense was primarily attributable to costs associated with new investment activity and the funding of ongoing capital projects and working capital requirements. The weighted average interest rate remained flat at 5.55% for each of the quarters ended September 30, 2004 and September 30, 2005. As a result of the new investment activity, the weighted average debt balance increased from $1.1 billion as of September 30, 2004 to $1.6 billion as of September 30, 2005.

Marketing, general and administrative expenses represented 11.2% of total revenues in 2005 compared to 6.5% in 2004. The increase is primarily due to increased headcount at Gramercy as well as higher overall compensation costs.

Comparison of the nine months ended September 30, 2005 to the nine months ended September 30, 2004

The following comparison for the nine months ended September 30, 2005, or 2005, to the nine months ended September 30, 2004, or 2004, makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by us at January 1, 2004 and at September 30, 2005 and total 17 of our 21 wholly-owned properties, representing approximately 75% of our annualized rental revenue, (ii) the effect of the "Acquisitions," which represents all properties acquired in 2004, namely, 750 Third Avenue (July 2004) and 625 Madison Avenue (October 2004) and in 2005, namely, 28 West 44th Street (February 2005), 1 Madison Avenue-North Tower (April 2005) and 19 West 44th Street (June 2005) and (iii) "Other," which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. Assets classified as held for sale in 2004, namely 1466 Broadway and 17 Battery Place and in 2005, namely, 1414 Avenue of the Americas, are excluded from the following discussion.

Rental Revenues (in millions)	2005	2004	$ Change	% Change
Rental revenue	$ 220.4	$ 173.2	$ 47.2	27.3%
Escalation and reimbursement revenue	41.7	31.3	10.4	33.2
Total	$ 262.1	$ 204.5	$ 57.6	28.2%
Same-Store Properties	$ 212.1	$ 202.8	$ 9.3	4.6%
Acquisitions	50.0	2.7	47.3	1,751.9
Other	—	(1.0)	1.0	100.0
Total	$ 262.1	$ 204.5	$ 57.6	28.2%

Occupancy in the Same-Store Properties decreased slightly from 95.5% at September 30, 2004 to 95.2% at September 30, 2005. The increase in the Acquisitions is primarily due to owning these properties for a period during the quarter in 2005 compared to a partial period or not being included in 2004.

At September 30, 2005, we estimated that the current market rents on our wholly-owned properties were approximately 15.8% higher than then existing in-place fully escalated rents. Approximately 4.3% of the space leased at wholly-owned properties expires during the remainder of 2005. We believe that occupancy rates will increase slightly at the Same-Store Properties in 2005.

The increase in escalation and reimbursement revenue was primarily due to the recoveries at the Same-Store Properties ($4.8 million), and the Acquisitions ($5.2 million) and in Other ($0.4 million). The increase in recoveries at the Same-Store Properties was primarily due to electric reimbursements ($2.4 million) and real estate tax recoveries ($2.5 million).

Investment and Other Income (in millions)	2005	2004	$ Change	% Change
Equity in net income of unconsolidated joint ventures	$ 38.6	$ 32.0	$ 6.6	20.6%
Investment and preferred equity income	33.7	30.7	3.0	9.8
Other income	31.5	14.4	17.1	118.8
Total	$ 103.8	$ 77.1	$ 26.7	34.6%

The increase in equity in net income of unconsolidated joint ventures was primarily due to contributions from 1515 Broadway ($2.5 million), 1221 Avenue of the Americas ($1.0 million) and Gramercy ($5.2 million). This was partially offset by a reduction in our interest in One Park Avenue from 55% to 16.7% ($1.7 million). Occupancy at our joint venture properties increased from 96.0% in 2004 to 97.3% in 2005. At September 30, 2005, we estimated that current market rents at our joint venture properties were approximately 39.8% higher than then existing in-place fully escalated rents. Approximately 11.2% of the space leased at our joint venture properties expires during the remainder of 2005.

The increase in investment income from structured finance investments was primarily due to the weighted average investment balance outstanding and yield being $391.9 million and 10.4%, respectively, for 2005 compared to $269.0 million and 10.8%, respectively, for 2004. In addition, we recognized a one-time gain on a mortgage investment of $4.2 million in 2004.

The increase in other income was primarily due to an incentive fee recognized in 2005 in connection with the resolution of the MSREF joint ventures ($10.8 million), lease buy-out income ($0.7 million), fee income earned by GKK Manager, an affiliate of ours and the external manager of Gramercy, (approximately $5.7 million), fee income earned by the service corporation ($2.8 million) and fee income from the settlement of a prior structured finance investment (approximately $1.3 million). This was offset by an incentive fee recognized in 2004 in connection with the recapitalization of One Park Avenue (approximately $4.3 million).

Property Operating Expenses (in millions)	2005	2004	$ Change	% Change
Operating expenses	$ 77.7	$ 63.7	$ 14.0	22.0%
Real estate taxes	45.5	34.3	11.2	32.7
Ground rent	14.4	11.5	2.9	25.2
Total	$ 137.6	$ 109.5	$ 28.1	25.7%
Same-Store Properties	$ 108.3	$ 101.6	$ 6.7	6.6%
Acquisitions	20.4	—	20.4	—
Other	8.9	7.9	1.0	12.7
Total	$ 137.6	$ 109.5	$ 28.1	25.7%

Same-Store Properties operating expenses, excluding real estate taxes ($3.0 million), increased approximately $3.8 million. There were decreases in advertising, insurance, blackout related costs and condominium management costs ($0.8 million) and ground rent ($0.6 million). This was offset by increases in repairs, maintenance and payroll expenses ($2.0 million), professional fees ($0.4 million) and utilities ($2.8 million).

The increase in real estate taxes was primarily attributable to the Same-Store Properties ($3.0 million) due to higher assessed property values and the Acquisitions ($8.2 million).

Other Expenses (in millions)	2005	2004	$ Change	% Change
Interest expenses	$ 57.2	$ 44.8	$ 12.4	27.7%
Depreciation and amortization expense	47.9	36.6	11.3	30.9
Marketing, general and administrative expense	32.2	20.9	11.3	54.1
Total	$ 137.3	$ 102.3	$ 35.0	34.2%

The increase in interest expense was primarily attributable to costs associated with new investment activity and the funding of ongoing capital projects and working capital requirements. The weighted average interest rate decreased from 5.58% for the nine months ended September 30, 2004 to 5.52% for the nine months ended September 30, 2005. As a result of the new investment activity, the weighted average debt balance increased from $1.1 billion as of September 30, 2004 to $1.4 billion as of September 30, 2005.

Marketing, general and administrative expenses represented 9.9% of total revenues in 2005 compared to 8.4% in 2004. The increase in marketing, general and administrative expenses is primarily due to increased headcount at Gramercy, which was offset by a one-time charge related to a restricted stock award in 2004.

Liquidity and Capital Resources

We currently expect that our principal sources of working capital and funds for acquisition and redevelopment of properties, tenant improvements and leasing costs and for structured finance investments will include: (1) cash flow from operations; (2) borrowings under our 2005 unsecured revolving credit facility; (3) other forms of secured or unsecured financing; (4) proceeds from common or preferred equity or debt offerings by us or the Operating Partnership (including issuances of limited partnership units in the Operating Partnership); and (5) net proceeds from divestitures of properties and redemptions and participations of structured finance investments. Cash flow from operations is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates achieved on our leases, the collectibility of rent and operating escalations and recoveries from our tenants and the level of operating and other costs. Additionally, we believe that our joint venture investment programs will also continue to serve as a source of capital for acquisitions. We believe that our sources of working capital, specifically our cash flow from operations and borrowings available under our 2005 unsecured revolving credit facility, and our ability to access private and public debt and equity capital, are adequate for us to meet our short-term and long-term liquidity requirements for the foreseeable future. With the commencement of operations of Gramercy Capital Corp. (NYSE:GKK) in August 2004, there will be a reduced focus on direct structured finance investments made by us.

Cash Flows

Net cash provided by operating activities increased approximately $1.6 million from approximately $82.4 million for the nine months ended September 30, 2004 compared to approximately $84.0 million for the nine months ended September 30, 2005. Operating cash flow was primarily generated by the Same-Store Properties and Acquisitions, as well as income earned on the structured finance investments.

There was an increase in investment activity in 2005 compared to 2004. We closed on approximately $422.1 million of new consolidated investments in 2005, including 28 West 44th Street, 1 Madison Avenue-North Building, the remaining interest in 19 West 44th Street, 1551/1555 Broadway, 21 West 34th Street and 141 Fifth Avenue compared to $282.0 in 2004 when we funded the acquisition of 750 Third Avenue and acquisition deposit on 625 Madison Avenue. We have also spent more funds on capital improvements in 2005 (approximately $30.5 million) as compared to 2004 (approximately $13.2 million) primarily relating to increased leasing activity. We increased our level of investments in joint ventures by approximately $47.5 million primarily in 2005 compared to 2004 by acquiring an interest in the south building at 1 Madison Avenue in addition to making follow-on investments in Gramercy in 2005, compared to investments in 19 West 44th Street, 485 Lexington Avenue and Gramercy in 2004. We funded a portion of the 2005 acquisitions through the sale of assets, which generated net proceeds of approximately $59.7 million. Distributions from joint ventures decreased approximately $107.8 million primarily due to the refinancing in 2004 of 1515 Broadway and One Park as well as the sale of an interest in One Park. Our structured finance activity, including originations net of redemptions, decreased approximately $65.2 million in 2005 compared to 2004. This was offset by other investment activity in 2005 of approximately $27.2 million. This investment activity resulted in net cash used in investing activities increasing approximately $217.7 million to approximately $509.7 million for the nine months ended September 30, 2005 compared to approximately $292.0 million during the nine months ended September 30, 2004.

The investment activity in 2005 described above was primarily funded through mortgage debt as well as new term loans. We increased an existing term loan and closed on a new term loan. We also refinanced one of our properties. Proceeds from the January 2004 common stock offering and the May 2004 preferred stock offering as well as the joint venture distributions received in 2004, were primarily used to pay down our credit facilities in 2004. The increased financing activity in 2005, resulted in net cash provided by financing activities increasing by approximately $209.7 million to approximately $404.1 million for the nine months ended September 30, 2005 compared to approximately $194.4 million used in the nine months ended September 30, 2004.

Capitalization

As of September 30, 2005, we had 41,941,904 shares of common stock, 2,501,786 units of limited partnership interest in our Operating Partnership, 6,300,000 shares of our 7.625% Series C cumulative redeemable preferred stock, or Series C preferred stock and 4,000,000 shares of our 7.875% Series D cumulative redeemable preferred stock, or Series D preferred stock, outstanding.

We currently have the ability to issue up to an aggregate amount of approximately $334.5 million of our common and preferred stock, depository shares and warrants under our current shelf registration statement, which was declared effective in March 2004.

Rights Plan

We adopted a shareholder rights plan which provides, among other things, that when specified events occur, our shareholders will be entitled to purchase from us a new created series of junior preferred shares, subject to our ownership limit described below. The preferred share purchase rights are triggered by the earlier to occur of (1) ten days after the date of a purchase announcement that a person or group acting in concert has acquired, or obtained the right to acquire, beneficial ownership of 17% or more of our outstanding shares of common stock or (2) ten business days after the commencement of or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the acquiring person becoming the beneficial owner of 17% or more of our outstanding common stock. The preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors.

2005 Stock Option and Incentive Plan

Subject to adjustments upon certain corporate transactions or events, up to a maximum of 3,500,000 shares, or the Fungible Pool Limit, may be subject to Options, Restricted Stock, Phantom Shares, dividend equivalent rights and other equity-based awards under the 2005 Plan; provided that, as described below, the manner in which the Fungible Pool Limit is finally determined can ultimately result in the issuance under the 2005 Plan of up to 4,375,000 shares (subject to adjustments upon certain corporate transactions or events). Each share issued or to be issued in connection with ''Full-Value Awards'' (as defined below) that vest or are granted based on the achievement of certain performance goals that are based on (A) FFO growth, (B) total return to stockholders (either in absolute terms or compared with other companies in the market) or (C) a combination of the foregoing (as set forth in the 2005 Plan), shall be counted against the Fungible Pool Limit as 2.6 units. "Full-Value Awards" are awards other than Options, Stock Appreciation Rights or other awards that do not deliver the full value at grant thereof of the underlying shares (e.g., Restricted Stock). Each share issued or to be issued in connection with any other Full-Value Awards shall be counted against the Fungible Pool Limit as 3.9 units. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire 10 years from the date of grant shall be counted against the Fungible Pool Limit as 1 unit. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire five years from the date of grant shall be counted against the Fungible Pool Limit as 0.8 of a unit. Thus, under the foregoing rules, depending on the type of grants made, as many as 4,375,000 shares can be the subject of grants under the 2005 Plan. At the end of the third calendar year following the effective date of the 2005 Plan, (i) the three-year average of (A) the number of shares subject to awards granted in a single year, divided by (B) the number of shares of our outstanding common stock at the end of such year shall not exceed the (ii) greater of (A) 2% or (B) the mean of the applicable peer group. For purposes of calculating the number of shares granted in a year in connection with the limitation set forth in the foregoing sentence, shares underlying Full-Value Awards will be taken into account as (i) 1.5 shares if our annual common stock price volatility is 53% or higher, (ii) two shares if our annual common stock price volatility is between 25% and 52%, and (iii) four shares if our annual common stock price volatility is less than 25%. No award may be granted to any person who, assuming exercise of all options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. In addition, subject to adjustment upon certain corporate transactions or events, a participant may not receive awards (with shares subject to awards being counted, depending on the type of award, in the proportions ranging from 0.8 to 3.9, as described above) in any one year covering more than 700,000 shares; thus, under this provision, depending on the type of grant involved, as many as 875,000 shares can be the subject of option grants to any one person in any year, and as many as 269,230 shares may be granted as Restricted Stock (or be the subject of other Full-Value Grants) to any one person in any year. If an option or other award granted under the 2005 Plan expires or terminates, the common stock subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards. Shares of our common stock distributed under the 2005 Plan may be treasury shares or authorized but unissued shares. Unless the 2005 Plan is previously terminated by the Board, no new Award may be granted under the 2005 Plan after the tenth

anniversary of the date that such 2005 Plan was initially approved by the Board. At September 30, 2005, approximately 4,348,950 shares of our common stock were reserved for issuance under the 2005 Plan.

Dividend Reinvestment and Stock Purchase Plan

We filed a registration statement with the SEC for our dividend reinvestment and stock purchase plan, or DRIP which was declared effective on September 10, 2001. The DRIP commenced on September 24, 2001. We registered 3,000,000 shares of common stock under the DRIP.

During the nine months ended September 30, 2005 and 2004, approximately 232,000 and 145,000 shares were issued and approximately $13.7 million and $6.3 million of proceeds were received, respectively, from dividend reinvestments and/or stock purchases under the DRIP. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors has adopted a long-term, seven-year compensation program for certain members of senior management. The program, which measures our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provides that holders of our common equity are to achieve a 40% total return, or baseline return, during the measurement period over a base share price of $30.07 per share before any restricted stock awards are granted. Plan participants will receive an award of restricted stock in an amount between 8% and 10% of the excess total return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our 1997 Stock Option and Incentive Plan, as amended, which was previously approved through a shareholder vote in May 2002. We will record the expense of the restricted stock award in accordance with Financial Accounting Standards Board, or FASB, Statement No. 123, "Accounting for Stock-Based Compensation". The fair value of the award on the date of grant was determined to be $3.2 million. Forty percent of the award will be amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six and 14.29% of year seven will be recorded in year one. The total value of the award (capped at $25.5 million) will determine the number of shares assumed to be issued for purposes of calculating diluted earnings per share. Compensation expense of approximately $0.2 million and $0.5 million related to this plan was recorded during each of the three and nine months ended September 30, 2005 and 2004, respectively.

Deferred Stock Compensation Plan for Directors

Under our Independent Director's Deferral Program, which commenced July 2004, our non-employee directors may elect to defer up to 100% of their annual retainer fee, chairman fees and meeting fees. Unless otherwise elected by a participant, fees deferred under the program shall be credited in the form of phantom stock units. The phantom stock units are convertible into an equal number of shares of common stock upon such directors' termination of service from the Board of Directors or a change in control by us, as defined by the program. Phantom stock units are credited to each non-employee director quarterly using the closing price of our common stock on the applicable dividend record date for the respective quarter. Each participating non-employee director's account is also credited for an equivalent amount of phantom stock units based on the dividend rate for each quarter.

During the nine months ended September 30, 2005, 3,916 phantom stock units were earned. As of September 30, 2005, there were approximately 4,916 phantom stock units outstanding.

Market Capitalization
At September 30, 2005, borrowings under our mortgage loans, 2005 unsecured revolving credit facility and term loans (excluding our share of joint venture debt of $912.0 million) represented 33.1% of our consolidated market capitalization of $4.9 billion (based on a common stock price of $68.18 per share, the closing price of our common stock on the New York Stock Exchange on September 30, 2005). Market capitalization includes our consolidated debt, common and preferred stock and the conversion of all units of limited partnership interest in our Operating Partnership, but excludes our share of joint venture debt.

Indebtedness
The table below summarizes our consolidated mortgage debt, secured and unsecured revolving credit facilities and term loans outstanding at September 30, 2005 and December 31, 2004, respectively (dollars in thousands).

	September 30, 2005	December 31, 2004
Debt Summary:		
Balance		
Fixed rate	$ **771,095**	$ 614,476
Variable rate - hedged	**485,000**	425,000
Total fixed rate	**1,256,095**	1,039,476
Variable rate	**370,545**	—
Variable rate - supporting variable rate assets	**—**	110,900
Total variable rate	**370,545**	110,900
Total	$ **1,626,640**	$ 1,150,376
Percent of Total Debt:		
Total fixed rate	**77.22%**	90.36%
Variable rate	**22.78%**	9.64%
Total	**100.00%**	100.00%
Effective Interest Rate for the Quarter:		
Fixed rate	**5.57%**	6.12%
Variable rate	**5.40%**	2.86%
Effective interest rate	**5.53%**	5.61%

The variable rate debt shown above bears interest at an interest rate based on LIBOR (3.86% and 1.84% at September 30, 2005 and 2004, respectively). Our consolidated debt at September 30, 2005 had a weighted average term to maturity of approximately 5.5 years.

As of September 30, 2005, certain of our structured finance investments, totaling $91.0 million, are variable rate investments which partially mitigate our exposure to interest rate changes on our unhedged variable rate debt.

Mortgage Financing
As of September 30, 2005, our total mortgage debt (excluding our share of joint venture debt of approximately $912.0 million) consisted of approximately $671.1 million of fixed rate debt, including hedged variable rate debt, with an effective weighted average interest rate of approximately 6.32% and $195.5 million of variable rate debt with an effective weighted average interest rate of approximately 5.99%.

Credit Facilities

2005 Unsecured Revolving Credit Facility
In September 2005, we closed on a new $500.0 million unsecured revolving credit facility. We have an option to increase the capacity under the 2005 unsecured revolving credit facility to $800.0 million at any time prior to the maturity date in September 2008. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 85 basis points to 125 basis points over LIBOR, based on our leverage ratio, and has a one-year extension option. The 2005 unsecured revolving credit facility also requires a 12.5 to 25 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had an outstanding balance of $135.0 million at September 30, 2005. Availability under the 2005 unsecured revolving credit facility was further reduced by the issuance of approximately $5.4 million in letters of credit. The effective all-in interest rate on the 2005 unsecured revolving credit facility was 4.71% for the nine months ended September 30, 2005. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Unsecured Revolving Credit Facility
In September 2005, we terminated our $300.0 million unsecured revolving credit facility. It bore interest at a spread ranging from 105 basis points to 135 basis points over LIBOR, based on our leverage ratio. The unsecured revolving credit facility also required a 15 to 25 basis point fee on the unused balance payable annually in arrears.

Secured Revolving Credit Facility
In September 2005, we terminated our $125.0 million secured revolving credit facility. The secured revolving credit facility carried a spread of 135 basis points over the 30-day LIBOR.

Term Loans
In December 2002, we obtained a $150.0 million unsecured term loan. Effective June 2003, this unsecured term loan was increased to $200.0 million and the term was extended by six months to June 2008. In August 2004, the unsecured term loan was increased to $325.0 million and the maturity date was further extended to August 2009. As of September 30, 2005, we had $325.0 million outstanding under the unsecured term loan at the rate of 140 basis points over

LIBOR. To limit our exposure to the variable LIBOR rate we entered into various swap agreements to fix the LIBOR rate on the entire unsecured term loan. The effective all-in weighted average interest rate on the unsecured term loan was 4.79% for the nine months ended September 30, 2005.

In December 2003, we closed on a $100.0 million five-year non-recourse term loan, secured by a pledge of our ownership interest in 1221 Avenue of the Americas. This term loan had a floating rate of 150 basis points over the current LIBOR rate. During April 2004, we entered into a swap agreement to fix the LIBOR at a blended all-in interest rate of 5.10% through December 2008. In May 2005, we increased this loan by $100.0 million to $200.0 million, reduced the interest rate spread to 125 basis points and extended the maturity to May 2010. This loan carried an effective all-in weighted average interest rate of 4.11% for the nine months ended September 30, 2005.

Junior Subordinate Deferrable Interest Debentures
In June 2005, we issued $100.0 million of Trust Preferred Securities, which are reflected on the balance sheet at September 30, 2005 as Junior Subordinate Deferrable Interest Debentures. The proceeds were used to repay our unsecured revolving credit facility. The $100.0 million of junior subordinate deferred interest debentures have a 30-year term ending July 2035. They bear interest at a fixed rate of 5.61% for the first 10 years ending July 2015. Thereafter, the rate will float at three month LIBOR plus 1.25%. The securities are redeemable at par beginning in July 2010.

Restrictive Covenants
The terms of our 2005 unsecured revolving credit facility and term loans include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, the minimum amount of fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal income tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of September 30, 2005 and December 31, 2004, we were in compliance with all such covenants.

Market Rate Risk
We are exposed to changes in interest rates primarily from our floating rate borrowing arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point increase in interest rates along the entire interest rate curve for 2005 would increase our annual interest cost by approximately $3.5 million and would increase our share of joint venture annual interest cost by approximately $4.0 million, respectively.

We 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 is immediately recognized in earnings.

Approximately $1.3 billion of our long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. The interest rate on our variable rate debt and joint venture debt as of September 30, 2005 ranged from LIBOR plus 75 basis points to LIBOR plus 275 basis points.

Contractual Obligations
Combined aggregate principal maturities of mortgages and notes payable, revolving credit facilities, term loan, our share of property-level joint venture debt, excluding extension options, estimated interest expense, and our obligations under our capital lease and ground leases, as of September 30, 2005 are as follows (in thousands):

	Property Mortgages	Revolving Credit Facilities	Term Loans and Trust Preferred Securities	Capital Lease	Ground Leases	Estimated Interest Expense	Total	Joint Venture Debt
2005	$ 954	$ —	$ —	$ 353	$ 4,645	$ 22,481	$ 28,433	$ 672
2006	4,125	—	—	1,416	17,794	89,728	113,063	300,143
2007	192,491	—	—	1,416	16,594	82,735	293,236	67,885
2008	95,334	135,000	1,766	1,416	16,594	70,004	320,114	6,421
2009	20,712	—	327,648	1,416	16,594	55,634	422,004	6,908
Thereafter	553,024	—	295,586	53,321	329,972	143,920	1,375,823	529,931
	$ 866,640	$ 135,000	$ 625,000	$ 59,338	$ 402,193	$ 464,502	$ 2,552,673	$ 911,960

Off-Balance Sheet Arrangements
We have a number of off-balance sheet investments, including joint ventures and structured finance investments. These investments all have varying ownership structures. Substantially all of our joint venture arrangements are accounted for under the equity method of accounting as we have the ability to exercise significant influence, but not control over the operating and financial decisions of these joint venture arrangements. Our off-balance sheet arrangements are discussed in Note 5, "Structured Finance Investments" and Note 6, "Investments in Unconsolidated Joint Ventures" in the accompanying financial statements. Additional information about the debt of our unconsolidated joint ventures is included in "Contractual Obligations" above.

Capital Expenditures
We estimate that for the three months ending December 31, 2005, we will incur approximately $26.1 million of capital expenditures (including tenant improvements and leasing commissions) on existing wholly-owned properties and our share of capital expenditures at our joint venture properties will be approximately $13.7 million. Of those total capital expenditures, approximately $1.0 million for wholly-owned properties and $5.7 million for our share of capital expenditures at our joint venture properties are dedicated to redevelopment costs, including compliance with New York City local law 11. We expect to fund these capital expenditures with operating cash flow, borrowings under our credit facilities, additional property level mortgage financings, and cash on hand. Future property acquisitions may require substantial capital investments for refurbishment and leasing costs. We expect that these financing requirements will be met in a similar fashion. We believe that we will have sufficient resources to satisfy our capital needs during the next 12-month period.

Thereafter, we expect that our capital needs will be met through a combination of net cash provided by operations, borrowings, potential asset sales or additional equity or debt issuances.

Dividends

We expect to pay dividends to our stockholders based on the distributions we receive from our Operating Partnership primarily from property revenues net of operating expenses or, if necessary, from working capital or borrowings.

To maintain our qualification as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined before taking into consideration the dividends paid deduction and net capital gains. We intend to continue to pay regular quarterly dividends to our stockholders. Based on our current annual dividend rate of $2.16 per share, we would pay approximately $91.0 million in dividends. Before we pay any dividend, whether for Federal income tax purposes or otherwise, which would only be paid out of available cash to the extent permitted under our unsecured and secured credit facilities, and our term loans, we must first meet both our operating requirements and scheduled debt service on our mortgages and loans payable.

Related Party Transactions

<u>Cleaning Services</u>

First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services with respect to certain of the properties owned by us. First Quality is owned by Gary Green, a son of Stephen L. Green, our chairman of the Board. First Quality also provides additional services directly to tenants on a separately negotiated basis. The aggregate amount of fees paid by us to First Quality for services provided (excluding services provided directly to tenants) was approximately $1.4 million $3.6 million, $1.4 million and $3.0 million for the three and nine months ended September 30, 2005 and 2004, respectively. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. First Quality leases 12,290 square feet of space at 70 West 36th Street pursuant to a lease that expires on December 31, 2012 and provides for annual rental payments of approximately $323,000.

<u>Security Services</u>

Classic Security LLC, or Classic Security, provides security services with respect to certain properties owned by us. Classic Security is owned by Gary Green, a son of Stephen L. Green. The aggregate amount of fees paid by us for such services was approximately $1.2 million, $3.1 million, $1.1 million and $2.8 million for the three and nine months ended September 30, 2005 and 2004, respectively.

<u>Messenger Services</u>

Bright Star Couriers LLC, or Bright Star, provides messenger services with respect to certain properties owned by us. Bright Star is owned by Gary Green, a son of Stephen L. Green. The aggregate amount of fees paid by us for such services was approximately $132,000, $340,000, $47,000 and $148,000 for the three and nine months ended September 30, 2005 and 2004, respectively.

<u>Leases</u>

Nancy Peck and Company leases 2,013 square feet of space at 420 Lexington Avenue pursuant to a lease that expired on June 30, 2005 and provided for annual rental payments of approximately $65,000. This space is now leased on a month-to-month basis. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due under the lease is offset against a consulting fee, of $10,000 per month, we pay to her under a consulting agreement which is cancelable upon 30-days notice.

<u>Management Fees</u>

S.L. Green Management Corp. receives property management fees from certain entities in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entities was approximately $55,000, $164,000, $69,000 and $195,000 for the three and nine months ended September 30, 2005 and 2004, respectively.

<u>Management Indebtedness</u>

In January 2001, Mr. Marc Holliday, then our president, received a non-recourse loan from us in the principal amount of $1,000,000 pursuant to his amended and restated employment and non-competition agreement he executed at that time. This loan bears interest at the applicable federal rate per annum and is secured by a pledge of certain of Mr. Holliday's shares of our common stock. The principal of and interest on this loan is forgivable upon our attainment of specified financial performance goals prior to December 31, 2006, provided that Mr. Holliday remains employed by us until January 2007. In April 2000, Mr. Holliday received a loan from us in the principal amount of $300,000, with a maturity date of July 2003. This loan bears interest at a rate of 6.60% per annum and is secured by a pledge of certain of Mr. Holliday's shares of our common stock. In May 2002, Mr. Holliday entered into a loan modification agreement with us in order to modify the repayment terms of the $300,000 loan. Pursuant to the agreement, $100,000 (plus accrued interest thereon) is forgivable on each of January 1, 2004, January 1, 2005 and January 1, 2006, provided that Mr. Holliday remains employed by us through each of such date. The principal balance outstanding on this loan was $100,000 on September 30, 2005. In addition, the balance outstanding under

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the $300,000 loan shall be forgiven if and when the $1,000,000 loan that Mr. Holliday received pursuant to his amended and restated employment and non-competition agreement is forgiven.

<u>Brokerage Services</u>

Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2005, we paid approximately $457,000 to Sonnenblick in connection with securing a $120.0 million first mortgage for the property located at 711 Third Avenue. In 2004, our 1515 Broadway joint venture paid approximately $855,000 to Sonnenblick in connection with securing a $425.0 million first mortgage for the property.

<u>Gramercy Capital Corp.</u>

Our related party transactions with Gramercy are discussed in Note 13, "Related Party Transactions" in the accompanying financial statements.

Other

Insurance

We carry comprehensive all risk (fire, flood, extended coverage and rental loss insurance) and liability insurance with respect to our property portfolio. This policy has a limit of $350 million of terrorism coverage for the properties in our portfolio and expires in October 2005. 1515 Broadway has stand-alone insurance coverage, which provides for full all risk coverage, but has a limit of $425.0 million in terrorism coverage. This policy will expire in October 2005. We are currently in the market to renew these policies. We also have a separate policy for 1221 Avenue of the Americas in which we participate with the Rockefeller Group Inc. in a blanket policy providing $1.4 billion of all risk property insurance along with $1.0 billion of insurance for terrorism. While we believe our insurance coverage is appropriate, in the event of a major catastrophe resulting from an act of terrorism, we may not have sufficient coverage to replace a significant property. We do not know if sufficient insurance coverage will be available when the current policies expire, nor do we know the costs for obtaining renewal policies containing terms similar to our current policies. The Terrorism Risk Insurance Act, or TRIA, which was enacted in November 2002, is set to expire on January 1, 2006. It is not clear whether Congress will extend or modify TRIA, although on June 30, 2005 the Treasury Department recommended not to extend TRIA. Accordingly, there could be disruption/repricing to the insurance coverage that is available to us. In addition, our policies may not cover properties that we may acquire in the future, and additional insurance may need to be obtained prior to October 2005.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), mezzanine loans, ground leases and our secured and unsecured revolving credit facilities and unsecured term loans, contain customary covenants requiring us to maintain insurance. There can be no assurance that the lenders or ground lessors under these instruments will not take the position that a total or partial exclusion from all risk insurance coverage for losses due to terrorist acts is a breach of these debt and ground lease instruments that allows the lenders or ground lessors to declare an event of default and accelerate repayment of debt or recapture of ground lease positions. In addition, if lenders insist on full coverage for these risks, it would adversely affect our ability to finance and/or refinance our properties and to expand our portfolio or result in substantially higher insurance premiums.

Funds from Operations

Funds from Operations, or FFO, is a widely recognized measure of REIT performance. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do. The revised White Paper on FFO approved by the Board of Governors of NAREIT in April 2002 defines FFO as net income (loss) (computed in accordance with Generally Accepted Accounting Principles, or GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, particularly those that own and operate commercial office properties.

We also use FFO as one of several criteria to determine performance-based bonuses for members of our senior management. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs, providing perspective not immediately apparent from net income. 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 our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

FFO for the three and nine months ended September 30, 2005 and 2004 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income available to common stockholders	$ 37,330	$ 20,307	$ 116,708	$ 81,647
Add:				
Depreciation and amortization	17,204	13,025	47,855	36,561
Minority interest	2,265	1,032	5,225	4,434
FFO from discontinued operations	—	3,794	613	9,909
FFO adjustment for unconsolidated joint ventures	8,549	5,922	22,282	17,702
Less:				
Income from discontinued operations	—	(2,428)	(474)	(5,532)
Gain on sale of discontinued operations	—	—	(33,856)	—
Equity in net gain on sale of joint venture	(11,550)	—	(11,550)	(22,012)
Amortization of deferred financing costs and depreciation on non-rental real estate assets	(2,094)	(990)	(4,165)	(2,910)
Funds from Operations - available to all stockholders	$ 51,704	$ 40,662	$ 142,638	$ 119,799
Cash flows provided by operating activities	$ 32,968	$ 12,064	$ 84,026	$ 82,442
Cash flows used in investing activities	$ (123,324)	$ (348,103)	$ (509,675)	$ (292,015)
Cash flows provided by financing activities	$ 102,571	$ 294,293	$ 404,047	$ 194,326

Inflation

Substantially all of the office leases provide for separate real estate tax and operating expense escalations as well as operating expense recoveries based on increases in the Consumer Price Index or other measures such as porters' wage. In addition, many of the leases provide for fixed base rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

Forward-Looking Information

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, or the Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements relate to, without limitation, our future capital expenditures, dividends and acquisitions (including the amount and nature thereof) and other development trends of the real estate industry and the Manhattan office market, business strategies, and the expansion and growth of our operations. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Act and Section 21E of the Exchange Act. Such statements are subject to a number of assumptions, risks and uncertainties which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements are generally identifiable by the use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," "project," "continue," or the negative of these words, or other similar words or terms. Readers are cautioned not to place undue reliance on these forward-looking statements. Among the factors about which we have made assumptions are:

- general economic or business (particularly real estate) conditions, either nationally or in New York City, being less favorable than expected;
- reduced demand for office space;
- risks of real estate acquisitions;
- risks of structured finance investments;
- availability and creditworthiness of prospective tenants;
- adverse changes in the real estate markets, including increasing vacancy, decreasing rental revenue and increasing insurance costs;
- availability of capital (debt and equity);
- unanticipated increases in financing and other costs, including a rise in interest rates;
- market interest rates could adversely affect the market price of our common stock, as well as our performance and cash flows;
- our ability to satisfy complex rules in order for us to qualify as a REIT, for federal income tax purposes, our Operating Partnership's ability to satisfy the rules in order for it to qualify as a partnership for federal income tax purposes, the ability of certain of our subsidiaries to qualify as REITs and certain of our subsidiaries to qualify as taxable REIT subsidiaries for federal income tax purposes and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- accounting principles and policies and guidelines applicable to REITs;
- competition with other companies;
- the continuing threat of terrorist attacks on the national, regional and local economies including, in particular, the New York City area and our tenants;
- legislative or regulatory changes adversely affecting real estate investment trusts and the real estate business; and
- environmental, regulatory and/or safety requirements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of future events, new information or otherwise.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Rate Risk" for additional information regarding our exposure to interest rate fluctuations.

The table below presents principal cash flows based upon maturity dates of our debt obligations and mortgage receivables and the related weighted-average interest rates by expected maturity dates as of September 30, 2005 (in thousands):

	Long-Term Debt				Mortgage Receivables	
Date	Fixed Rate	Average Interest Rate	Variable Rate	Average Interest Rate	Amount	Weighted Yield
2005	$ 954	5.57%	$ —	—%	$ —	—%
2006	4,125	5.56%	—	—%	81,000	9.47%
2007	82,727	5.55%	109,764	2.70%	10,000	14.29%
2008	11,319	5.63%	220,781	3.80%	28,500	8.63%
2009	348,360	5.59%	—	—%	32,000	10.34%
Thereafter	808,610	5.48%	40,000	4.81%	248,549	10.56%
Total	**$ 1,256,095**	**5.52%**	**$ 370,545**	**3.48%**	$ 400,049	**10.28%**
Fair Value	$ 1,263,000		$ 370,545		$ 400,049	

The table below presents the gross principal cash flows based upon maturity dates of our share of our joint venture debt obligations and the related weighted-average interest rates by expected maturity dates as of September 30, 2005 (in thousands):

Date	Fixed Rate	Average Interest Rate	Variable Rate	Average Interest Rate
2005	$ 672	6.12%	$ —	—%
2006 (1)	3,143	6.12%	297,000	4.75%

2007	6,107	6.12%	61,778	5.04%
2008	6,421	6.11%	—	—%
2009	6,908	6.11%	—	—%
Thereafter	453,431	5.92%	76,500	4.32%
Total	**$ 476,682**	**6.00%**	**$ 435,278**	**4.72%**
Fair Value	$ 479,000		$ 435,278	

(1) Included in this item is $297,000 based on the contractual maturity dates of the debt on 1515 Broadway and 1250 Broadway. These loans have three one-year as-of-right extension options.

The table below lists all of our derivative instruments, which are hedging variable rate debt, including joint ventures, and their related fair value as of September 30, 2005 (in thousands):

	Asset Hedged	Benchmark Rate	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
Interest Rate Swap	Term loan	LIBOR	$ 65,000	3.300%	8/2005	9/2006	$ 623
Interest Rate Swap	Term loan	LIBOR	—	4.330%	9/2006	6/2008	208
Interest Rate Swap	Term loan	LIBOR	100,000	4.060%	12/2003	12/2007	813
Interest Rate Swap	Term loan	LIBOR	35,000	4.113%	12/2004	6/2008	311
Interest Rate Swap	Term loan	LIBOR	100,000	2.330%	4/2004	5/2006	1,101
Interest Rate Swap	Term loan	LIBOR	—	4.650%	5/2006	12/2008	(280)
Interest Rate Swap	Term loan	LIBOR	125,000	2.710%	9/2004	9/2006	1,859
Interest Rate Swap	Term loan	LIBOR	—	4.352%	9/2006	8/2009	651
Interest Rate Swap	Term loan	LIBOR	60,000	3.770%	5/2005	1/2007	473
Interest Rate Swap	Term loan	LIBOR	—	4.364%	1/2007	5/2010	343
Interest Rate Cap	Mortgage	LIBOR	12,580	6.000%	8/2005	9/2007	2
Total Consolidated Hedges			$ 497,580				$ 6,104

In addition to these derivative instruments, our joint venture loan agreements require the joint ventures to purchase interest rate caps on their debt. All these interest rate caps were out of the money and had no value at September 30, 2005.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of “disclosure controls and procedures” in Rule 13a-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended September 30, 2005, that has materially affected, or is reasonably likely to material affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits:

10.1 Credit Agreement dated as of September 29, 2005 by and among SL Green Operating Partnership, L.P., as Borrower SL Green Realty Corp., as Parent, WACHOVIA CAPITAL MARKETS, LLC and KEYBANK CAPITAL MARKETS, as Co-Lead Arrangers and Book Managers, WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent, KEYBANK NATIONAL ASSOCIATION, as Syndication Agent, each of WELLS FARGO BANK, NATIONAL ASSOCIATION, EUROHYPO AG, NEW YORK BRANCH and COMMERZBANK, AG, NEW YORK BRANCH as Co-Documentation Agents, and the financial institutions initially signatory hereto and their assignees pursuant to SECTION 12.5., as Lenders, incorporated by reference to the Company’s Form 8-K, dated September 29, 2005, filed with the SEC on October 3, 2005.

31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SL GREEN REALTY CORP.

By: /s/ Gregory F. Hughes
Gregory F. Hughes
Chief Financial Officer

Date: November 9, 2005

Exhibit 31.1

CERTIFICATION

I, Marc Holliday, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SL Green Realty Corp. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2005

/s/ Marc Holliday

Name: Marc Holliday
Title: Chief Executive Officer

CERTIFICATION

I, Gregory F. Hughes, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SL Green Realty Corp. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2005

/s/ Gregory F. Hughes

Name: Gregory F. Hughes
Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SL Green Realty Corp. (the “Company”) on Form 10-Q as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Marc Holliday, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc Holliday

Name: Marc Holliday
Title: Chief Executive Officer

November 9, 2005

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SL Green Realty Corp. (the “Company”) on Form 10-Q as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregory F. Hughes, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gregory F. Hughes

Name: Gregory F. Hughes
Title: Chief Financial Officer

November 9, 2005