22-Oct-2020

SL Green Realty Corp. (SLG)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us, and welcome to the SL Green Realty Corp.'s Third Quarter 2020 Earnings Results Conference Call. This conference call is being recorded.

At this time, the company would like to remind listeners that during the call, management may make forward-looking statements. Actual results may differ from any forward-looking statements that management may make today. Additional information regarding the risk, uncertainties and other factors that could cause such differences appear in the MD&A section of the company's latest Form 10-K and other subsequent reports filed by the company with the Securities and Exchange Commission.

Also, during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's third quarter 2020 earnings and in our supplemental information filed with our current report on Form 8-K relating to our third quarter 2020 earnings.

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

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

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Thank you. Good afternoon, everyone, and thank you for being with us today. I'm joined here by Andrew Mathias, Matt DiLiberto, Ed Piccinich, Steve Durels, David Schonbraun, Andy Levine and Maggie Hui, as well as several others, and we're all together here socially distant and looking forward to a good earnings call today. So yesterday, we released our earnings for the third quarter of 2020. And for the most part, the results and achievements met or exceeded our expectations and are aligned with our corporate goals which were, of course, altered back in March and April at the outset of the pandemic which you might recall from our Q1 call.

Our earnings for the quarter were in line as we track towards the higher end of our revised guidance range. So, we're pleased with that. And our office and overall collections remain relatively strong, surprisingly strong and 97% and 92%, respectively, something that we're quite proud of as it relate to the rigorous nature of our underwriting and our diligence and the – just the superior quality of our tenant base this far into the pandemic.

Our occupancy dipped, but finished the quarter above 94%. We are aggressively managing our operating expenses in order to maximize our bottom line throughout – generating of savings in excess of $30 million of operating expenses year-to-date realized without sacrificing service to our tenants. We leased approximately 187,000 square feet of Manhattan office spaces, slightly less than we had hoped for, but the pipeline looks very good at 825,000 square feet of leases and term sheets pending or in negotiation. So, that pipeline number has actually increased.

While we do not expect to certainly close all of that activity by year end, we are on track to lease 1.2 million square feet for the full year, a lofty goal we reset for ourselves in April at a time of great uncertainty when there was not really good visibility as to what we could achieve, and as we sit here now, we feel that it's attainable and working hard to make those numbers for the year. Through additional focused reductions and savings, we also managed to reduce total G&A by $10 million to approximately $90 million projected for the full year.

And we along with others are benefiting from significant interest savings due to the Fed's easy monetary policy. While generally pleased with these results, it doesn't nearly tell the entire story of what we've achieved as a company in the past seven months, how we achieved it or what our current metrics are for measuring success in a pandemic economy. The city's economy is essentially on pause right now, as much focus is on the containment of COVID-19 and the traditional financial measures that we and our industry look to, we don't think they really apply during these highly irregular times.

The focus has changed and at this moment in time, our focus has shifted and we are driven more than ever to help promote this great city, work with our hardest hit tenants to sustain their businesses, create a safe and secure environment within our portfolio for building occupants and their employees, invest in the future of New York City and lead by example. And I'm happy to say that we feel there is no real estate company in our market that exceeds our efforts in these areas. We are batting a thousand in these areas.

It all stems from SL Green's extraordinary employees who are 100% work from office, not from home. We accomplished this safely, smartly and with enthusiasm for doing something positive for our families, our company and our economy. We wish and encourage other companies to do the same for the sake of their employees, many of whom feel disconnected and frustrated by the isolation of working from home, for the sake of local businesses who want to work and want to call their employees back to business and who rely on the 1.5 million office using workforce in New York City for their sales, these businesses need everyone back in the city and back in their office spaces to make a go of it, and for the sake of the city which has provided so much to so many. So, lots of reasons beyond that – that go far beyond the productivity of work from office, but that really relate to the whole ecosystem of an economy which is why we have such a stout belief in work from office and school from classrooms and all the rest.

So, on June 15, SL Green employees returned to work at 420 Lexington Avenue and in our satellite office – building offices and we are working overtime with a sense of purpose and urgency that has expressed itself in many ways over these past months. First and foremost, we quickly established new operating procedures and protocols for our buildings combined with infrastructure upgrades which make the buildings safe and secure for the employees that have returned to work and the employees that work in the buildings, the building employees themselves. And the feedback so far has been nothing short of excellent.

Next, we work to secure our several construction sites so that construction could continue uninterrupted on schedule and on budget. We then went to work with our most impacted retail tenants and in many cases, worked out arrangements to provide deferrals and concessions to help them through this difficult period.

Turning now to our office tenants, we recognized this interim period as a moment of uncertainty. So, we injected flexibility into the conversation with short-term lease extensions and increased free rent, both of which was met with real appreciation for those tenants that wanted to take advantage of those parameters, particularly those who had near-term leasing expirations. So, a lot of our activity recently, as Steve can sort of expand upon, has been in the renewal area much more so than in prior years.

Next, SL Green and Chef Daniel Boulud established Food1st, a non-profit foundation created to provide free nutritious meal to frontline medical personnel, first responders, and the many food insecure New Yorkers. On the same token, the organization has helped the hard-hit restaurant industry reopen some of their kitchens and re-employ staff who had been laid off due to closures. To-date, we are proud to have prepared and delivered 400,000 free meals to over 100 locations throughout the city, the logistics of which are managed entirely by SL Green.

On the business front, SL Green continues to invest in New York in many ways that we believe create long-term value for the company. And there was no greater example of this than the completion of One Vanderbilt on September 14, three months ahead of schedule, and $100 million below budget. 50 invited guests, industry leaders, civic advocates, and elected officials attended the ribbon cutting that we held in the newly completed Vanderbilt Plaza as we celebrated this great and permanent achievement for New York, including $220 million of public realm and transportation improvements.

Just two weeks later, we were at 185 Broadway for the on-time topping out of the project which is the first new residential construction in Downtown being built under the Affordable New York Housing Program (sic) [Affordable Housing New York Program] (00:10:20).

And just blocks away from 185 Broadway, SL Green commenced demolition of 126 Nassau Street for a $220 million fully committed development project for Pace University, inclusive of dorms, classrooms and other school and educational facilities, some major – major project for Pace and for their expansion, and this project is completely capitalized with joint venture equity and construction financing that we closed during this quarter. Finally, there were a number of other sale and DPE disposition transactions concluded during the quarter, the proceeds of which fortified our $1 billion liquidity plan that we set forth back in April, reduced corporate indebtedness and enabled us to continue our share repurchase program.

So, you see that we've been quite busy these past three months over the summer and accomplished quite a lot with much more to come in Q4. Yes, it's true that the economic activity in New York City slowed considerably in the third quarter, leasing activity was sharply reduced, vacancies rose and investment sales declined. However, this is entirely to be expected from a city on pause and a city whose number one priority right now is containment of COVID to such a degree that the city is one of the safest cities by most COVID measures in any city in the country.

Further digging into the data, there are encouraging signs. Wall Street profits for the first half of the year were spectacular, nearly $28 billion, which is much higher than an average full year of earnings for these banks. After a seismic 820,000 private sector jobs were shed in April, nearly one-third of them have since been restored, a rate of recovery that is actually faster than we saw after the tech crash in early 2000 and the Great Financial Recession in 2007-2008, albeit recovering from a lower starting point.

The office-using job recovery is somewhat slower, but there has been sequential office-using job growth in July and August and September, and we hope to see that trend continue in October and throughout the year. Notwithstanding that the city projected a loss of $9 billion of tax revenues, its $90 billion budget is balanced for fiscal year ending 2021 and the city is now working on balancing the budget for fiscal year 2022, helped by reduced interest costs, higher-than-expected profits from the financial sector that I mentioned earlier, retail spending that is actually holding up fairly well and further aided by the prior stimulus benefit that many of New York residents and businesses received, and hopes for future stimulus in the near term.

So, while we read the analysts' reports last night that we're fairly neutral on our results and somewhat pessimistic on Ney York City fundamentals, we have an entirely different view on how we measure the quarter. We think it was an extraordinary quarter. We think we accomplished much for the company, for our employees, for our tenants and the local businesses and the city's economy of which we are inextricable part. And we take great pride in what we've done and what is yet to come. So, this city, we all know has been written off many times before and it's always rebounded stronger than ever. New York City is our home, we are fully committed here and we believe strongly in its future. The city's future in many ways is SL Green's future and we have conviction that its underlying fundamentals, spirit, diversity and everything great about this city will continue to set New York apart as the greatest city in the world.

So, before we open it up for questions which we will do momentarily, I wanted to talk about one further piece of good news which is our Investor Conference slated for December 7 of this year. After much deliberation and input from the investor community, we have decided true to form that our 2020 Investor Conference will be live and in person at the now iconic One Vanderbilt Avenue auditorium on our new amenity floor which will be sort of unveiled in December and open in January to tenants, and we will have all COVID precautions in place. So, at this event, we will obviously look forward to presenting our business plan for 2021 and our outlook for the future of New York City.

With that, operator, I'd like to turn it over for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of John Kim of BMO Capital Markets. Your line is open.

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

Thank you. Good afternoon. Marc, I was wondering if you can give us a breakdown of your 825,000 square feet of leasing in the pipeline, as far as how much is renewal versus new or expansion space and how much of that is in your new development.

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

This is Steve Durels. Well, I'll respond to that. So, in the pipeline, we've got 825,000 square feet, 51% of that are new transactions and 49% are renewal transactions, heavily weighted by legal, financial and publishing industries and heavily centered around the Grand Central area where we see the most leasing activity right now, in particular, a lot of activity at One Vanderbilt and then our buildings at 485 Lexington, 750 Third, Graybar, and 800 Third Avenue.

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

As a follow-up, I'd like to ask about dispositions and how much you're looking to sell and in particular the media reports on 410 Tenth Avenue, just given it's your foothold in the Hudson Yards area [ph] leased to great (00:17:23) tenants, why sell that asset at this time?

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

A

Well, Andrew will talk about why and everything else going on, but look, yeah, we have a – we've been selling fairly robustly our mature and non-core assets since 2015. 2020 is no different. We've been able to accomplish much year-to-date. We have several assets in the market now we can shout about. But this is all part of a long-term plan. Volumes may be altered slightly by COVID, but really nothing new here, everything we talked about in December about recycling of capital, monetizing of gains and paying down of debt and repurchasing of shares which we're well along for this year, maybe not quite $500 million, but closing in on it. So, some of the specifics, Andrew, [indiscernible] (00:18:17).

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

A

Well. I mean, particularly with 410 Tenth Avenue, it's an asset that has drawn a lot of interest given where interest rates sit today, and the extraordinary job Steve and his team did leasing that asset up. So, it – we don't have to sell it, we're evaluating bids, we actually closed the financing on the deal over the summer, $600 million financing, which funds all the capital improvements which was part of our business plan for the year. But we did get approached with some interesting offers and decided to test the market. So 410 Tenth Avenue is out there in the market along with several other assets, haven't made a decision yet about whether to pull the trigger on a sale or not.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

[indiscernible] (00:19:06) how much in total you're looking to sell?

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

A

No. I mean, I think the guidance for the year is unchanged. And if we – we're opportunistic sellers. So, if we like prices for assets we have in the market, we'll transact, but otherwise there's no pressure to sell.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Jamie Feldman of Bank of America. Your line is open.

James C. Feldman
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you. And I appreciate all the color around SL Green's efforts to keep the city moving here. Can you just talk about – you had talked about your efforts to market the city and promote the city and bring people back. Can you talk about the feedback from tenants, both large tenants and small tenants, just in terms of – are they changing their attitude at all on how soon they want to bring people back and then as you think about the leasing among both small and large tenants, what are they saying lately about their space needs and maybe shrinking or expanding?

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Well, let's – let's handle the first part of the question is – which is what are these business leaders – what are they saying in terms of wanting to get their people back to work. I would say, out of the 900 tenants plus in the portfolio and the hundreds we've spoken with directly at the senior levels, almost to a person they all express a desire to have their employee base back in the city. They recognize the benefits, they recognize the need to do it and I think they recognize an urgency to it. Surprisingly – what I read into it mostly is a concern over liability which surprises us because there's actually very little in the way of employer or landlord liability if you do things right and right means following all the DOL, DOH, OSHA guidelines for what you need to do in your space which we and many other – most other landlords in New York City are doing.

So, the buildings themselves are among the safest places. We know many – yeah, many people in our company are using mass transit. Andrew and I and others use mass transit. The mass transit is clean, efficient, much more so than it was previously because they're taking extra steps for sanitization overnight and throughout the day, everyone is wearing masks. So, most people are adhering to masks and by and large. So, there's – it's hard to put a finger on it. It's always sort of right around the corner. We're hearing – in August, it'll be right after Labor Day and Labor Day, it's October. So, it feels imminent and yet the numbers don't bear that out. We're still, as a portfolio, right around the city average of probably 15% to 20% back to work, back to office work, and that's out of 1.5 million office workers. So that means 80%, 85% of the people that work in office buildings are still at home. And that's frustrating and I think they will be back.

The reality whether they're back next month, December, Jan, Feb, March, that doesn't in our estimation affect any of the long-term fundamentals of the things we look at. I mean, the sooner the better. And I would expect by December to see those numbers be somewhere between 20% and 30%, up from 15% to 20% today. And then hopefully it just grows from there, but the important things are that we're heading in the right direction and a lot of the stats I gave you earlier indicate we are heading in the right direction both from a COVID containment and job recovery and more and more people coming in and MTA ridership, and I can go on and on which I won't now, maybe I will in December. But the point is – the narrative is people want to be back.

Now, how that's going to dovetail with some allowance – there's going to be allowance for larger spaces. Everybody, as they're returning, is kind of de-densifying and how long that de-densification trend will last, don't know, but for now that is. And how that will be mitigated by some work from home policy? Steve, what do you think?

Steven M. Durels

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

A

Well, I don't think anybody out there has a clear picture as to exactly where the trend is going to head. When lockdown started, there was a lot of conversation and speculation about how work from home was going to sort of overtake all of our lives. And as time has gone by, that conversation [ph] has gone (00:24:22) a 180 degree shift where almost every day there's a constant barrage of discussions with tenants who continually express frustration about being home, the isolation of being home, the inefficiency of working from home. So, whether or not it's a – they're staying at home because of all the press with COVID and the short-term fears. I think when they look past that, you're hard pressed to find a business manager out there that really has locked down a point of view as to how they're going to operate their space now and manage their employees going forward other than the fact that they all recognize they want them back in the office.

So, in the short term it will mean changes to the furniture environment, some of the design elements of spaces, but I think looking past that, and if you talk a little bit more about the pipeline of deals that we're working on with tenants, they're looking past the immediate disruption of COVID and saying, okay, we recognize there's now light at the end of tunnel, whether that's 6 or 12 months out. But they're starting to begin to plan for their offices and how they're going to run their space. But I don't think they have a firm point of view as to how much of that is work from home or how much of that is hoteling, it just – it's all over the board right now.

James C. Feldman
Analyst, Bank of America Merrill Lynch

Q

Okay. And then just to follow up, small versus large tenants, are you seeing a change there – or a difference there just in terms of giving back more space or giving up leases, or sort of how they're thinking about their space plans?

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

A

No, what you're seeing is just – it's in the second and third quarters of the year, there was a lot of renewal activity, a lot of short-term renewal activity, any from – thing from a year to five years, and I don't think that was exclusive to large or small tenants. I guess, you could argue that some of the very small tenants – and I'm talking very small, couple of thousand square feet, it was easy for those types of tenants to just simply say, oh, work from home. But our average size tenant in the portfolio is 25,000 square feet and things have started to [ph] decidedly (00:26:49) shift. In the second quarter, 77% of the transactions in our portfolio were renewals. In the third quarter, it was 56%. As we sit here today, 51% of my pipeline are new transactions. So, clearly, we're – the tides are shifting where tenants are beginning to look past it and they're now saying let's talk about relocations and let's talk about longer-term planning as opposed to where the thinking was earlier in the year.

James C. Feldman
Analyst, Bank of America Merrill Lynch

Q

Okay, great. Thank you.

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

A

Thanks.

Operator: Thank you. Our next question comes from the line of Michael Lewis of Truist Securities. Your line is open.

Michael Lewis
Analyst, Truist Financial Corporation.

Q

Okay. Thank you. I wanted to ask for a little more color on 885 Third which was a preferred equity investment [indiscernible] (00:27:45) you don't ascribe any value to. It looks like there is also a large expiration right around the corner, maybe just your thoughts on keeping that building leased and the strategy there.

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

A

Well, I'll start off [indiscernible] (00:28:03) sort of follow in. 885 Third is a great building. 53rd and Third, otherwise known as Lipstick Building, it's very iconic beautiful building that right now is going – nothing to do with COVID. It was going through a transition because one of their larger tenants was rolling out I think essentially now or over the course of next few months.

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

Yeah. Next year.

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

Next year is probably when they start paying rent. So, that building from our standpoint fits the category of one that we will – we have and will develop and will execute a full building repositioning, updating and cleaning and COVID compliant of that building to position it as kind of the best or among the best buildings on Third Avenue. Our basis is quite low. Our [ph] last dollar press (00:29:01) there is quite low. David, I want to say around six...

David Schonbraun A
Chief Investment Officer, SL Green Realty Corp.

Six-something a foot.

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

Six-something a foot as we enter – as we transition control to ourselves. We actually now have operating and managerial control of the property. We'll be executing a redevelopment plan which is – I mean, it's really modest. I call redevelopment plan, but the building is a recent vintage and it's in excellent shape. So, we'll go into it in more detail in December, but the goal is to invest an adequate amount of money to bring it up to the standards of, as I said, best on Third and then have a leasing program that we will execute over the next two-plus years. In fact, there's a lease-out on two floors already. So, it's better laid plans. We have a two-year lease-out plan, but there is activity at the building right now, but that – we still are committed to going in this direction. And upon completion I think you've really got something that's kind of a world-class asset that would have both domestic and a lot of foreign interest because it's just that – it's that kind of icon building.

David, what do you want to add on the...

David Schonbraun A
Chief Investment Officer, SL Green Realty Corp.

I think we're taking over given capitalization issues of the sponsor less the asset. The asset just needs money to reposition to a small redevelopment or re-lease. And the sponsorship wasn't in the position to do that, so we're stepping in, but the asset is iconic. As Marc said, there's lots of people in the US and internationally of interest and in a couple of weeks we've already had strong leasing demand without even reintroducing the building to the market. So, we're excited about what's [ph] coming there (00:31:01) for the next year or so.

Michael Lewis Q
Analyst, Truist Financial Corporation.

Great, thanks. And so my second question, maybe give us a sense of how sublease space available in your portfolio has changed and even more broadly, what – with the increase in sublease space available in the city, what signal that's giving us? How much of a hurdle you think that is? What it all means?

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

A

Well, overall in the market, the availability rate on sublease is 2.9% of the total availability. And between the third and second quarters, sublease inventory, as far as availability rate, increased by 25%. We did not see a similar increase of availability listings with our portfolio. In fact, since COVID – and I'm not talking just since the last quarter, I'm talking about since the work from home mandate, so over the past six or seven months, we've seen less than 200,000 square feet of sublease listings added within our 28 million square foot portfolio.

And I guess on historical terms, we don't have any large blocks of space available for sublease in our portfolio. It's a lot of more kind of 5,000 to 30,000 square foot type spaces. So, I don't really view it as competitive pressure. And remember, even though there'll be a lot of subleasing, I think there's more sublease inventory to come on the broader market, it's always damaged goods. It's term constrained, the sub-lessors typically are not funding worth letters, they can't offer renewal and expansion options, the credit of the sub-landlords is always a question mark. So, there are going to be tenants out there to take advantage of that marketplace. But there's always something more from a direct lease spaces that we have to offer which is why we always seem to do well irrespective of the sublease inventory.

Michael Lewis
Analyst, Truist Financial Corporation.

Q

Great. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Rick Skidmore of Goldman Sachs. Your question, please?

Richard Skidmore
Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon. Marc and Matt, can you just talk about how you're thinking about leverage in terms of debt-to-EBITDA? Debt-to-EBITDA has gone north of 10 times. If you annualize the third quarter, it's probably north of 12 times. Can you just talk about how you think about leverage and use of capital as you go forward between leverage and share repurchase? Thanks.

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

A

Yeah, Rick, it's Matt. I'll hit the math first. I think if you're annualizing a quarter, you're going to come up with a bad number and, of course, everybody does debt-to-EBITDA differently and debt-to-EBITDA is, of course, the most unreliable and least relevant leverage metric you can use in real estate, particular when you do a lot of construction. So, we look at our leverage as still holding steady. We look at an LTV basis in the mid to high-40s in a market that generally sees 70%. So, 50-plus-percent equity cushion is where we feel comfortable and we've been managing that very closely as we balance capital in between debt repayment and share repurchases. With the construction that we have and use debt-to-EBITDA, you're basically saying One Vanderbilt, One Madison, 410 Tenth, 185 Broadway are all worth zero. And I don't think anybody in the call would actually say that. So, we look at leverage differently and we feel we're comfortably protected.

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

A

Rick, I would just urges – consider what Matt says. I've been hearing we're overleveraged for 21 years. And we – we're a company that's always got a large pipeline of active projects that we're going through heavy redevelopment or ground-up development. And by its nature, we incur a lot of financing on those projects. In the case of One Vanderbilt, something that's finished and yet are recognizing little to no income and it skews those numbers. So, if you take the leverage associated with properties not in service out, our operating portfolio is wildly underleveraged. And then on an overall LTV basis, even including all the leverage on assets that are among the most – the irony is the most valuable assets in the portfolio are the ones that have the leverage and aren't yet producing income. So, right now One Vanderbilt, soon to be One Madison, 410 Tenth which is fully leased, but we're not recognizing income yet. What else you got? 185 Broadway, which is going to be I think one of the best rental buildings in Downtown, but obviously not yet leased up because we don't have our TCO. So, you got to dig – we don't have to, but we would suggest people dig way beyond debt-to-EBITDA and really dig into property by property, loan to value, look at stabilized values, look at the quality of the earnings. But we, on an LTV basis, probably 45% or less, tons of interest coverage, a lot of capacity, very little outstanding on our line of credit, and we think we're in a – no near-term maturities which I actually think is more important than level of leverage is, is the balance of terming out your maturity. So, I guess it's a matter of perspective, but we would disagree with the notion that the company is highly leveraged.

Richard Skidmore
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question comes from Peter Abramowitz of Jefferies. Your line is open.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Yes. Thank you. I just wanted to ask about also if you have a couple of upcoming lease expirations with News Corp. at 1185, 6th Avenue and then Fairchild Publications as well. So, I just wanted to ask, with those coming up, kind of how are those discussions going. Well, are they definitely renewing and kind of how are they considering – are they considering changing their space needs based on the current environment?

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

A

No, the lease is at 750 Third Avenue, Fairchild, which is the largest tenant over there, they moved out of the building years ago. 100% of that space was subleased to a variety of different tenants probably and I'm going back in time. I'm going to guess three or four years ago. So, there was never a chance – they're part of Condé Nast, so their whole operation moved down to the Trade Center a long time ago. We are in active discussion with probably 25% to 30% of the subtenants that we think there's a good probability that we'll be able to convert them over to a direct tenant basis. And then a – was there a second tenant he asked about?

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

A

Yes...

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

A

And News Corp. at 1185, no, they've – they made the election probably 18 months ago that they were going to consolidate into News Corp.'s headquarters. But that's a building – the space that I'll get back from them, it's upper floors, a building that we recently completed a significant capital program, redoing the lobby, the entrance, the elevator cabs, corridors, bathrooms, so that building is very well positioned to be able to re-tenant that space.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. That's helpful. And then from a high level, any other factors either from move-outs or from incremental vacancy leasing to think about as we try to forecast your occupancy sort of over the next 6 to 12 months?

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

A

Well, I don't think there's anything that's not already within our budget today. I mean, we've not been hit with any big surprises. As we've said in the past, one of the silver linings of this whole experience is that we've probably been able to have a fighting shot to keep some of the subtenants and keep some of the tenants – the direct lease tenants that were otherwise anticipated to be vacating just through the natural course of their business management. So, I can think of at least six or seven tenants that were probably going to end up keeping – they're tenants of decent size, whether they're long term or medium term type tenancies, but clearly to preserve the cash flow in some of these buildings that we were otherwise budgeting interruptions.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. That's all for me. Thank you.

Operator: Thank you. Our next question comes from Alexander Goldfarb of Piper Sandler. Your question, please?

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Good afternoon down there. So, just the first question is on the DPE book: one, clearly congrats for being able to transact in the current market. So, I think it's a testament to the positions. But just to that point, you guys did take a little bit of a haircut on the DPEs that were sold in the quarter. And then, you had the write-off of your equity position in the ground position at Lipstick as well. So, I'm curious, there was no CECL impact. You guys were clear that you didn't have to take any marks there. How does it – just for us because we're all getting new CECL, how does it work as far as taking an impact on the remaining positions? Do individual sales during a quarter not require you to reevaluate the other positions, or just how does it work as we're all sort of getting used to a CECL world?

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

A

Yeah, Alex, so I just want to correct one thing you said and I think you said we took a mark somewhere on 885 Third, taking back the equity position which isn't the case. [indiscernible] (00:41:48) this quarter the mark we took. The mark we took this quarter are only on assets sold. We sold [indiscernible] (00:41:56) $122 million of proceeds, took $9 million of hit on those. Those had not been reserved. Previously we took pricing mark on those to generate the liquidity to put back into debt repayment and share repurchase on an accretive basis. We took 885 Third a long time ago when we started valuing that probably 12 months ago.

As to CECL, CECL is an ongoing analysis. We are required to look into the portfolio under CECL every quarter. We were very conservative. You're looking at a whole bunch of inputs, a whole bunch of potential outcomes and probabilities when you do that. You recall back in the first quarter, we took a significant amount of mark. So, we were very conservative, we've been looking out through COVID and the impacts and erring towards the side of conservatism. And when we evaluated the entirety of the retained portfolio again at the end of the third quarter, there was no additional reserve required. It's not impacted by the sales we do, because again we're electing to sell things at a dollar price that we feel is appropriate so we can take those proceeds in and go buy back stock or pay down debt. The retained portfolio is looked at on a hold basis based on potential outcomes and no additional reserve was necessary, and we'll look at it again at the end of the year.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay, Matt, that's helpful. And then, Marc, just going back, I think, to Jamie's question on the city and COVID, there was that letter [indiscernible] (00:43:20) I'm guessing that you're a part of it from a bunch of the city leaders to the mayor's office about addressing concerns with the city safety, trash removal, et cetera. And it seems like a lot of – just speaking to folks, it seems like a lot of the issues are – people aren't necessarily worried about the office per se, it's sort of getting to and from the office. So, in your dialogues [ph] or the (00:43:42) best that you can say, how do you think that City Hall is understanding it to placate the letter that a lot of business leaders put out addressing those concerns, which to your point is what seems to be the necessity to get people to feel comfortable coming back – commuting back in and out of the city?

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

A

Well, just a couple of points on that. One, there were two letters delivered: I think one from real estate [indiscernible] (00:44:12) another from the partnership. And all the – we work very closely with the city, with the state on all of these kinds of [indiscernible] (00:44:23) you mentioned. We were not signatory to the letter. But we have a very – we have a voice in that as others expressed. We may have different views as how to achieve it.

As it relates to mass transit in particular, the notion out there that I want to come to work, I don't feel safe, from my – this is a purely personal perspective I'm giving you now, it's not even necessarily a company position or anything else, personal. I don't believe in that. I believe that if it's okay for me and others and essential personnel and people who grind into the city day in, day out and I've been doing so since March 1, mass trans is a viable alternative. And I think there are people out there – I don't believe 85% of the people not coming to work are not coming to work because they have concerns over mass transit. I think that at its core, there's a lot of people who don't want to come back to work because if given the choice between I can stay home in my room, get paid full and save an hour or two of commute a day, there are some who will opt for that, and maybe many. And it's just not something I believe in.

So, I think that while the city has been [indiscernible] (00:46:11) do a lot more to make the mass transit safe and clean and hygienic, and I think the city and the state and the MTA – is really MTA working on that, I believe it's up to the individuals to exit their homes, get into the city however – by whatever means possible and get to work. People do it all day long. Our building employees, our construction workers, our employees at SL Green, our executive team, I could go on and on. And like I said, we take cars, we take mass transit. And it just depends on time of day, where you're going and what you're doing. And we're not medical professional, I'm not here to espouse the safety level of – I can only give you anecdotally. I've been doing it since March 1 along with many, many, many other people I know and we've made it through fortunately and safely, and we adhere to the protocols.

And some – COVID is very real, but I'll just give you another example. Aside from mass transit, another thing – or refrain we hear is, well, my kid's school is not in session, so we have to stay home with them and proctor them for online schooling, which is like a tragedy. So, we implemented among our many incentives here at SL Green the latest incentive which kicked off about two or three weeks ago is something we're all very proud of. We were fortunate enough to be able to take some unused space in this building that was built. And with very minor modifications, we turned it into parts of classrooms and then we went out and hired tutors from Ivy Tutors who are very good, qualified tutors that stay with small groups of kids who are the children of our employees, who have the choice of letting these kids sit at home and literally like forego an education for a lot of these kids because they're – when you poll these kids, they all say they're getting a horrible education at home and the participation rate is terrible. They come here – we'll have on any given day between 6 and 10 kids. We've got several tutors. The kids are entirely engaged. They're online. They get extra help. They do some things during the downtime and the feedback has been extraordinary from our employees.

So, business has to step up and give their employees some incentives, whether it's subsidized commutation which might include parking; meals for those that don't want to go out and get meals, you've got to box them up and deliver meals to the desks; subsidize childcare at home if – for primary caregivers, if they're your employees and they don't otherwise have already a means of childcare, I think you got to look at that and we do that. And this latest thing – I don't even know what you call it, but I call it I guess online school proctoring for students. And we've got 100% attendance. And I think morale is good and people are happy. So, yeah, you can look at – you can look at government and say government's got to do more, and you can always do more, but I think you got to look at the businesses and the individuals. We've all got to chip in, make some concessions, take some risks, get out there and get the economy going again.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Emmanuel Korchman of Citi. Your question, please?

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Sure. Hey, it's Michael Bilerman here with Manny. And Marc, I share your same enthusiasm about being back in the office. I'm here right now.

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

A

[indiscernible] (00:50:20)...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

I have to go out for lunch with my colleagues. So, it is very refreshing to be back into a live in-person environment. And we spent a lot of time obviously talking about New York because that's clearly where you're focused. But I guess it's – which often New York has its share of complexities, but you look across everywhere, whether it's Boston, DC, San Fran, London, Toronto, doesn't matter what country or what city, office densities are very low. [indiscernible] (00:50:52) some differential 15% here, 10% here, 20% here, but if not -it's all within the same realm. So, it feels obviously much more of an office issue than maybe just a New York issue. And so, do you think there's a shift that comes with what types of jobs or industries end up in certain cities or predicting a return to the way things were, I guess, how do you sort of reposition or adjust for potentially those types of changes?

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

A

Well, just – look, first of all, Michael, glad to hear you're back in the office, first and foremost, because we speak to a lot of folks out there that are – as we hear prohibited either from coming to the office because of company policy and/or prohibited from taking one-on-one meetings with people like us, and that's very frustrating. So, welcome back. Just to make sure I understand the question. Your question is how do we think the profile of industry demand for space in New York is going to shift or change relative to other, let's call them, gateway cities, is that...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

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

A

...like a relative question?

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. I mean, part of it is – I mean, part of it is just you step back and all these markets are having different [indiscernible] (00:52:10), right. And how does New York adjust relative to those other metros that are seeing the same issues? And I think a lot of things you talked about where the business have to step up. Unfortunately, businesses right now – we're still in the pandemic. I think what's great what you're doing on the child health care, but not enough companies are doing, that is a real concern. Healthcare is still a concern of many people [indiscernible] (00:52:28) where they may be living right now, I mean this is not just a New York thing, it's in every city, right? It's not like all the sudden Boston is running at 80% density even in the suburbs. And so, it just seems that this is a massive office issue. And how is it going to when things do come back.

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

A

Right.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

[indiscernible] (00:52:49) what the city have, is it going to change? Is the type of roles and responsibilities that are in New York City going to change relative to where it was before?

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

A

Okay. I got you. So, look, New York is a 400 million square foot office market. And I think it's probably five times larger than the next biggest city in terms of that density. And it got to be that because of sort of insatiable demand for office space. It's not a situation where there was just loads and loads of government build projects or spec projects that took decades and decades to fill. Work from home is not a new concept, right? This is a concept that's been around for a long time and has been tried and/or utilized by companies for a long time. There just generally has been and I believe continues to be a realization that in highly competitive markets, which New York is, I don't care if it's tech or healthcare or finance or advertising or any creative work certainly building the business services, lawyers, accountants, whatever, that the work is more structured and efficient, the teams are more bonded, the client relationships are stronger when it's face to face, in-person, in the office. And I don't think this period of time is going to change that paradigm which has been proven out over decades and decades of people wanting to be not only in offices generally, but in very highly functional offices wired with state-of-the-art technology, high ceiling, natural light, sustainable, well-serviced, amenitized, I can go on and on. I still believe that is the best way to conduct businesses for almost all industries. And between now and December, we'll try and think about who we think are those outlier industries that might actually do better from home because I can't think of them offhand, to be honest.

I know that I'll speak to – and I'll just – I'll broadly say the lawyers and they'll say, yeah, I'm just as productive at home as I can often be in the thing. It's false and wrong from the clients' opinion. The attorneys may believe that. I can tell you as a client that has close like – I mean, how [indiscernible] (00:55:38) 30 transactions in the past seven months, leasing, JVs, financing, sales whatever, it is not. And we now demand our vendors to be in the office with us. If we are here, they have got to be here. We're not going to do Zoom calls with vendors who are sitting on the beach or a lake house or anything like that.

Now, it doesn't mean they can't. It's just we won't use – we want a certain type and I think people will demand what we demand which is real service, 100% all-in face to face, at all times, morning, noon and night. And to do that, you've got to be in an office. You can't have 10 attorneys sitting around at 10 different homes across the country dialing in with technology, I don't think it works.

So, your question was who – will the business change. I think it will change. And you know what? It'll change for the better. I said it was the densification, densification while it worked against SL Green and other companies like us, it was a good thing for companies, viruses aside. It was efficient use because companies were not using the space efficiently and the way they [ph] changed it putting people closer together, but creating many (00:56:48) spaces, it was a great shift even though it resulted in space that had to be absorbed.

So now, if companies look internally and they decide 5% or 10% of their workforce may be can work three days in the office, two days at home, or I don't know [indiscernible] (00:57:04) some variant of that. And if that works for those companies and their companies' clients or customers [indiscernible] (00:57:10) have at it, and that's good. But if the notion is that everybody is all of a sudden going to start sort of working from home because somehow it's better than work from office, I don't buy it.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

[indiscernible] (00:57:25) if we look specifically at your portfolio, can you talk a little bit about sort of how much of your square footage is actually open if people wanted to come in? So, how many of your tenant spaces [indiscernible] (00:57:35) post-Labor Day...

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

A

100%. Michael...

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

[indiscernible] (00:57:43)...

[indiscernible] (00:57:44)

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

A

How many tenants opened up? They...

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

[indiscernible] (00:57:44)...

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

A

Oh, we have. I mean, Ed...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

I know your buildings [indiscernible] (00:57:51). But the tenant spaces in terms of – and then maybe you can talk a little about the differences between larger tenants versus smaller tenants because I would imagine...

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

A

Well, yeah, let me – Mike, let me tell you what we have. Let me tell you what we have. Ed Piccinich and his team have the card swipes every tenant, every building, every company and we track the larger companies, I don't know if we track every single company, we do, but because you're here at work. So, I know you're not home, so I know you probably have it. But just very succinctly, what do we have in terms of – what percentage of our tenants are open, doors open, people coming into the spaces, whether it's 1% or 100% or nobody is at a 100% expect for us.

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

I think Marc mentioned earlier...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

[indiscernible] (00:58:36)...

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

A

Right. [indiscernible] (00:58:38).

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

Marc mentioned it earlier 50% to 20%, [indiscernible] (00:58:40) when it dropped off to 1.5% and we've been counting each week as the percentages go up. And I could say that, that percentage will continue to grow. He mentioned 40%, 50% by December, that's the trend we're seeing. And across the portfolio when you look at that attendance, it varies of – some of the bigger companies don't have as many as the smaller companies and vice versa. So, we have been seeing the trend throughout. And I think a lot of it in large measure is due to the program we have in place, everything from PPE to the additional filters where we went above and beyond what's called for by the executive orders and things of that sort. So, the activity – if you walk into any one of our lobbies, you'll see tenants going about their business. The only difference is, is that they're wearing a mask. Now, do we have situations where somebody is getting turned away because they get picked off by a Silent Sentinel because of high fever, I could probably count on one hand...

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

A

Yeah.

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

...where our entire portfolio where someone was turned around, but otherwise that growth continues on a percentage basis...

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

A

So, Ed, are there [indiscernible] (00:59:52) you could say where larger tenants have more or less population in their offices, or smaller tenants who are by sector like – the business services firms are more in the office, the financial services at home, any trends like that we can...

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

I don't think there is – like I said, the larger tenants, obviously their numbers are larger because they have a bigger footprint. So, they're able to have more of their employees, and maybe some of the smaller ones who are dealing with the social distancing requirements and some are ahead of the game and putting up what we did. They've put up plexiglass so that people can still work within their cubicles. But the difference in our lobbies is that you see the activity, but people are walking around with masks. Other than that, [indiscernible] (01:00:40) growth continues.

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

A

Okay. I think the financial...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

[indiscernible] (01:00:43)...

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

A

We need the financial firms and the lawyers back. I would say, just let's leave it at that, Michael. We need those guys back.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Okay.

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

A

Once those guys are back, yeah, and whenever they're going to come back and each leader will make their own decisions about how much and when and on what timeline and when to mandate and when to make it optional, but if we can get financial services and lawyers back, I think things will cascade from there. So, can we move on...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Got it.

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

A

...maybe to the next question, Michael. Thank you.

Operator: Thank you. Our next question comes from the line of Craig Mailman of KeyBanc Capital Markets. Your line is open.

Craig Mailman
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, guys. Just curious, you are kind of active here in the sales market. Just want to know what the feedback has been, kind of what bidding pools look like. And just how do you think people are getting comfortable underwriting cash flows today given kind of expectations or you may have negative [ph] net effect (01:01:38) as people are trying to get their arms around CapEx, kind of how are people getting comfortable and what's pricing starting to look like?

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

A

[indiscernible] (01:01:49) I think there is more focus on weighted average lease term than there was previously. So, assets with longer contractual lease streams sell with more – there's a lot more liquidity for those assets like you saw with our sale of 609 Fifth Avenue, the PUMA retail condo. But the bidding pools are very strong that even large assets like a 410 Tenth got an enormous amount of tours and interest. Foreign capital generally if – if they can bid without a site visit, they're interested as well. And if anything, you do lose some foreign buyers who aren't able to get to New York to do a site visit, but I think we see a fair amount of liquidity out there. And that financing rates are so attractive that people [ph] with levered (01:02:48) returns are very significant even at cap rates that people still – we still find compelling to sell at.

Craig Mailman
Analyst, KeyBanc Capital Markets, Inc.

Q

Do you think people are significantly changing their required returns to be in office or being in the gateway city?

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

A

No, because I think you have this dual impact of much lower rates and they're fixing out 10-year interest rates at 3% or sub-3% in some cases. So, they're able to achieve higher levered returns at not far off of earlier this year's market cap rates.

Craig Mailman
Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Great, thanks.

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

A

Sure.

Operator: Thank you. Our next question comes from the line of Vikram Malhotra of Morgan Stanley. Your line is open.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking the questions. So, just building on the last question, I guess you've outlined jobs are coming back, utilization is inching upwards. You're hoping things look different in three to six months. Can you sort of maybe give us your current view on where market rent growth – or where market rents are going to shake out versus pre-COVID, and similarly just cap – just values, what's your sense kind of everything said and done, if we do see this recovery or how to – you're sort of starting to outline, where do – where are the marks on both those issues?

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

A

Yeah. Vikram, I think December is the forum for that. I mean, I know I don't want to – I mentioned that a couple of times. It's only six weeks away or something. We have not given yet our estimates or projections of rents and vacancies and all that for 2021. You know, as we will – we will do – dive into the detail in December when we have the fulsomeness to get up there and present what's going on in our portfolio. We need to take a deep dive into our portfolio which is part of the budgeting process that goes on right now. It doesn't end until like mid-November. We roll it all up and then we run into the meeting on December 7, and we'll have views on 2021 for our portfolio, for the market generally. It'd be premature right now, especially as I mentioned earlier, this is a city in pause. And then, by the way, there's a lot of cities in pause right now. And to try and take away anything substantive about trends and future when – when the city is not fully back, I think it's a little dangerous.

So, if we're sitting here with 85% people at home, it feels one way. If by December we're up to 30%, 40%, it's something else. And we'll have a lot more discovery that really started just post-Labor Day. So, it's only been, I don't know, seven weeks really since there's been people really to talk to because over the summer people's focus were in – was in different areas, like hygienity and staying virus-free. So, that's still a focus. But people are now working through the questions you ask which are what's the future of their space going to look like, how are they going to de-densify, how are they going to balance work from office, work from home if they're going to balance that at all and allow any work from home, and that'll impact the trends in rents and vacancy.

So, I think it's – I don't think we're in a position to handle that now. It's not that – we want to answer that question as much as you want to hear the answer. But I would say, let's table that till December and then we'll have a discussion on that and hopefully more discovery between now and then.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just...

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

A

... [indiscernible] (01:06:43) current rents. I mean, let's just speak to our current rental levels, I mean, it hasn't been much, but it's – the rents are down probably 10% plus or minus, but we've been getting good traction, I'd say, by and large.

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

Yeah. We've answered this question a couple of times in the past and where we've seen the shift in the market is less on the rents and more on concessions. So, I would say, rents are probably down, depending on the building, anywhere from 5% to probably less than 10%, but concessions are up. And also I mean it used to be $100 in TI depending on the building, or if it was $80 in TI, they're probably up $20, $25 a foot. If free rent was at 11 months, it's probably at 13, 14 months. So, as a percentage, concessions have – are getting more pressure and to no surprise. Every time there's a disruption in the market and tenants are on the defensive, they want to [indiscernible] (01:07:45) their cash and they want the landlord to fund the near-term cost of [indiscernible] (01:07:49) the free rent and the TI, but they're willing to absorb the rent cost over the life of the lease.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

And that's fair. Thanks for that color. Just as a follow-up with just sort of the longer-term issue or potential issue, I should say, if you hear what corporate globally are talking about now in various industries, not just financial, it's pretty clear that some are thinking about their office footprint. They may not have specific numbers or they were cutting by X percent, like Fujitsu in Japan has been very clear. But I'm just wondering, in your portfolio, has anyone approached you to talk about spaces that they may have where there's maybe longer lease [indiscernible] (01:08:32) shorter lease terms and think about a restructuring over, call it, the next 6 or 12 months, especially driven by sort of a post-COVID view?

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

A

No, because – as I said earlier, so many of the tenants – and I think the vast majority of tenants don't have a definitive point of view as to what their long-term needs are going to be. Until their employees are all back in the office, they don't know the condition of their business, they don't know how their head count is going to be, they don't know what the impact from work from home is, they don't know what the impact of densification or hoteling is going to be. And the conversation is very fluid. So, much of the discussion, six months ago if we – we're taking our cue off of where people were speculating at that point of time would be radically different than where the conversations are today. So, I think the only thing you can say is that there is a great unknown out there, nobody has really figured it out. And I don't think we're going to know it until we're past COVID and people are largely back in their office. And then, business managers can really start to establish a game plan for the real estate.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. Thanks so much. And congrats on having the space allocated to the school and kids. I think that's a great effort and a great gesture.

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

A

Thanks, Vikram.

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

A

Thanks, Vikram.

Operator: Thank you. Our next question comes from Steve Sakwa of Evercore ISI. Your line is open.

Steve Sakwa
Analyst, Evercore ISI

Q

Thanks. Just two questions. I guess, your largest DPE loan I guess went non-accrual this quarter, Marc. I'm just wondering if you can sort of provide any commentary around that and sort of cure periods or how we should be thinking about that.

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

A

Andrew is handling that one. Why don't you...

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

A

Hey, Steve. Yeah. So, that position is a loan opportunity we saw in 625 Madison. That [indiscernible] (01:10:45) where we control the leasehold separately and we – it was an opportunistic loan on a situation that's pretty fluid given the ground lease re-val, and we decided to take a conservative approach. And given that the loan is pay in kind, stop recognizing income probably for the pendency of the revaluation, but not sure.

Steve Sakwa
Analyst, Evercore ISI

Q

Sorry, so we should kind of assume moving forward until the ground lease is resolved that that would be kind of a non-cash paying loan?

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

A

Correct.

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

A

We'll keep it on non-accrual, correct.

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

A

Yeah. And the valuation date is middle of next year?

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

A

Middle of 2022.

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

A

2022.

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

A

[indiscernible] (01:11:35) determination is middle of next year.

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

A

Middle of next year determination.

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

A

Right.

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

A

So, whether we keep it on non-accrual through the actual reset day which is middle of 2022 or through the [indiscernible] (01:11:48) the determination day because that's sort of rubber meets the road on the determination day, that's middle of 2021 I think, right?

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

A

Yeah.

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

A

So, another six to nine months.

Steve Sakwa
Analyst, Evercore ISI

Q

Got it. Thank you. And then I guess just going back to the new leasing activity that Steve mentioned. I guess it's a little over maybe 400,000 feet. Steve, are the tenants that you're talking to kind of in similar size space today, so it's a similar size move, are they downsizing in coming into the 400,000 if all of those deals got made, or are they expanding, just looking to see if there's any change in density on the most recent set of new deals?

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

A

Well, most of them are, I'd say – it's a mixed bag. We've got one large tenant in that group that's actually moving into New York, and I think that will be a big surprise still, but they're a 100,000 square foot tenant that plans to actually bring bodies from outside the city into the city. We've got 79,000 square feet of leases out at One Vanderbilt and all of those tenants are [indiscernible] (01:12:56) are coming from smaller spaces. And then, we've got a mixed bag of renewals and smaller transactions.

So, I don't think – and your question is, are there size requirements being impacted by COVID, I haven't seen it yet based upon the deals that we're currently working on. It doesn't mean there won't be a shift down the road, but in the current pipeline, it's not been part of the conversation. I think the more – the bigger conversation for these [indiscernible] (01:13:27) tenants is just how are they going to use their space, how are they going to design the space, how are they going to furnish it. And that – that they're working through with their architects.

Steve Sakwa
Analyst, Evercore ISI

Q

Got it. Thank you.

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

A

All right. I think we've – it's gone an hour and 15 minutes, and I think we have one more question in the queue. So, we'll take the last question, operator.

Operator: Thank you. Our final question comes from the line of Nick Yulico of Scotiabank. Your line is open.

Nicholas Yulico
Analyst, Scotia Capital (USA), Inc.

Q

Thanks. So, I guess one of the themes of the call is that you feel very optimistic, cities have come back, cities on pause right now, but you did talk about already you're giving them some more free rent, you're doing some short-term renewals, there has been rents down. I guess, the question is how do you change your strategy if you're wrong, right? If the city is not just on pause, but the city is – it has a structural problem for the next two years, how does that change your leasing decisions? I mean, is this an issue where you can be more competitive on price, does that make your portfolio more competitive? How should we think about the scenarios where – hopefully doesn't happen, but the city is on pause for a while or just structurally problematic for a couple of years?

Edward V. Piccinich
Chief Operating Officer, SL Green Realty Corp.

A

Sure. A couple of points of clarification. In saying the city is on pause and we'll – and we're investing for the future [indiscernible] (01:15:07), but what if it goes two years. This could go two years. If I didn't want to – I don't know – hopefully the comment didn't come across as like there's going to be some kind of V-shaped recovery right after January, but that's – I don't – in December, we'll have a forum – we'll express a forum view, but that's not our forum view. So, this is – but I look – I guess the difference, Nick, between how you pose and how I say it. I don't look at two years as a long time. If you said to me there's going to be sort of a one to two year, not pause in the sense we are now, because every month we see things improving somewhat, but I'll call it a very slow recovery over the next one to two years before things get sort of cooking again, we don't want that and hopefully be quicker than that, but that's not something where we change [ph] this (01:16:04). Fundamentally, these are – One Vanderbilt's built for a 100 years and One Madison, we're going to deliver at least in 2024. So, whether it's one or two years, the goal for companies like us right now is to stabilize and get through this, you buy time. The way we buy time is we renew our tenants. We say the tenants are demanding more shorter – free rent and shorter terms. Nick, we went to those guys. They didn't ask for it. We had a program. I think we might have talked about this in the last call. We went to every single tenant that had a renewal in the next one to three years and proactively said to them, do you want some free rent in exchange for signing up for an additional one, three, five years. And if they did, great. If they didn't, didn't. It was to help them because we knew they needed and wanted that free rent most during the early months of this pandemic. And for us, whether we give free rent right now or a year or two from now [indiscernible] (01:17:07) when they actually did their renewal, it didn't matter to us because we have plenty of cash liquidity.

So, we went to these guys and said, look, you need this help now, we'll give you this help now, and let's talk about a short-term extension so you don't have to make. We could have pigeonholed them and said listen, fill or kill, you've got to either sign up or move out. And it's not what we did. And don't know what the answer would have been had we done that. It seemed much more prudent to us to go to them almost as partners and say, listen, here's some free rent, sign up for an extra one to three years which is why you see shorter terms and then let's work on a longer-term restructure of your lease, whatever that means, whether it's for more, equal or less space because they don't really know right now.

So, what we're doing now is very proactive on this company's part. I don't know if other companies are doing the same thing or not, you'd have to check away with those companies. But this – that's what we're doing. And we're sort of – because we are 30 million feet in the city, we sort of drive that market. If this sort of scenario plays out where – we're making the earnings we're making and we're 96% collection, and 94% leased, we want growth as much as our shareholders do. But I wouldn't call another one to two years before a sharp recovery, anything that would – that shouldn't – that couldn't be expected or negative. I think that's positive for the city after two years we're sharply coming out of this, hopefully after one year.

I mean, we'll have to gauge that, but again, it's really up to people, I think as soon as people come back in. So, there's your mark. As soon as the 85% that are at home are sitting in their offices, we started this pandemic in a very good tight market and I think we'll be right back there, I don't know that I have the ability to – or anyone here around has the ability to project when people will come in. We thought it would be after Labor Day. We were wrong.

Now, we're hoping after – by year end, or shortly thereafter. I don't know. We hope so. But the good news is every month is more. So, whether we get there quickly or slowly, our assets are the best assets in this city and this city is still highly sought after. You heard Andrew talk about the demand for these assets. These investors who are buying these buildings and who are bidding for these buildings, they have formed views, they're smart. They have a point of view. I don't think they are buying it based on whether people come back 6, 12, 18 months from now where they kind – but their view is this city will be back.

And if you want to be an investor in the city, you got a view it'll be back. And if you don't think that, you're not going to invest in the city. But there are investors. We know that because we're selling assets. We know that because we're marketing other assets. That changes. It changes. But right now in kind of the worst of times, there is still I would almost call a decent demand at an asset level. David is selling DPE assets at very strong marks. We've got multiple bidders for assets like 410 Tenth and others. So, investors are out there. Tenants are out there. Steve got 865,000 of pipe, half of which is new. So, that's got to mean there's a lot of interest in signing up new. So, I think the trends are good. That's how I come to my – people may differ. That's what makes a market. But that's how we come to our conclusion that we'll get through this, New York will be back. How long it will take? That's a little bit of a crystal ball and we're not really in a position to give that right now. But we've been 31 years in the business exclusively in New York City. And this feels like one we can get through.

Nicholas Yulico
Analyst, Scotia Capital (USA), Inc.
Q

And that's helpful. And then I guess in terms of the portfolio then as we think to next year, is there still a lot of renewal activity, right, and in new lease activity stays challenged if it is a market where things are on hold and 50% of people are back in offices and not 100%? I mean, does that just tip the scale to a lot more of this dynamic of renewals, shorter term renewals you're offering free rent to keep tenants, which makes sense as a strategy to hold occupancy?

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

Nick, I guess when we see you in December, we'll give more color commentary on it. But I'm sure you heard me say earlier that 50% of my 825,000 square foot pipeline are new transactions. So, the focus [indiscernible] (01:21:56) just going to be more of the same or short term renewals, you're just not hearing what we're saying is that it was short term renewals earlier in the year. It started to change the corner. And as we sit here and going into the fourth quarter, clearly the new deal activity is ramping back up. And knock on wood, that will continue to go forward as the months past going down the road.

Nicholas Yulico
Analyst, Scotia Capital (USA), Inc.
Q

Okay. Thank you.

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

Okay, thank you, everyone. I think we've reached the end of the call. So, operator, if there's no further questions, we're going to sign off.

Operator: Yes, sir. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.