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EDITED TRANSCRIPT

SLG - Q4 2015 SL Green Realty Corp Earnings Call

EVENT DATE/TIME: JANUARY 28, 2016 / 7:00PM GMT

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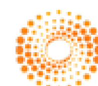

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PRESENTATION

Operator

Thank you, everybody, for joining us and welcome to the SL Green Realty Corp.'s fourth-quarter 2015 earnings results conference call. This conference 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 the forward-looking statements that management may make today. Additional information regarding the factors that could cause such differences appear in the MD&A section of the Company's Form 10-K and other 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 SEC Regulation G. The GAAP financial measures most directly comparable to each non-GAAP financial measure discussed in the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measures can be found on the Company's website at www.SLGreen.com by selecting the press release regarding the Company's fourth-quarter 2015 earnings.

Before turning the call over to Marc Holliday, 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.

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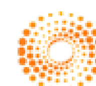

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Marc Holliday - *SL Green Realty Corp. - CEO*

Thank you and appreciate everybody calling in this afternoon to review our fourth-quarter and full-year 2015 results.

Before we jump into it, I just want to mention that Andrew Mathias is going to be joining in by phone from the orthopedist's office with cell phone in hand because he suffered an injury, but wouldn't let that hold him back from the call. And Steve Durels also calling in remotely, but available for Q&A as I guess the stress and tension of an active year-end at the beginning of January took a toll on him physically as well, but wouldn't keep him from the call either. So we're all here and just want to express our enthusiasm about the operating performance that we ended 2015 on a relative high note.

As I think most of you had an opportunity to see at the investor conference in December, we're feeling very good about the fact that our buildings are extremely well leased and generally well leased with below-market rents that are ticking up 15% to 20% in some cases in the recent quarters.

We have a modest amount of lease expirations in the coming years and that is matched with a modest amount of debt maturities, both of which were actively managed over the years to make sure that leading into markets where things are more uncertain, we have good tenure of lease maturities and good tenure of debt maturities. We are substantially complete with our development projects at 280 Park, 10 East 53rd Street, a smaller project over at 16 Court Street.

The important aspect there being, A, the buildings are all well-positioned now like the rest of our portfolio and B, all that capital is now behind us. And speaking about capital, the remaining capital to fund for the Viacom and Citi leases are now reduced in the aggregate to under $200 million, which will be spread over the next few years, so that number has also been mitigated to a great extent over time.

Turning -- first, what I'd like to do is hit some of the questions and topics that have been raised in some of the analyst notes that we've seen in the past 24 hours or so, and then open it up to Q&A.

So I guess beginning with the Manhattan leasing market, office market in particular, we ended the quarter with 416,000 square feet of leasing at mark-to-market rents that were up about 20%, so obviously a big end to the year. We were very happy with that. I think that was sort of on or ahead of schedule.

We slightly exceeded our 2.2 million square feet of velocity for the full year, but you should recall that we did advertise a pretty significant pipeline of leasing activity during the investor conference and obviously, now, we continue to capitalize on that pipeline not only through December, but also in January. We've announced some leases as of yesterday, some big deals and a good way to kick off the new year with Omnicom, Music Choice and Nordstrom's, along with some other leasing in January. That brings the total for the first month of the year to about 310,000 square feet of leasing in January.

So clearly, that is us executing on that pipeline and now, obviously, we're very focused on continuing to build that pipeline for future quarters. As a footnote to the Omnicom deal because we got the question, it does represent a reduction in space at the news building, but we are actively working on a lease to absorb the remaining space, so I think we feel pretty good about where we are positioned with that space and that asset at this time.

Even after that December/January activity, the pipeline still stands today in excess of 1.1 million square feet with more than half of that amount consisting of leases that are either out for signature or are in advanced stages of negotiation.

So that leaves us this year with about 800,000 square feet left to lease on a portfolio of nearly 30 million square feet. That's obviously a very small and manageable amount for us to be handling this year. Therefore, a lot of our attention, a lot of Steve's attention and the team's attention will be focused on the expirations in 2017 where, at the moment, expirations stand at about 1.7 million square feet.

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But I do want to add that the pipeline I mentioned earlier consists of about 650,000 square feet of leases that expire in 2017. So obviously one month into the year, we're already working hard on mitigating and reducing 2017's exposure. In 2018, we go back to a more normalized -- below normalized expiration amount of 1 million square feet.

So I think we feel very good about 2016, 2017 and 2018, where we stand in terms of availabilities, pipeline. Our portfolio is 97.1% leased over that extraordinary amount of space, which I think is a real achievement and a real testament to this team to be able to keep these buildings at such a high level of performance.

With all of that said, we look at the current market environment and look at how we think it may affect job creation going forward and how that may in turn translate into demand for space. And I would say that those two, which are highly connected, we expect to see a bit of a rollback in job creation for the first time in the past four or five years in New York City, and I will get into some stats on that. And in turn that that will have an impact on leasing velocities, which we do expect will begin to slow sometime in the second half of the year.

So I think as far as we're concerned with the guidance we had given about 45 or 50 days ago at the investor conference, we still feel like all of that was somewhere between priced in or forecasted into our goals and objectives for the year and we still feel very good about where we stand both for leasing velocity for 2016, about 2 million square feet; mark-to-market, which we set a very high bar for ourself on same-store NOI and leasing velocity.

Looking at the portfolio where we stand almost a month into the year, we feel good and can affirm those levels for sure. But we do see headwinds that we think should be fairly expected for an economy that has been producing greater than 2% job growth for five consecutive years that far outpaces the numbers nationally. It also far outpaces historical normatives in New York City and whereas, last year, 2015, there was about 87,000 or 88,000 private sector jobs created in New York City, about 30,000 of which were office using, we would expect that number to still be significant, but probably more in the order of 50,000 to 60,000 jobs created this year and hence 12,000 to 16,000 office-using jobs created in 2016.

So by historical standards, in excess of 1% job growth still a very good number, but it does reflect a slowing of this unprecedented rate of growth as I think businesses sort of catch their breath over a very -- four or five-year significant expansionary period, but with these numbers, we do think that absorption will stay positive and that we'll be able to maintain our rent spreads and our occupancy levels.

Looking at the retail leasing market and what we've been able to accomplish there, we're joined today by Brett Herschenfeld, who will field some comments. Brett, as you recall, you saw in the investor conference, leads our (technical difficulty) signs of slowing sales in certain corridors, in certain of these submarkets. Most notably, some of the luxury branded retailers, maybe on Fifth and upper Madison, are experiencing sales that would prevent these rents from continuing to rise. Whether or not there will be any pullback in rent is yet to see. But our embedded retail rents across the board are about 100% below market. That's a number that you should recall from the investor conference. 100% below market.

So whether the rents stay the same, go up a bit or even pull back 5% or 10%, I would say to you that there's still significant, significant upside in the retail portfolio. We're still very bullish about the prospects of meeting our growth objectives, which last year was $30 million in the growth portfolio. This year is about $32 million in the growth portfolio and then I think for the five years thereafter, we projected something in the order of $45 million or so incremental, mostly out of the growth in retail portfolio.

So that, I would say, is still highly achievable whether the rents are at market or there's a slight pullback in that market. We still have very good demand in retail, as you saw with that 40,000 square foot plus Nordstrom lease we were able to sign at 3 Columbus. I think that's a great mark.

You saw we get the Armani deal done back in end of November, beginning of December at rents for upper Madison -- upper East Side Madison -- that are very, very reflective of today's market rents.

SoHo, I think, is kind of a tale of two areas. Some of the product along Broadway is probably losing a little bit of velocity, but on the side streets where we focused on Greene Street and Spring Street and elsewhere, we still see very, very good demand from the smaller retails for those kind of boutique and unique spaces. And I think we'll have more to say about that this year as we continue to lease up assets like 110 Greene Street and --

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Unidentified Company Representative

And 102 Greene Street.

Marc Holliday - *SL Green Realty Corp. - CEO*

And 102 Greene Street. So those are real bright spots. I don't think we really have a retail exposure of any note other than 650 Fifth, which we continue to work on. Been to the finish line a couple of times on that, but haven't yet crossed the finish line. So that's one asset we hold in a joint venture out of the myriad of assets we own in retail where we'll be working hard this year to get it leased, but the rest of it I would say is either put to bed or has significant, significant upside given our low basis in those assets and the low rents in place.

Looking at the investment market, 2015, you'll recall Isaac Zion saying that we had record volumes. I don't have the number in front of me, but I want to say it's in excess of $60 billion of commercial transaction activity. Through the date of IC and there was more transactions that rounded out the year in December, and I know our constituency likes to look at just what's of the moment, not what happens three or six or nine months ago and in that regard, I would point you in the direction of four interesting transactions, all of which we believe are either -- all under contract for the most part. I don't think any are closed yet.

There's 1285 Sixth, which is a deal that Scott Rechler is doing, which is, I think, a very good down the middle deal for Scott. It's a 4.4%, 4.5% stabilized -- growing in yield and stabilized yield, so it's got a 4.5% cap going in. It's under $1000 a foot, $950 a foot for a Sixth Avenue product and a large transaction -- showing that large transactions of $1.7 billion or more can still get done and capitalized in this market.

787 Seventh there again, going-in yield of about 4.5%, 4.6%, which is similar to the yield that we were able to achieve on 11 Madison, but here we look at 787 as having above-market rents and we think that there will be pressure in execution to keep those yields at those levels as opposed to an 11 Madison deal, which was contractually there with upside and no downside. The per foot there was $1150 a foot for that deal on Seventh and that's $1.950 billion purchase price.

Then we have two other deals, which may not be quite as well known or appreciated by our shareholders, and these are very recent. 850 3rd Avenue is a deal that's being done, at least what our reconnaissance tells us, at around $875 a foot, a sub 3.5% going-in yield. There will be real work there to kind of rework that tenancy in order to get up to a 5% or 5.5% stabilized yield, but that would be sometime now -- probably five years or more out in time and that's a deal that's about $460 million of price.

And lastly, 405 Park, it's rumored to be under contract at a purchase price of $240 million, but more importantly at a price per foot of $1450 per foot stabilized basis. We project will be closer to $1600 per foot. That was about a 3% going-in yield and I would say this transaction doesn't just flatter 280 Park, it picks it up and puts it on a pedestal.

So the investment market, as evidenced by those four deals, I would say, is still alive and well. Although, like with the leasing market, I'm going to put a caveat here, we do expect a slowdown in the transaction volume. We certainly do not expect the record levels that we saw last year, or anything close to it. In part, that's going to be particularly due to what we think will be some softness in the areas of condos and hotels where we think that this market will probably take a more strict view of pricing with respect to those assets.

However, just to draw a distinction, we do think that well-leased and well-located commercial assets will still be in demand. I would even use the words high demand because they are still few and far between and there's still a lot of equity looking to invest in this market. We're just going to be very particular now about the kind of assets they want to be in. And for those high-demand assets, I think cap rates will remain exactly where they were in that 4% to 4.5% range, or even in some cases 3.5% to 4% to 4.5% range for the best assets.

However, further, on these commercial assets, there are the transitional types of assets that require significant redevelopment, reposition and leasing execution. There, we would expect IRR hurdle rates, not cap rates, but IRRs to increase maybe 50, 75, maybe even, depending on location, 100 basis points in threshold returns for these transitional assets.

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So clearly, I think that the deals I just rolled you through and our view of the market flatters the 11 Madison deal even more so. I said in the investor conference I thought it was one of best deals this Company has ever done because it's a high-quality asset with high-quality tenants. The financing was put away long term at 4%, limited downside and very significant long-term upside. Not only that, but it allowed us to get out of some of these transactional assets where I think that there will be more market headwinds this year. So our timing, I think, was excellent both on the buy. I think our sales were well-executed and all in all, I think it certainly bears out the strategy that we've laid out for everybody.

Look at acquisitions and dispositions now for 2016. I just want to address this issue I see in a lot of reports about net acquirers. We tackled the question in the investor conference. I went to hit it on here. I'm sure I will get it again in Q&A. When we put up numbers for those, those are gross numbers, gross numbers. Gross means gross of joint ventures. So $1 billion of acquisitions is $1 billion of product. It's not $1 billion of wholly-owned product. As you know, we do wholly-owned and we do joint ventures like Tower 46, a joint venture. 10 East 53rd was a joint venture. Those are two of our more recent office asset buys.

So when you see $1 billion of acquisitions and $700 million of dispositions, or $750 million of dispositions, that does not imply $250 million of equity issued, nor debt leverage up. It just doesn't. What it implies is that we believe that, during this year, we might see one or two interesting opportunities to exercise on them, maybe. And if we do, we'll do it in a way where they are either funded entirely by sales or with JV equity. Period.

There should be no ambiguity about that, even though we continue to read about expanding the balance sheet or levering up or issuing equity, none of which we did as part of last year's what we called rubric, nor would it be part of this year's business plan. I don't think we've issued equity since the first quarter of last year. So that's been a concern. I would sort of take that concern off the table.

In terms of whether or not we're going to be net acquirers or not, I think it's going to be a neutral position and whether we do the full $1 billion or not, that will be dependent on the opportunities we see in the market. It's easy to say, well, when the market gets tight, don't do anything. We don't exactly agree with that. We think that you have to moderate your investment approach.

Recall that the Citibank building, 388-390 Greenwich, was a deal we closed on, I believe, in December 2007 and we made a lot of money on that deal both in terms of current return and capital gain. So you have to be choosy. You have to be creative. You have to make sure it's well-capitalized, but I think a blanket statement that no deals get done would be inconsistent and not the right thing to say. Nor is anyone implying that this is an expansionary market for SL Green.

We're going to be very, very discerning on our purchases as we always are at this point in the market. In 2007, I think we did literally two deals, that one and a small other. 2008, nothing. In 2009 or 2010, again, because you can't just sit on your hands, we did 510 Madison Avenue debt deal, which turned out to be one of our most exceptional DPE assets we ever did. We were first. We were early in that sort of cycle of upswing.

So I think we're doing the right things on the acquisition side and I think there is the opportunity to make good deals, but if we don't see them out there then you won't see the acquisitions cross the tape and we will be focusing, I guess, instead on simply dispositions. So on the dispositions front, there's one in particular to take note of at 388-390 Greenwich, which we talked about at the investor conference as being, A, highly likely to occur and B, part of our capital plan.

I did see in one or two reports the word surprise. Surprise exercise by Citi. There can be no surprise. There can only be what we say in that investor conference about the high likelihood of Citi exercising in December turned into an actual exercise in January. And the reason why we are fans of that deal, A, it allows us to close out a very profitable position -- investment position -- we took in the asset, but, two, it will result in a reduction of indebtedness gearing of one full turn.

So between the $1.45 billion of debt and the $350 million of net equity paydown or thereabouts, net equity proceeds, there will be about one full turn of debt reduction associated with that resolution of assets. Not a surprise because that's -- we put that there as kind of a pro forma investment as to how the gearing gets not only to where our leverage levels were in 2015 at the beginning, which were already reduced, but gets reduced further.

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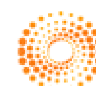

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Second, we have other sources of equity that we would look to capitalize on this year either for reinvestment or further debt reduction beyond 388-390 and clearly 11 Madison, again, no surprises, I said on the call right after we purchased it that it was one particular asset that we might JV, re-JV after purchase. If we do that, there is no tax impediment to a joint venture. It's set up as a TIC, so it's relatively easy to joint venture that asset and still maintain the tax protection that we structured in the balance of the investment, and it's the kind of investment that has attraction in good markets and bad.

There are other assets we're looking at now that we can sell in this market that will still receive a very good reception from foreign and domestic investors that I think you will see us execute on as part of reaching our goal for the year. But on the one hand, while the market orients you to those kinds of assets in terms of dispositions, it will make us choosier and pickier on other assets where there's more execution and this may not be the right time to optimally sell those assets. In which case we'll just continue to hold those for the future or execute upon them ourselves.

Lastly, before I open up for Q&A because I know this is an unusually long introduction, we have One Vanderbilt. There were literally questions about whether there's any update in leasing status from what we gave 45 days ago. I don't know what to say to that other than reiterate what I said in December which is this is an asset that tenants will be taking possession of sometime generally in late 2019 and 2020. Therefore, at the end of 2015, beginning of 2016, it's far too early for most of these tenants to make that kind of space commitment. Most of the larger tenants today are looking for space commitments at around 2018, early 2019 and One Vanderbilt is not intended to be designed for the million square foot user. It's more in line for the 50,000 to 400,000 square foot user. Those kind of users make their decisions later in the cycle, generally two to three years in advance of possession dates such that the meat of the leasing for One Vanderbilt will likely be in 2017 and 2018. So that's where we are in that.

In terms of funding plan for One Vanderbilt, we laid out a funding plan in December. I was asked whether we changed our funding plan. So the answer is no, we haven't changed the funding plan. It is still our plan to obtain construction financing in the first half of this year and then joint venture financing in the second half of the year.

I would imagine 45 days from now, I am going to say the same thing; although, obviously, we do adapt as the market adapt. However, I want to just go a little further, not only on the plan, but on the numbers, to give you a sense of how confident we feel on the execution on One Vanderbilt. Given the monies we already have invested in the project, all the monies, through the end of 2015, and the $230-some-odd million that we project to expend out of cash flow in 2016, we should need to fund beyond that no further equity into the deal once we obtain construction financing and JV financing.

We have modeled it in a way such that the balance of the project, which is the bulk of the construction, will be funded out of a conventionally structured construction loan and roughly a 50% JV partner. That would require not only no money invested into the deal after the end of this year, but actually would result in money back to SL Green as profit, if you will, over and above our invested basis. So that is what we will call Plan A.

The Plan B would be a construction financing. We sell other assets and we would have the ability to fund the remaining equity over the ensuing four or five years essentially out of cash flow. There would be no need for equity issuance or lever up beyond the construction loan to fund the equity portion because we generally fund out of this Company [$2] million to $250 million or more of redevelopment or development capital annually. And that would be an amount sufficient over that period of time to fund the balance of the equity in the event we couldn't or chose not to JV the asset.

However, the reception we believe in the market for partners for this asset is exceptionally strong. And therefore, we think Plan A is far more likely than Plan B. So with that said, take some more questions on that in the Q&A section, but that's -- that is how we see having that One Vanderbilt project funded in a way that puts no liquidity pressure on the Company whatsoever. With that, I'd like to open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Toti, BB&T Capital Markets.

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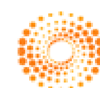

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David Toti - *BB&T Capital Markets - Analyst*

Good afternoon, guys. Just a couple questions. Marc, it's an unusually cautious tone from you relative to the tone that we heard in December. What are some of the indicators that are giving you a bit more pause at this point in the year?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, in terms of a cautious tone, I would say it's more market-driven. If you look at the last 45, 50 days in the market, there's obviously concern I think predominantly about the potential bank exposure to the energy sector and what that might mean in terms of earnings visibility and whether or not that will result in some kind of people contraction.

So I think the investor sentiment in general has degraded substantially over the past, call it, 50 days or so even though the property metrics, if you will, have not. There's still -- we see very good access to debt financing, so we think projects will be -- better projects will be refinanced in this market. There's a lot of equity capital out there still looking for investment and the tenant demand for the first month of the year was good. And the pipeline remains.

However, I would say for out-of-favor or more secondary or tertiary assets, either asset classes or transitional assets, I think, as the financing becomes tougher to obtain for those kinds of projects, you are going to see those kind of projects back up a bit. But I don't think that's going to affect our portfolio in almost all respects.

David Toti - *BB&T Capital Markets - Analyst*

Okay. And then if I could just ask a follow-up. If we extrapolate that view of the market in the coming year to the transaction markets, does this speak to relatively stable cap rates and property values in your mind in the Metro New York City market and particularly for your appetite?

Marc Holliday - *SL Green Realty Corp. - CEO*

Again, I think you've really got to parse asset types, which is what I tried to do in those opening remarks. I think that for the well-located high-quality assets, the answer is absolutely. In a 2% treasury environment, the kinds of returns that can be made on these core assets are still going to be, we think, very attractive to real estate investors and demand will remain high for those assets.

There are other assets -- because real estate is a broad term in New York City -- there are other asset classes and/or other asset profiles which, I think, you'll see cap rates and/or certainly IRRs increase maybe -- IRR thresholds -- increase 50 to 100 basis points for hotels, condos and I'd say commercial assets with a lot of execution and redevelopment.

But I think this is where quality gets parsed. I don't think it affects our portfolio because our portfolio, by and large retail and commercial, is extremely high quality, and I think we'll be a net beneficiary of that market.

David Toti - *BB&T Capital Markets - Analyst*

Okay, thank you.

Operator

Ross Nussbaum, UBS.

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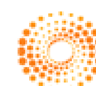

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Nick Yulico - *UBS - Analyst*

Thanks. This is actually Nick Yulico here with Ross. Can you just go through what's going on with the sale process for assets right now, whether you are still looking to sell 1745 Broadway and what's the status on that?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, I think that, given the notice that we received in January on the sale of 388-390, we are kind of reevaluating all of that -- reevaluating our whole disposition program for the year because that one is so sizable.

With that said, 1745 is in the market. We're negotiating offers on that deal and I guess we'll have more visibility on that during -- in between now and the next call, or by the next call with that and other assets that we're in dialogue with that we think would be the best assets to sell in this market because, again, there's a lot of demand out there, but the profile of what you sell changes somewhat because we're always looking to sell -- not just sell for the sake of selling, but sell at whatever we think is accretive to our NAV, which is monstrously accretive to the stock price because the stock price is a fraction of NAV.

Nick Yulico - *UBS - Analyst*

Okay. And then just, I guess, on overall sales, and your thinking about getting money in or you are debating doing an acquisition or using that money to deleverage, I guess how are you weighing those two options based on your outlook now for the overall economy and in the investment market?

And then also on the Citi sale, how are you thinking about that? You talked about if you could deleverage from that process, but you're also going to be losing NOI, so how are you thinking about the FFO dilution impact there?

Marc Holliday - *SL Green Realty Corp. - CEO*

FFO dilution, you are taking a 2018 trip there because the FFO -- that sale is scheduled for the end of 2017, so it's certain -- it's money in the bank, but there's a lot of growth in this portfolio. I hope that came across in December. The amount of embedded growth we have in the office portfolio, the growth portfolio, the retail portfolio. So we're only now talking about 2016. I assume and hope we'll have additional growth in 2017 and 2018 such that whatever the diminution is from 388 as a result of paying down the mortgage and proceeds to pay down the line is sort of just a factor of our overall plan as we continue to increase NOI and pull other assets and keep overall growth trajectory going forward.

So I don't think any 2018 dilution from Citi is factoring into our decision today. We use all those proceeds for debt reduction, which I mentioned earlier to you, would be about one full turn of gearing -- of reduction. What was part B to the question?

Nick Yulico - *UBS - Analyst*

It was just, as you're thinking about -- if you have a bunch of assets potentially earmarked for sale this year, how do you think about that money as it comes in, weighing deleveraging the balance sheet today versus buying an acquisition?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, the same way we always -- we've set goals for deleveraging. The way we presented that plan is we'll continue to pay down debt with asset sales where we can most efficiently, meaning there's no major tax impediment in doing so. Sometimes we have significant capital gains that you can't simply do without having to pay out I guess a stock dividend, which is an option and something we would look at, but it's something we

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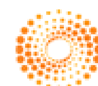

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haven't done in the past. And then when we get to levels we feel are the right gearing level at the end of the cycle then we're looking for very opportunistic investments.

So the thresholds rise. You are looking for very opportunistic investments, which we always generally are and they are few and far between. I know people like to think in choppy markets that means there will be a plethora of deals. This market is so solid right now generally and you saw it a lot in 2008, 2009. Over half the inventory is owned by 12 or 15 of the best capitalized players in the city, so you just don't get these highly distressed situations.

So my point is, if you see one or two this year or next year, it doesn't matter, if you see one or two really solid deals then you act on them because they just don't come along that often. But I guess the default assumption is that most of the money raised through capital-raising activities is going to reduce the line of credit, which was there as our source of liquidity to grow the portfolio and take advantage of the market over the past four or five years.

Nick Yulico - *UBS - Analyst*

All right. Thanks, Marc.

Operator

Vincent Chao, Deutsche Bank.

Vincent Chao - *Deutsche Bank - Analyst*

Good afternoon. Going back to the change in tone here from December to today, it is quite a bit more bearish, but I thought I heard you say that you're not really moving away from the outlook that you projected back in December. I'm just curious why that is given the much more subdued tone out there and expectations of a slowdown in the back half.

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, you'd have to look at each of the metrics, but I guess because we still think we're going to be able to achieve the metric. The mark-to-market on leasing I think we had pegged around 13% to 16% and we still feel we're going to end up there. So I guess the question would be -- you can't really alter that if you are still saying that's where you are going to end up.

Looking at the mark-to-market we have on the $1.1 billion in the pipeline, it's very significant, so probably in excess of that. And looking at same-store NOI, which we put out there at a very healthy number -- I think it was around 6% -- we feel good about the 6%.

So I think your -- I wouldn't take these comments about the market generally and sort of where I think there will be differentiation in the market with our portfolio and product on the right side of that differentiation as any indicator or reason that we would be modifying or coming off of the achievements -- the financial performance we think we'll be able to achieve this year. So I guess we're not modifying because we still feel confident in where we stand.

Vincent Chao - *Deutsche Bank - Analyst*

Okay. Is it fair to say though that your outlook for the market has deteriorated since then? The conditions under which you made that outlook were somewhat different from a market perspective?

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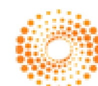

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Marc Holliday - *SL Green Realty Corp. - CEO*

I would say I think the market has deteriorated and I think that we see a differentiation in this market, and because of that, we see opportunity both in the DPE program maybe down the road one or two asset buys. I had described the $1 billion of acquisition, which was an aspiration goal at the time, as one or two opportunistic investments. So I don't think that has changed. That's how we looked at it.

I think that the composition of what we may sell will change because I think different assets will sell better in this market, so that may change, but the aggregate volumes we're not revising. And most importantly, I think, from a portfolio and Company performance level when we're looking at things like expenses, margins, leasing volumes, occupancy, mark-to-market, NOI, we feel very, very strong about that.

So remember, New York City projects 60,000 plus of new job growth. That's a very positive market. I just want to -- I would not use the term bearish market. If the city is going to grow by 60,000 private sector jobs, that would in most markets be -- in most time periods for New York City -- considered very solid and enviable. It's just not at the same level it was last year. Those are stats we've recently come across.

And I've always said that we tend to look at the job growth stats as kind of a leading indicator. So with that, I think it is a precursor, if you will, or at least a look into what will still be positive absorption, but potentially a slowing leasing market in the second half.

Vincent Chao - *Deutsche Bank - Analyst*

Okay. And just maybe one other question on the investment [market], which, obviously, the less core assets (multiple speakers).

Marc Holliday - *SL Green Realty Corp. - CEO*

Out of fairness, because we have a huge queue here, I'm going to ask you to --

---

Vincent Chao - *Deutsche Bank - Analyst*

Okay. I'll follow up.

Marc Holliday - *SL Green Realty Corp. - CEO*

-- come back around the horn and (inaudible) we've got a lot of guys in the queue.

Vincent Chao - *Deutsche Bank - Analyst*

No problem.

Operator

Jamie Feldman, Bank of America Merrill Lynch.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Thank you. You had a very active quarter on the [D&PE] book. Can you talk about the spike in volume in the fourth quarter, especially given your more cautious comments about the market? And then also it looks like your exposure per foot rose meaningfully for the junior mortgages and mezzanine debt. Just how should we think about your appetite for risk and volume in that book if we are heading into weaker times?

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David Schonbraun - *SL Green Realty Corp. - Co-CIO*

I think I said at -- it's David Schonbraun -- I think I said at Investor Day sometimes the results are lumpy. I think Q3 we had very low originations and Q4, you just saw a normalized origination level look for the year. So I wouldn't read into Q4 volumes as anything happened other than Q3 we had a bunch of deals that didn't close in Q3 and they slipped into Q4.

So from a level standpoint, I think we're running exactly where we always have and I think the type of product has been consistent. I think we did a lot of -- most of the loans we did were whole loan originations where some of them we sold off senior pieces, some we held. I think we've tended to stay more senior on the capital stack and take less risk and maintain our yields, which I think has been a stated goal of ours. And I think that's going to be consistent in this year, so I think we have a pretty healthy pipeline right now.

I think yields have held firm, but we've really tried to go consistent with last year and take a little bit less risk while maintaining yields, and not try to outperform on yields that get kind of the 8.5% plus yield while taking the minimum risk to get there.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

And then how should we think about your exposure per foot for the junior mortgages and mez? It's up meaningfully. Does that mean you think asset values are higher, or it's a mix?

David Schonbraun - *SL Green Realty Corp. - Co-CIO*

I think it just depends on what we originate, so I wouldn't read into it. I don't think it's -- it may be because we did a couple of retail deals that drive the values. I think if you look at it as a homogeneous pool, it's a little tough. I think we probably did more retail plays in the fourth quarter, which is a sector, I think as Mark and Brett said, we love. So I think those have higher per foots but probably may have less inherent risk, so you may just be seeing that come through.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay. And then just thinking about your risk appetite, it sounds like you are more willing to pull back than get more aggressive here?

David Schonbraun - *SL Green Realty Corp. - Co-CIO*

I think it's been consistent with how we've run the program and consistent with what you saw last year, which is it's all about risk-adjusted return and us finding the right, what we think is the most mispriced piece in the stack. If that's mortgage, senior mez, junior mez, that's where we look to play.

Jamie Feldman - *Bank of America Merrill Lynch - Analyst*

Okay. All right. Thank you.

Operator

(Operator Instructions)John Guinee, Stifel.

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John Guinee - *Stifel Nicolaus - Analyst*

Thank you. The question I guess is, you guys have been on the FFO treadmill for a lot of years now, also doing pretty well on the value creation. If you can only go one way, are you going to continue to push FFO, or are you going to focus more on value creation?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, John, I think we're always pushing value creation. FFO, I think, is a byproduct of that, but we're in the business of investing capital and making money. We try to do it in a way to have recurring and replicable FFO, and I think we've done that about as good as anyone in the sector with an FFO that will be approaching $7 a share this year, and the lion's share of that coming from stabilized commercial portfolio.

So I don't think we invest to create FFO, but obviously we invest to create cash flow and profits, and FFO is a result of that. But I think we're always trying to be very selective about what we buy. I think that's why we have the portfolio we have today, which is I think second bar none, in terms of quality and positioning.

And we also are probably the most active recyclers of capital, so that we're always generally looking first to monetizing gains and reinvesting them to drive value, which in turn drives FFO. So I think they're very connected, if you will. But the DPE book is always a constant as it relates to the aggregate amount of our real estate portfolio, and those proportions don't really -- haven't changed over the years and don't change much.

And if we're going to invest incremental capital this year, it will be done very selectively, whether it's in commercial assets or the DPE book, to make what we think will be outsized returns, or -- and then only once we are at the leverage levels that we have set out as targets.

John Guinee - *Stifel Nicolaus - Analyst*

Great. And then refresh my memory, where are you in terms of total cost for One Vande and cost per square foot? Have you given guidance on that yet?

Marc Holliday - *SL Green Realty Corp. - CEO*

Yes. Give me a second because I have that here. I think it's sort of an interesting stat. So One Vanderbilt depends -- there's book balance, there's cash balance. The asset is carried on our books at a grand total of $133 per gross square foot and I think that's $227 million. That's the book balance.

In terms of invested capital to date, or I should say through 2015, that number is $433 million, or $250 per square foot, both of which I think or hope you would agree is very, very attractive basis for us to own that land. It gives us complete flexibility, if you will, with respect to the future because we have a very low basis in it. We don't generate cash flow from it, so there's nothing in our current or future numbers. That's an important point, actually.

In all the growth numbers we've shown, we've never shown any incremental NOI growth from One Vanderbilt. So the project will either be capitalized in the way I mentioned earlier, which would require potentially no further out-of-pocket from SLG, or build it out of cash flow, which I don't think we'll be in the decision of having to make that decision, or you could sit on it for a time without any pressure or (inaudible).

Not many developers have development sites with that kind of inherent flexibility with no debt and no joint venture pressure to have to perform (inaudible) and no earnings to have to support. So it sits on the balance sheet at very low levels. It has an investment balance at a very low level and it gives us complete flexibility, which is why we're very comfortable with it.

John Guinee - *Stifel Nicolaus - Analyst*

And your total development cost, is that $1500, $1600, $1700 a square foot as of today?

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Marc Holliday - *SL Green Realty Corp. - CEO*

I think Rob Schiffer is not here at the moment. We put up a development budget at the IC and I want to say it was about $1000 a foot for construction costs and you can obviously add to it what we have sunk into the deal, which the numbers I just gave you. And then there's some soft costs and leasing and everything beyond.

John Guinee - *Stifel Nicolaus - Analyst*

Okay. Thank you very much.

Operator

Tony Paolone, JPMorgan.

Tony Paolone - *JPMorganChase - Analyst*

Thanks. Marc, in an environment where you think leasing may slow in the second half of the year, do you think office rents for the market end up flat, down? Where do they go from here?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, as long as leasing absorption stays positive, I would say, at a minimum, it should be flat. I would've otherwise said up, except you have incremental supply so that would keep -- you have incremental demand, incremental supply, so that should keep rents, I think for at least 2016, at the levels they currently are, which is why we're modeling a mark-to-market consistent with last year's as opposed to something higher. Does that make sense or --?

Tony Paolone - *JPMorganChase - Analyst*

Yes. It sounds like -- it sounds flattish, I guess?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, again, it sounds flattish because of the incremental supply, but, yes, because the point is -- where you want to -- where you would look to declining rents would be when you have significant job loss, which is not at all being forecasted as part of this cycle right now.

Tony Paolone - *JPMorganChase - Analyst*

Okay.

Marc Holliday - *SL Green Realty Corp. - CEO*

So, yes. I would say flat. It could be up, could be. If you said it will be up 3% to 5%, that wouldn't surprise us. That's possible. So it's sort of property-specific. Because we're so leased, we'll have the opportunity to push those marginal rents higher than we normally would because we have very little space available and not a whole lot expiring. And a lot of other landlords are in that same situation. So we will certainly be responsive to the market, but we're also holding our rents and can push those rents.

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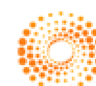

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Tony Paolone - *JPMorganChase - Analyst*

Okay. And then second question, both 3 Columbus and 280 Park, I know you have partners on those, but they both seem to be rounding the corner then now. What do you guys want to do with those? Do you keep them? Do you try to sell? What are the plans there?

Marc Holliday - *SL Green Realty Corp. - CEO*

I think both assets are long-term holds, so I don't -- it's not a part of the current thinking on asset dispositions in either of those two events.

Tony Paolone - *JPMorganChase - Analyst*

Okay. Thank you.

Operator

John Kim, BMO Capital Markets.

John Kim - *BMO Capital Markets - Analyst*

Good afternoon. Marc, just given where your stock is trading this year, as well as your CDF spreads on your debt, are you considering deleveraging further than the 8 times debt to EBITDA that you projected by year-end?

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, I think the projections we put up with Citi had us below 7.6%. So I guess the answer is yes because that's what we put up in December was I think 7.5% or 7.6%, Matt?

Matt DiLiberto - *SL Green Realty Corp. - CFO*

7.6%.

Marc Holliday - *SL Green Realty Corp. - CEO*

So I would say that's still the target. We could go below that as well, but the target is not 8.0%, it's 7.6%.

John Kim - *BMO Capital Markets - Analyst*

Right. 7.6% is pro forma 2017?

Marc Holliday - *SL Green Realty Corp. - CEO*

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John Kim - *BMO Capital Markets - Analyst*

But I was wondering if there was any thought of deleveraging quicker than that?

Marc Holliday - *SL Green Realty Corp. - CEO*

Yes, I think that certainly if we wind up reinvesting or utilizing all the proceeds of our expected sales to retire debt, then it'll be quicker than that and further than that, if you will. So the answer is -- certainly something we would do and could do if -- based on the assets we sell, and again the only sort of asterisk there is to what degree is the tax implications of what we're selling.

Some assets have modest tax implications. Others we've created such enormous embedded gains that they tend to -- it's more efficient, if you will, to reinvest in a 1031 the way we usually do because selling assets and paying down debt works if you are not making any money, but if you are making sizable capital gains then you've got sizable taxes to pay.

John Kim - *BMO Capital Markets - Analyst*

Okay. And then you commented on the potential increases in IRRs for traditional type of assets, but I was wondering if you had any comments on trophy assets as far as exit cap rates because I think, earlier this year, exit cap rates were being underwritten at 50 basis points higher than going in for trophy type of assets.

Marc Holliday - *SL Green Realty Corp. - CEO*

I think you are going to see no change in trophy cap rates.

John Kim - *BMO Capital Markets - Analyst*

Even with the job growth slowing?

Marc Holliday - *SL Green Realty Corp. - CEO*

Even with job growth slowing. These are the -- trophy assets to me are the premier assets in the city, which generally are well-leased and long-term leased. So an incremental job growth in 2016 is sort of meaningless for the asset. There are people that just are looking to put core money to work.

The interest rates are low. The debt market -- the spreads have gapped out, but swaps and treasuries have declined such that financing rates are still extremely low relative to those cap rates and IRRs and because of that, we still see at the moment pretty heavy investment demand.

I think the message is, I'll keep repeating so hopefully people come away with it, that it'll be selective and the best assets I think will be -- will still continue to be at some of these record levels, if you will, or most desired levels throughout the year. And fortunately our portfolio falls primarily into that bucket.

John Kim - *BMO Capital Markets - Analyst*

Thank you.

Operator

Manny Korchman, Citigroup.

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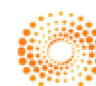

Mike Bilerman - *Citigroup - Analyst*

It's Mike Bilerman with Manny. Two questions. The first just on One Vanderbilt and Marc, certainly appreciate your comments that, in option one, using joint venture equity, as well as a construction loan, you wouldn't have to put any more capital. And I'm just curious as you are thinking about that project and investing that extra $1.7 billion of capital, at what point do you make the decision to move completely forward? Is it a pre-leasing level, or is it at a date because I do think that there is, even if you use joint venture in a construction loan, still some concern in the marketplace that you are going to move forward with an extraordinarily large development in an uncertain market and one where clearly your more subdued comments today would give people more pause. And so I think just trying to understand when and what sort of environment you would fully move forward with this.

Marc Holliday - *SL Green Realty Corp. - CEO*

Well, the environment into which -- today is really not the environment in which we're leasing into. So you really have to look at what's the environment in 2017 and 2018 when we would expect the bulk of the leasing to be done. So with regards to a go/no go, it's about capitalization and risk mitigation. So to the extent you've got long-term and low-cost construction financing in place, that gets you into the 2020s.

So this market becomes like an asterisk to the relevant market for this asset, which is five to six years forward and you had your JV equity in place such that you would have no further equity commitment. So without a financing risk and without any further equity component, that makes it an easier call to move forward than not. So I think that the level of leasing will be known in 2017 or 2018, so I would say, at least on a spec basis, that's the date on which we'd be reassessing or assessing the project. But I'm very confident that that project is going to be met with extraordinary demand on both the debt equity and leasing market.

The meetings we've done to date have kind of codified for us, if you will, just how well-received this product is going to be. But again it's for a much future market, so I think the issue is predominantly capital risk mitigation, which is really in the form of equity bringing in a JV partner.

Mike Bilerman - *Citigroup - Analyst*

And the second question is just in regards to NYRT and you guys made a comment to the press last week that you are not in negotiations to buy the Company. And I wonder if you can just clarify does that mean you are still part of a process where you are not the active lead bidder in the final negotiations, or does that mean you are completely out from acquiring the entity and how does that then translate ultimately to potentially coming back in as a bidder or potentially financing another bidder from a DPE portfolio?

Marc Holliday - *SL Green Realty Corp. - CEO*

Michael, you are like going way too deep into this. If we make a statement we're not in discussions with the Company, I would hope that that's just sort of --.

Mike Bilerman - *Citigroup - Analyst*

Well, it's in negotiation, so I didn't know how to take negotiation as a word and --.

Marc Holliday - *SL Green Realty Corp. - CEO*

All right. Use the word discussion. I know what you want to use. I have nothing further to say on NYRT. We're not at liberty to get into it. You can speak with them. I wouldn't read so much into it.

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Mike Bilerman - *Citigroup - Analyst*

Okay. Thank you.

Operator

Alexander Goldfarb, Sandler O'Neill.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Good afternoon. Two questions here. The first is, over the past several years, we've had a number of market swoons where there's been extended volatility, whether it's last August or previously back in 2013. Given large financial firms haven't really been active growers, so it's been either smaller financial or the social media or advertising or other industries, can you just give a sense of, as far as tenant discussions, how right now is different that's made you more subdued versus what happened last August when people panicked over China or in prior market meltdowns?

Marc Holliday - *SL Green Realty Corp. - CEO*

Steve Durels, are you --?

Steve Durels - *SL Green Realty Corp. - EVP, Director of Leasing & Real Property*

You've got to put things in context. Marc was commenting as to where there are headwinds and speculation as to what we may face throughout the year. That's one point. But as we sit here today coming off of a very strong fourth quarter and going into the first quarter, we haven't seen any let-up on the leasing so we have a very full pipeline. And we've probably got as better diversification on the types of tenants than we've seen in any time in the past.

Of the 1.1 million square feet of pipeline transactions that are active either in term sheet negotiation or leases out, it runs the gamut of big deals with insurance firms, healthcare, advertising, legal, information services and financial. So a very, very broad spectrum of tenants that we're in active discussions with.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

So as far as the leasing slowdown in the second half, that's just a general market observation, or, Steve, that's based on your conversations with tenants, you're sensing more of a hesitancy by people who normally would be in discussions at this point for second half where they are not in those discussions?

Steve Durels - *SL Green Realty Corp. - EVP, Director of Leasing & Real Property*

Hasn't affected yet the conversations at my level. I think we're looking more forward down the line and saying if there's going to be moderating job growth, if there's sentiment out there that will lead people to pause, then that's later down in the year. But as we sit here today, the only hesitancy we've seen is on some of the financial service guys. As you would expect, whenever we've seen big gyrations in the stock market, then all of a sudden you get some of those hedge funds, some of those financial service guys say, you know what, let's just pause for 30 days, 60 days and see where the world shakes out.

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Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay. And then the second question is, on the finance book, what percent of the book are residential or condo conversion opportunities? If it's like an office building where you lent and the person wants to do condo conversion or something that would be like that and then what's the split of rental on the residential and your finance book?

David Schonbraun - *SL Green Realty Corp. - Co-CIO*

The answer is, as it sits today, we don't have loans on active condo projects and any loans that we have that are transitional either work as office buildings or work for us as multifamily. So we don't tend to make condo loans. The only time we really lend on residential is when we think the fallback as multifamily works, so we're not really long right now with condo -- we're not long condo product as condo product and we're not really long on any real construction as it sits today. We have some land loans that I think sponsors want to go to condo, but our basis works with a very different business plan.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay, so like Sony building-type things, how many other Sony-type buildings are there?

David Schonbraun - *SL Green Realty Corp. - Co-CIO*

The Sony building as it sits today is an office building.

Marc Holliday - *SL Green Realty Corp. - CEO*

Sony is not -- our loan on Sony does not allow for a change of use, so I wouldn't put that in a residential bucket. That's an office building.

David Schonbraun - *SL Green Realty Corp. - Co-CIO*

It's an occupied office building.

Marc Holliday - *SL Green Realty Corp. - CEO*

The collateral is office. So when you talk about a conversion loan, those are loans where you are providing the capital to convert to a change of use and at the end of the loan term, the use has been changed. That's not the Sony loan and I'd say that's not most of our loans. We may have up to 30 some odd positions; maybe one or two are bridge loans with an intent to condo, or no? I don't even know.

David Schonbraun - *SL Green Realty Corp. - Co-CIO*

There's a couple. There's very few that are bridged with intent to condo, but our loans don't allow them to go vertical.

Marc Holliday - *SL Green Realty Corp. - CEO*

Right. I guess the point is they don't go vertical, so there's no exit in terms of like condo sellout exposure. We have none of those.

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Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay. Thank you.

Operator

Michael Lewis, SunTrust.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

When you first laid out your 11 Madison rubric, there was about $12 million of early debt extinguishment as part of that. You have a bunch of sales in the first quarter. Can we expect to see those charges in the first quarter and are they in your guidance?

Matt DiLiberto - *SL Green Realty Corp. - CFO*

We actually structured the refinancings such that we don't need to take that charge. So we put it out in the original rubric. It's not in our guidance and we won't be taking such a charge.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

Okay. And then my second question, I might be wasting it, it's about New York REIT. The stock went up pretty significantly when it was reported that you weren't involved. Michael just asked you if you might still be involved and you couldn't answer, or didn't really answer. Can we just say right here that you are not going to be buying New York REIT in any way shape or form, or can we not say that?

Marc Holliday - *SL Green Realty Corp. - CEO*

Guys, we're going to pass on commenting on that question, but thank you. We're not in the position to answer the question.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

It feels like maybe it puts you back where you started before you commented, right?

Marc Holliday - *SL Green Realty Corp. - CEO*

I've got to move onto the next. I'm sorry. I appreciate the question, Michael. Sorry, Michael. Steve Sakwa.

Operator

Steve Sakwa, Evercore ISI.

Steve Sakwa - *Evercore ISI - Analyst*

Thanks. Marc, just one question. I guess given the large discount that you stated at your Investor Day, you were trading 10 AV, would you entertain doing a much larger asset sale and doing a special dividend, something on the order of what EQR did in order to try and help return cash to shareholders and recognize that value?

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Marc Holliday - *SL Green Realty Corp. - CEO*

Yes, I think that's completely on the table if we get to a point where we think that's the best use of funds for sure. I think it makes sense. The asset portfolio at -- I think the numbers were a 4.5% cap was about 154, a 4.0% cap was 175 and we're looking at a screen today of sub-100. So if there's -- I think one thing we've done a good job with in particular in the past couple months is illumination of asset value. We've generally been able to sell into this market at numbers that are far, far in excess of people's models and everything, but consistent with our NAV, which gives us confidence -- it cements our confidence in our NAV.

So I think that the implied trading right now is somewhere around 7.0 to 8.0 cap, which I think is somewhat absurd and therefore, you'd have to look at that, what you outlined there, Steve, as a strategy as a definite possibility.

The alternative is you can do the same thing, pay down some debt and do a stock div as well, sort of different executions, but related.

Steve Sakwa - *Evercore ISI - Analyst*

Okay, thank you.

Operator

Sumit Sharma, Morgan Stanley.

Sumit Sharma - *Morgan Stanley - Analyst*

Thanks for taking the question. Thank you for the color on the market. So assuming that these negotiations on the spaces that are coming due, and this is not SLG space, but to your market commentary in general, assuming that this starts happening at least 12 months in advance, is this -- is your cautionary tone more on smaller tenants, or are larger users also taking a part? I guess do you anticipate TIs in freelance and concessions going up in 2016 because of the softening demand?

Marc Holliday - *SL Green Realty Corp. - CEO*

I will let Steve handle that. I don't think we have it as finely parsed as large tenant, small tenant, but, Steve, do you have a view?

Steve Durels - *SL Green Realty Corp. - EVP, Director of Leasing & Real Property*

Our commentary was in response to an inquiry as to whether rents would go up. The question wasn't whether the rents will remain healthy or not. We are in a very strong market. We've had strong velocity in the fourth quarter. Midtown, in particular, had a very strong leasing quarter in the fourth quarter. Our pipeline in the overall velocity of the market remains strong.

So I think from our perspective the question isn't whether or not there is going to be erosion, it's just a matter have how good it's going to be and if it's not great, it'll still be a very solid leasing market for the year.

Sumit Sharma - *Morgan Stanley - Analyst*

Got it. Understood. Actually another follow-up on the investment sales side at this point. Have you seen any receding demand from foreign buyers of sovereign wealth funds?

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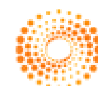

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Marc Holliday - *SL Green Realty Corp. - CEO*

Isaac, do you want to get that?

Isaac Zion - *SL Green Realty Corp. - Co-CIO*

We're still actively meeting with sovereign wealth funds from all over the world, maybe you see a little bit of an uptick from folks in the Middle East trying to get some money out. Some of the European funds are also focused on the city. You've got to remember those are much longer-term players. Their view of the market is very long-dated, so we haven't seen any pullback from those players in terms of looking for assets.

Sumit Sharma - *Morgan Stanley - Analyst*

Thank you for the color.

Operator

Craig Mailman, KeyBanc Capital.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

It's Jordan Sadler here with Craig. Just on the CMBS market dislocation we've seen over the past six months, but in particular since your IC, any thoughts ahead of risk retention coming into play later this year and what that portends for either New York City real estate values or for your structured finance business?

Andrew Mathias - *SL Green Realty Corp. - President*

Yes, I think everybody is talking about risk retention, for sure and there's still a lot of uncertainty in terms of how the rules are actually going to play out. I think it will have less of an impact frankly on large New York City assets and a much more direct impact on financing costs for typical conduit product where today that market had gotten rather efficient and you don't see a lot of conduit loans in New York City because they are all large loans, either single assets or they are sort of dominant pieces of bigger securitizations.

I do think debt dislocation, something we've been highlighting since the fall, does create opportunity in our structured finance book and as sizing of senior loans changes due to higher cost and more conservative underwriting or less players in the market, it does generally improve the subordinate debt market and we're either taking less risk or able to charge more for our capital. So I'd look for it to have more impact in the structured finance book than on New York City assets where I think there's still a very robust commercial bank market. There is a robust CMBS market for large assets and I don't see risk retention really playing that much into those assets.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. That's fair. Thanks for the color.

Operator

Jed Reagan, Green Street Advisors.

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Jed Reagan - *Green Street Advisors - Analyst*

When you talk about leasing velocity slowing this year potentially, you mentioned big banks as one group that might hit the pause button. Are you expecting a slowdown from the TAMI crowd as well? And then as you kind of look out into 2017 and 2018 as you sit there -- as you sit here today, you mentioned the back half of the year could be tough. Just generally speaking are you expecting a continued slowdown in the rent velocity environment going into 2017 and 2018?

Steve Durels - *SL Green Realty Corp. - EVP, Director of Leasing & Real Property*

I think it's hard to predict whether it's going to be -- which industry will experience any kind of slowdown. I think the big banks, in particular the investment banks, we haven't seen them grow in the market obviously. We've seen them lease space in the market and they are in the market right now, but mostly through consolidations or because they are attending to lease expirations.

And being able to quite frankly forecast where I think any other industry is going to see any slowdown, I don't think I've got that crystal ball. I can only say that as we sit here today, every one of those industries, whether it be financial advertising, TAMI, the biggest sectors of the market, we've got deal flow from those sectors, but I think only time is going to tell as to who feels the pain and if there's a slowdown at all.

Jed Reagan - *Green Street Advisors - Analyst*

So sort of underpinning your outlook for job growth later this year is kind of more of a broad-based impact?

Steve Durels - *SL Green Realty Corp. - EVP, Director of Leasing & Real Property*

Yes, I think that's a big view on a 400 million square foot market, what it does to the overall leasing market and how are we suited to be able to respond to that. And the reality is we've got very little vacancy. We've got a year of very little lease expirations, so we're well-defended to handle whatever happens in the marketplace and we're forward-looking by really attending to a lot of our 2017 expirations as we sit here today.

Jed Reagan - *Green Street Advisors - Analyst*

Okay, thanks. And you guys mentioned a tougher underwriting environment for lower quality assets and buildings with execution risk. Couldn't that make the bidding tenant pricing environment for doing a JV deal on One Vanderbilt tougher? And then how much do you think, if you were to compare say your suburban assets versus say an opportunistic deal in Manhattan in terms of vulnerability on pricing -- any comments you can make there?

Marc Holliday - *SL Green Realty Corp. - CEO*

I'm not sure I understood the second part of the question, Jed, but as it relates to the ability to JV One Vanderbilt, I think it's going to have an excellent reception and I think we'll be successful there and I think that people are excited by the asset and most of the calls continue to be inbound.

I don't know the suburban asset, opportunistic, I didn't follow that.

Jed Reagan - *Green Street Advisors - Analyst*

Just trying to parse out if you are saying that lower quality opportunistic deals might be under more pressure in terms of underwriting expectations. Which area do you think is more vulnerable, say a suburban portfolio that you own or a deal with hair on it in Manhattan?

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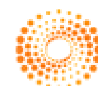

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Marc Holliday - *SL Green Realty Corp. - CEO*

There's no deals we own with hair on it, so I can't -- that's a hard one to answer. I would say that there's generally core and non-core. Non-core is not hairy deals, they are just not of the highest caliber of trophy deals. So there, you may see IRRs widen out 50, 75, 100 basis points. I said that earlier.

Suburban portfolio, I wouldn't extrapolate anything to that because they never participated really in the uptick. I don't think they're going to participate in the downtick. That's a very steady-state market. So I don't think anything we've talked about to date I would extrapolate to the suburbs.

Jed Reagan - *Green Street Advisors - Analyst*

You wouldn't expect a similar widening of IRR expectations out in the suburbs?

Marc Holliday - *SL Green Realty Corp. - CEO*

No.

Jed Reagan - *Green Street Advisors - Analyst*

Okay. Thank you.

Operator

Ladies and gentlemen, this does conclude the question-and-answer portion of today's conference. I'd like to turn the call back over to our host.

Marc Holliday - *SL Green Realty Corp. - CEO*

Okay. Thank you very much and we'll look forward to speaking again after the first quarter is done.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.

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