17-Oct-2024

SL Green Realty Corp. (SLG)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

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

OTHER PARTICIPANTS

John P. Kim
Analyst, BMO Capital Markets Corp.

Steve Sakwa
Analyst, Evercore ISI

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

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

Michael Lewis
Analyst, Truist Securities, Inc.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Peter Abramowitz
Analyst, Jefferies LLC

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us. Welcome to the SL Green Realty Corp.'s Third Quarter 2024 Earnings Results Conference Call. This conference call is being recorded.

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

Also, during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measures most directly comparable to each non-GAAP financial measure discussed, and a 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 2024 earnings, and in our supplemental information included in our current report on Form 8-K relating to our third quarter 2024 earnings.

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

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

Marc Holliday

Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.

Okay. Good afternoon and thank you for joining us at SL Green's third quarter earnings call. By now, you will have seen the exciting news that we put out last night, which was the culmination of another great quarter of activity since we last spoke. We called the pivot in the market about one year ago. And since then, we've seen four consecutive quarters of positive market momentum that reinforces our belief that New York City has turned the corner and we are now meeting or exceeding many of our goals.

Since we were last together, and that was just three short months ago, a lot has happened. Last month, IBM cut the ribbon and took occupancy of their incredible new space at One Madison Avenue, effectively christening the building that rightly takes its place alongside One Vanderbilt as a shining example of the new model for modern and innovative office buildings.

One Madison, now fully complete, has come alive as other tenants are moving in, such as the Franklin Templeton Companies, the opening of Chelsea Piers, the activation of the Fabulous Rooftop, which is already hosting many, many special events, and proof positive that the city is thriving for demand of space for this kind, and punctuated by Daniel Boulud's new steakhouse, La Tête d'Or, designed by David Rockwell, completed construction this month and will open to the public in November. Be sure to get your reservations and be among the first to be there over the holidays. Special place and a great new addition to the Flatiron area and just another great step in the right direction for New York City.

On Monday, we will celebrate the third anniversary of SUMMIT One Vanderbilt. We are now closing in on 6 million guests. I think in November, we will host our 6 millionth guests through the turnstiles at SUMMIT, and I think that just really speaks volume to what an enormous attraction SUMMIT has turned out to be. Many day sellouts, most day sellouts. It has been named [ph] Accolades (00:04:20) as a special bucket list destination for New York City, and everyone comes out of there with a smile. We're very proud of it, and we're even more excited to begin the global expansion as we bring the unique SUMMIT experience to other cities around the world, with Paris being first up in the queue. Expect an announcement with further details on our Paris initiative sometime later this quarter.

Also earlier this week, many of you may have seen the press yesterday and this morning, Mr. Giorgio Armani made a rare trip to New York to celebrate the opening of his new boutique and residences on Madison Avenue, developed in conjunction with SL Green. As you know, the residences are completely sold-out, and Armani's flagship store has anchored a complete revival of luxury retailing and elevated experiences on Madison Avenue as many of the world's prominent luxury retailers have relocated or recommitted to Madison Avenue after the announcement of the Armani project. If you're in the area, please be sure to come by, check it out, pick out something special with the profits those of you have made on SL Green stock.

After nearly a four-year hiatus, we are now fully back in the DPE business, lending on and investing in mortgage and mezz loans and debt securities. This quarter, we invested nearly $110 million in various debt and debt-like investments, and that's on top of the other DPE investment activity we did earlier this year. This marks the return to an extremely profitable business where we typically have achieved outsized market share and market returns.

The debt investments we've closed thus far, combined with our extensive pipeline that we've been building throughout the year, will serve to seed our debt fund that we anticipate, having an initial closing on in the fourth quarter. The fund will provide additional capital resources, enabling us to reestablish ourselves as the dominant provider of subordinate capital for New York City commercial assets.

And I guess, the highlight of highlights was something we announced after business closed yesterday. Further evidence of what I would say is really incredible leasing momentum. Some of the best I can recall seeing in my 26 years here at the company. We achieved a 925,000-square-foot renewal and expansion of Bloomberg over at 919 Third. This was not really within the expectations at the beginning of this year. So it was a very pleasant surprise. And I'd say it was even more telling about the strength of this market, Bloomberg being one of the great worldwide media companies, not only renewing upwards of 725,000 – 750,000 feet, but they expanded by almost 25% within 919 for a total of 925,000 square foot footprint, which speaks volumes, I think, to the amazing partnership we have with Bloomberg, who started out as a relatively small tenant in the building some years ago. Steve, you recall?

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

200,000 foot.

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

200,000 foot tenant, how long ago?

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

2015.

Marc Holliday

Chairman, Chief Executive Officer & Interim President, SL Green Realty Corp.

2015, less than 10 years later now closing in on a 1 million square feet. So I think it's a great story about partnership, about complementary businesses, us being able to serve Bloomberg's growth needs and Bloomberg being there to help us fill the space in the building. And it's, I think, further proof positive about the radiation of demand away from what we have traditionally referred to as the Park Avenue spine.

You know, the story goes that the demand is limited to trophy buildings on Park Avenue. You've heard us say it's not the case, particularly not this year, when we have consummated 2.8 million square feet of leasing year-to-date. And this being example, as well as other examples in the portfolio of that demand, not being so much geographically-focused as it is generally within East Midtown, in renovated Class-A buildings with strong sponsorship, and that's where we're having our success, such that we now expect to have leasing achievement this year, eclipsing 3 million feet and achieving a projected occupancy at year-end in same-store Manhattan of 92.5%.

So those are some pretty, pretty good stats. We're proud of them. Great job by the team. You know, again, that's a good three months in my book. I think it illustrates what we've been saying now for a while. That business is back in New York. The worst is, without question behind us, this is now in our eyes a market for being affirmative and offensive and our portfolio is well-positioned to capitalize on that market as there is a scarcity of well-located and amenitized Class-A assets in the East Midtown market, which is where we call home.

So with that, I'd like to open it up for some questions on the quarter.

QUESTION AND ANSWER SECTION

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

John P. Kim

Analyst, BMO Capital Markets Corp.

Q

Thank you. Congrats on the Bloomberg transaction. I just wanted to confirm that it was not in your pipeline that you last described, that 1.2 million square feet, just given the size of this lease. And I think you described the pipeline as being pretty diversified. And also, if you could share with us any of the economics on the rent versus the in-place of $66 and how much you offered in concessions?

Steven M. Durels

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

A

So it was not in our reported pipeline. The deal came together very quickly. So it's not something that we were including in our pipeline because – one, because it was so large; and two, it was so unanticipated; and three, it happened so rapidly. With regards to the economics, we're under an NDA, so we can't really share specific details other than to say that obviously the size of the lease, it's a 15-year lease from today, so it's a 10-year extension, 15-year term on the expansion. There is substantial positive mark-to-market. And the concessions are appropriate for renewal, but significantly below what they would have been if we had to replace the tenants for vacant space.

And with regards to – I think you asked about diversity on the pipeline. You know, like in past quarters, it's heavily weighted towards financial services. I think that's a reflection of where we have vacancy, not just because it's the only industry that's in the market right now. We're seeing law firms, TAMI tenants, business services and financial services. But specific to our current pipeline, a lot of it is weighted towards financial services.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. And my second question is on One Vanderbilt. We didn't get an update on the joint venture sale. So I wanted to ask if it's still on track and also if you really need to sell a stake in the asset at this point in time, just given the fundamentals and sentiment on New York has shifted positively over the last few months. Your cost of capital has improved so there's other access to – or sources of capital that you could tap. So just wanted an update on that and whether or not, you're contemplating not selling the stake.

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah, it's going great at One Vanderbilt, and we're confident that we'll be able to close the transaction in the fourth quarter. You know, the transaction really will be the culmination or conclusion of a process that affirms in our mind, One Vanderbilt's position as not only the premier office tower in New York, but also global icon of modern development. So, two Michelin Star restaurants, the continued success at SUMMIT, a fully leased rent roll and long-term fixed rate debt. The story here keeps getting better and we're looking forward to expanding the partnership at the [indiscernible] (00:13:41).

The second piece of your question, I'll leave to Marc.

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

A

Yeah. On the question of, do we have to sell, we don't have to do anything. I mean, we're in great shape. We have lots of tools at our disposal to generate capital organically, monetizing assets, third-party money, debt funds, et cetera. And if – I would not look at anything related to One Vanderbilt as it has to do. We do it because it was part of our original business plan to sell down to somewhere between 50% and 60%, maybe 55% and 60%. That was the original business plan. That's where we think the asset is optimized for the perspective of shareholders between return and enhanced fee generation of the asset.

It is a – One Vanderbilt is transformational for this market. It's now the building block of this company. We expect to hold and own it for quite some time. But we welcome the opportunity to bring in some of the great international partners from around the world. And we expect, as Harry said, to conclude that in the fourth quarter. But that will just be one component of what we expect to close from this point forward through the remainder of the year by monetizing certain assets of the company that should yield to us in excess of $500 million of net proceeds, which we will use in the interim to pay down the line to bring it into the levels that we had projected in December of last year. So we're on track, we're possibly little ahead on that. And it will set us up, I think, quite well leading into 2025, which I think is going to be a big, big year for this company.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you.

Operator: Thank you. One moment for next question. Our next question will come from the line of Steve Sakwa from Evercore ISI. Your line is open.

Steve Sakwa
Analyst, Evercore ISI

Q

Yes, thanks. Good afternoon. Marc, I just wanted to see if you could comment a little bit more on the transaction market. Obviously, you guys are back in the DPE business. I'm just curious what you're seeing on the direct side of things and are the opportunities more pronounced in the DPE side than the direct purchase side?

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

A

Well, I think, Steve, it's kind of both and it's really a function in my mind of debt and equity liquidity coming back to this market. And when it comes, it comes pretty fast and pretty strong. And as a case in point, last year, there was – I think there was $0 of New York, Manhattan, SASB loan originations, zero, which is quite unusual.

This year, including the Rock Center deal, which is pricing today and 299 Park, which is pending pricing next week, there's going to be $5.3 billion of SASB deal illuminating spreads, levels, values, demand, et cetera. And that's a quite a different picture along with we're seeing now balance sheet lenders quoting deals. And the conduit market is firming up and spreads are coming in irrespective of where underlying SOFR and treasuries are headed. Spreads themselves are compressing and the equity follows the debt. And we've seen some deals trade, some known 250 Park with the trade, Harry, couple of others off the top of your head?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

980 Madison.

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

A

980 Madison, that was to a user Bloomberg Philanthropies. You know, obviously, we've been in a lot of user trades, have been in some investor trades, and there's deals in the market that we're tracking. Our focus isn't really on the direct equity side at the moment. It's more development-oriented and longer term. But there are a couple of deals that we are paying particular attention to. But if you want to look at just dollars allocated, we do expect that most of our activity will be focused to DPE, which is very customary and routine coming out of a downturn like we had in 2022-2023 to start there and then sort of evolve into direct equity.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. And then as a follow-up, Matt, I did notice that things like real estate taxes and OpEx were at least much lower than what we had modeled. I just didn't know if there were some timing issues there or if there were some maybe refunds that you got on the tax side. Just anything. Was that sort of a normalized level or were there some onetimers that might have pulled those down and those might bounce back up in Q4?

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

A

Nothing, nothing unusual in there. I think they moved given the size of the line item, not much. They do bounce seasonally from time to time. Certainly operating expenses do. I think the team's done a great job. We worked very hard on our real estate taxes and the operations team does a fantastic job with our operating expenses, keeping them contained. You know, they've done an even better job this year. So we saw some savings. They're working right now on how that looks going forward, but nothing unusual within the quarter. No.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Thanks.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Ronald Kamdem from Morgan Stanley. Your line is open.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Just two quick ones, starting with the same-store cash, same-store NOI accelerated to 2.9% in the quarter. Just hoping you could sort of talk through what the expectations are for the back half, for the rest of the year and maybe into 2025. What major sort of building or leases we should be thinking about as we're trying to think about 2025? Thanks.

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

A

Yeah. I appreciate you trying to ask about 2025. We'll talk about that on December 9 at the Investor Conference when we give guidance. But the results for 2024 through the first nine months reflect the portfolio that has been performing better than expectations. It was part of the reason we raised guidance back in July with earnings. And we continue to trend ahead through the third quarter. Fourth quarter is trending in a similar direction. I'm not changing where our same-store full-year guidance ended up, but we have trended better than we expected through the first nine months at least.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then, look, my second question was just going back to the alternative strategy portfolio. I think you talked about sort of threats coming in, maybe the environment being a little bit better. But qualitatively, does that help in terms of conversations, in terms of those negotiations? Any sort of color you can provide on how that's progressing would be helpful. Thanks.

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

A

Well, again, I just want to refresh for everybody, ASP, the alternative strategy portfolio, is a category we created at the end of last year to address assets that shareholders perceived where we think the market perceived more accurately as having little value or little current value, even though in many of the cases, we believe there could be long-term value, particularly when we work to recapitalize the underlying indebtedness on those assets or in some cases leaseholds in ways that are advantageous win-win scenarios for the lender and for us as holder of those assets.

And I think you've seen that strategy bear fruit already, probably hadn't anticipated ourselves the early returns. But year-to-date, I think we've had very good results, as I recall, 717 Fifth, 719 Seventh, 2 Herald or 3 that stick out in my mind. There might be one other. And there's others we're working on where we've been able to get creative and do what we do and mine value out of the ASP assets and we'll continue to do so as we work that portfolio down. I think the real takeaway or one of the reasons for the illumination of that portfolio was to dispel the notion that there was any recourse liability or guarantees or peril associated with those assets. They're almost, in every case, nonrecourse.

With that said, out of respect and deference to our partners and lenders, we do everything possible to try and optimize those assets and get as full a recovery as we can on those assets, and we continue to do that. And with respect to the three examples I gave, very successfully. So we're going to stay at it. The market – to your point, the market coming back a bit certainly helps. There's no question we can reevaluate some of those assets, which we do quarterly, and it doesn't mean we pop them out of the portfolio. It just means that we may have an accelerated timeline for the ultimate disposition of those assets. But there are some ability, there are some good assets in that portfolio. We hope to work those assets as hard as we can and maintain as much value as we can.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Helpful color. Thank you.

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

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks. Maybe on the leasing front, for demand, you're seeing outside of Park Avenue, maybe on Third or Sixth, is this just a function of limited availability along Park, or are tenants maybe out there looking for better deals? And then can you kind of quantify maybe where concessions are in some of those submarkets relative to Park? And then maybe broadly, is it fair to say we've passed key concessions in New York overall?

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

A

Well, I want to start with the last question first. We set forth, I think, the better part of the year that concessions peaked last year. We've seen no increase in free rent or TI on the average deal, obviously, saw for our deals for this particular quarter, they went up, but they were influenced by a lot of high-rent deals that were signed, a lot of new leases, filling vacancies that were signed as opposed to renewals. And in one particular case, a very large deal where we actually contributed, made a $1 allowance for the tenant to perform base building work, which skewed the number as to what we reported for TI.

But at its core, the TI number has not changed throughout all of this year. I think we're going to see rents rise more materially before we see concessions come down, but concessions will start to tighten up. And I think the first thing you'll see come off the table is some of the free rents, and then ultimately the TI allowances will be probably the last thing that changes.

With regards to the Park Avenue versus some of the other avenues, we've been saying consistently this year that we've seen a lot more activity in the value part of the marketplace. Those tenants that are paying $55 to $75 or $80 rents. So those are not Park Avenue type tenants, whether they be on Third Lex or Sixth Avenue, in particular, where we've seen us do a lot of leasing at 810 Seventh or 1185 Sixth, and then obviously this newest announcement on Third Avenue with Bloomberg.

Some of that is spillover from Park Avenue, but a lot of it, I think, is just an awakening of the market by those smaller to midsized tenants that are chasing sort of the value part of the marketplace. And I think we're going to continue to see that strengthening the market. In fact, there was a new market report that just came out the other day that their statement was non-trophy leasing is on pace to reach its highest level this year versus all the way back to 2019. So I think that really puts a pin into it for you.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.
Q

Great. Appreciate the color there, Steve. And then just maybe on the financing markets. Marc, I know you talked a little bit about the CMBS market maybe being more open, but have you gotten a sense maybe more traditional lenders have started to warm up to lending on, on commercial real estate and office broadly again and then maybe you can give us some insights. You obviously had a number of modifications and extensions this year. We paid down a pretty small amount of principal. But could you give us a sense why lenders are willing to kind of cut those deals on refinances that would only require you to pay down a smaller amount when the mortgages come due?

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

Well, okay. The question about portfolio lending, absolutely. I think you're going to see – 2025, I think the focus with a lot of the major lending institutions will kind of start to revert back to increasing net interest income with less of a focus, if any, on establishment of reserves, because I think the view is that the banks are properly or reserved there and then some based on what the expectations were going back over the past four years. And you've seen in the announcements the earnings trajectory and growth of the money center banks is extraordinary.

I mean, there's big profits there. They're making money. They're expanding. It's broad-based, high net worth, banking, trading operations, all contributing. And I think the view is going to be growth. New business, new lending and commercial, prime commercial assets in New York City and good locations, I think, will be eligible for balance sheet lending, we're seeing that. And I think, you'll see more to come from us and others in the ensuing months on that exact topic. So that's that.

You know, as to some of the modifications we're doing, I mean, we have great relationships with our banks. We have great assets. The buildings typically are not in a over-levered state. And we're able – again, under the thesis that some of these banks want to maintain outstanding earning assets on great buildings with good sponsorship. Sometimes, the balances have to be tweaked with a pay down or some additional posting of reserves.

But just remember, we're projecting 92.5% leasing in the portfolio, which means we are swinging our way back to hopefully a fully leased state in the years to come. The buildings are in great shape. They're fully repositioned and, in most cases, amenitized and well-leased. So those are not necessarily the assets you read and hear about that where there are problems. And for those assets, I think it's quite natural for lenders to work with us on extensions until the market is fully back. And then when it is, there'll be more traditional refinancings for that portfolio. But I think it's very consistent and makes sense.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.
Q

Great. That's it for me. Thanks for the time.

Operator: Thank you. As a reminder, please limit yourself to two questions. One moment for our next question. Our next question comes from the line of Alexander Goldfarb from Piper Sandler. Your line is open.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey, good afternoon. And first, congrats on the strong leasing. Really unreal what you guys have achieved there since last quarter. Two questions are, first, on the mortgage servicing business, it looks like you guys currently have $5 billion and there's another $6.8 billion potential depending on, I guess, if that goes to special service or not. Matt, how do we think about the income that comes off of this? I mean, it seems rather lucrative as Marc just described, things are getting better. So how much income are you currently getting and how should we think about that $6.8 billion? You know, how much of that will – you think could come on and how do you think – where do you think this earnings could go?

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

A

Sure, I'll try. There's like eight questions, but the business is obviously throwing off a substantial amount of fee income. We had layered some of that fee income into our original projections back in December. We're trending ahead of that. You know, we stay away from how – you know, because each deal is slightly unique on how much these fees, how they roll through, what they are. I'll let Harrison expand on a little bit. But generically, these are – once they're in special servicing, you're earning a monthly, I'll call it a stipend, almost a monthly modest fee. And then on resolution, there's something more sizable. Harrison, do you want to expand on that a bit?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. I mean, this business has been remarkably fast-growing. Most of the people coming to us are looking for expertise in working out large loans, not just in New York, but across the country. And just to give you a sense of scale, as you just noted, it's $5 billion of active assignments today. We have another $6.8 billion of assignments where we are named special servicer, but the assets are currently not in special servicing.

And then in addition to that, we have another $3 billion of pipeline, and those are appointments that we're currently working on documentation to get named special servicer, some of which are in special, some which may get into special in the coming months or years. So, for us, this is a very scalable business. We run it with our current team. And the revenues, as I said on the last call, they're almost entirely going to the bottom line. So...

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay.

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

...we're continuing to grow this and working our relationships to get on more assignments. And I think one thing that's new in this past quarter is, now, our existing servicing clients, when they're doing new HRR positions or CCR positions, they're pointing us upfront on these new SASB loans. A lot of the business, we've done over the past year and growth is just organic, reaching out. But now, we're getting new appointments on new origination. So we see this being a sticky business for us.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And then the second question is, great to see you're back in the DPE. It's been a good business for you guys historically. As you think about the JV debt fund, how do you bifurcate which goes in the DPE and which goes in the JV fund?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. So just as an update on where we stand on the fundraise process, it's been going great. We've reached a deal with our anchor investor and we're now documenting their investment, which we expect to close in the next 45 days. We also have significant follow-on investor demand that we expect will meet or exceed our $1 billion goal through the final closing. And the setup of the fund is in terms of what goes into the fund and what doesn't is that this will be our primary credit vehicle for new DPE investments until that $1 billion or whatever we end up closing on is deployed.

And so, we look at – that's what the shareholder feedback last year was against this business. This is how we'll be deploying dollars into the credit space until the dollars are deployed. And we'll continue to mine these investors for potential follow-on funds, whether it be in debt or equity businesses.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Nick Yulico from Scotiabank. Your line is open.

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

Q

Thanks. Yeah. First question is just in terms of the mark-to-market, year-to-date, outperforming versus expectations. I think some of that I know was helped by some lumpy leases like Ares' 245 Park but we had success. But how do we think about like how much rents are, maybe out-surpassing expectations so far based on the leasing year-to-date?

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

A

Well, it's a – you got – I think you got to slice and dice the market a little bit. You know, if you look at Park Avenue, which is sort of the easiest example, it's the best submarket in the country right now. Rents are clearly on the rise. It's a landlord-favored market. We've raised rents four times in the past year on our assets on Park Avenue. I think you're seeing the early days of a similar situation on Sixth Avenue. But then, I think, as we look forward, I think you're going to see broadly speaking, in Midtown-specific, rent increasing on a lot of parts of the market and a lot of types of buildings next year.

You know, a good barometer, I always go to is The Graybar Building, right, pre-war building, big building, lots different kinds of tenants, lots different sizes, building that coming out of COVID had a historically high vacancy of like 18%. We're now down approaching the 10% vacancy. And I would fully expect that we'll see rents rise in that building next year. So that's a very good indicator of the kind of the mid-price-point product in the marketplace. If rents go up in that building, then you'll see rents go up broadly across most assets – most quality assets in Midtown.

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

Q

All right. That's helpful. Thanks, Steve. I guess, the second question is just on going back to the acquisitions environment and how you're thinking about funding that. I mean, how's the company right now thinking about using common equity stocks done quite well in terms of funding investments and how much of that could be on actually property investments versus debt investments? Thanks.

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

A

You know, I think that's, Nick, something we'll go into a fair amount of detail on in December. You know, we're not – I mean, what you're really getting at is kind of a 2025 business plan. Anything we're working on now that we're closing next 2.5 months, we know what it is and we're in the process of closing typically. Not to say we can't knock down a late inning deal, maybe November or December, but most of the balance of this year's activity is allocated, modeled, follow-through, et cetera. And we are right now preparing our plans for 2025 and beyond. And we'll be able to give some good color.

I don't really – I know there's a lot of question between equity and debt. To me, it's a spectrum. You know, it's real estate. And we just want to find the best point on that spectrum to invest. If we think we're getting a really good equity deal, we're going to do equity. If we think we're getting a really good debt deal and that's where there's some advantageous or misprice, we'll do debt. It's not always one or the other. A lot of these opportunities we approach, which I think is something that's, I don't know, unique to us, but it definitely differentiates for us, is that we can do any aspect of these deals from senior financing, mezz, pref, common equity, servicing, combination thereof.

And we don't always know because we got to evaluate where do we want to be in a particular deal and we don't know what deals are coming up in the next 12, 18 months. So we like to consider ourselves fairly fluid and fairly opportunistic. We're very comfortable investing along that spectrum that I mentioned to you. And we've done some equity deals, obviously, through pandemic. We did 450 Park. We did 245 Park. We did 625 Madison. Those are the three big ones that come to mind.

We've done some debt deals recently. And I would expect you're going to see a mixture of opportunities we'll be pursuing, which will be both debt and equity in the months to come. And I think we can give better planning and guidance on that in December. But that's where that is.

And in terms of how we fund it, I mentioned to you – I mean, we have all tools available. I sort of alluded to that earlier. We have a prolific group here that has great relationships throughout Asia, Middle East, domestically in Canada, where we can turn to capitalize both debt and equity deals. We're closing on a debt fund. I mentioned in my opening remarks in excess of $500 million of asset monetizations we expect to close this quarter and that will fund a lot of activities and get a revolving balance down to where we want it to be for year-end.

And as in prior years, we'll evaluate stock along the way as a source of potential equity if we feel the price is approaching something that is reasonable in light of the opportunities that exist. So the more [ph] favorable induced to (00:41:37) the opportunity, the more – and the larger the opportunity, we certainly wouldn't shy away from issuing equity for new opportunities or to rebalance the balance sheet. But we're in a really good place right now. We've shrunk our share count down considerably. We've retired a lot of debt along the way. You know, we're at levels that are very comfortable for us right now. And I think we have a lot of access to capital in all those various ways, including potential stock issuances. So it's a good position to be in. We're going to use it wisely and we're going to hopefully use it very accretively.

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

Q

All right. Thanks, Marc.

Operator: One moment for our next question. Our next question will come from line of Michael Lewis from Truist Securities. Your line is open.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Thank you. First one maybe for Matt. The SUMMIT OpEx went up more than the revenue. I think it looks like the OpEx was actually higher than the revenue in the quarter. Is that just seasonality or is there something in that number?

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

A

They paid their percentage rent in the third quarter. So that is a – their calendar year, their fiscal year runs from another calendar year. The fiscal year runs October through September. They pay base rent and percentage rents. They hit the percentage rent levels generally in the third quarter and pay it. So you'll see that same type of trend every year.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. Got it. And then my second question is bigger picture. You know, to your credit, Marc, and I guess everybody at SL Green said New York would recover. It always does and it is. So to your credit, and I understand all the enthusiasm is well-earned. When things are tough, I tend to think about how they might get better. When there's a lot of enthusiasm, I tend to wonder where that might be, people might get out over their skis. So, as I look at SL Green, right, you mentioned the alternative strategy portfolio. You know, Worldwide Plaza, lots of large tenant as expected. 750 Third is not in that portfolio, but it's going to be a resi conversion. 185 Broadway, I think you'll sell. I guess, is this a tide lifts all boat kind of New York recovery or do you think, you need to be almost more creative here and it's still kind of a battle out there. And is there anything in this recovery that concerns you?

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

A

Okay. I just I want to make sure I've got – I like the credit part. Thank you very much for that but I do have to extend credit to the entire team, as I always do, because I think one of the most differentiating factors of this is the tenure that people have here. I don't know if people recognize that we've got so many people at all various levels throughout the company that are in the 20 and 25-year club. [ph] it's been (00:44:41) 20, 25 years, this is a family. We work well together and I think we get great results because of that history together and the level of excellence because we have a certain culture here and if it fits and it works for you and you're committed to it, it's a great opportunity and if it's not, we've had people move on.

But the group we have today is the best I've ever worked with. In terms of just a whole new group of young folks, in particular, coming up through the ranks, taking on, mid-level and senior positions and just carrying on the culture and theme of this company.

In terms of your question about is there anything in the recovery that concerns, I mean, in an odd way, the more rapid the market recovers, the thinner our opportunity set gets. And it's kind of an interesting dynamic. I think the real estate market generally is hoping for lower rates to help rightsize some of other people's investments and reinflate values a bit. But you got to make sure that rates are falling for the right reason, meaning taming inflation and not because you have recession.

And clearly, the way the equity markets are reacting right now and what we see in our tenant base, it seems to be a pretty robust and strong market. So to see a good market and have rates decrease, that's positive for values and positive for the economy. But it also does change the landscape of opportunity. So the other way to look at it is higher for longer in terms of getting more money out the door because at the end of the day we want to improve this portfolio, grow this portfolio, make smart investments at this period of time so that when we look back in five years, we've added a lot of seeds of growth, whether they're development conversion projects like the 750 Third, or doing more office redevelopment and development opportunities, which we hope to do because we have a good team to do it. And we've got the prospect of hopefully helping to transform and boost Times Square with our casino.

With our casino proposal in conjunction with Caesars and Roc Nation, I think could be one of the most important developments for New York City in terms of really having benefits that radiate out far, far beyond the building itself with Caesars Palace Times Square casino. So there's a lot of good stuff out there going on. And I think whether rates stay where they are, they go a bit higher, they go a bit lower, we're prepared in all cases. We're hedged in our floating rate exposure.

We want to be offensive with our capital. And we're also going to benefit by compressing spreads and a yield curve that says SOFR is declining. So, I don't have great concern at this moment, like the kind of concern we had back in 2020 and 2021. Those were tough periods of time. But this is, by all measures, a very good period of time. Restaurants are full. You know, mass transit is full. Traffic is back. You know, buildings are – people are back in the office. We don't get any questions now, hybrid work model, work from home. It's not even – in this office, it's not a talking point. And we're excited, and we're excited in December to unveil the new plan.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Anthony Paolone from JPMorgan. Your line is open.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

All right, great. Thank you. First one is on Giorgio Armani. Can you tell us when you expect to actually start closing the units there, what the proceeds back to you are, and remind us if any gains there get booked in FFO?

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

A

Yeah. I mean, in our business plan, we expected it as a goal objective to put everything under contract in the year which we've done. And our expectation is we will close all those inside the calendar year as well. That's part of the number, Marc was throwing around earlier in terms of proceeds off of dispositions. It's roughly $160 million or so. There's not an FFO impact other than the use of proceeds to pay down debt, which is what those proceeds are earmarked for. But that wouldn't show up until 2025.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Got it. And then just second one, you bought some CMBS in the quarter. And so I was wondering if you can give us some details on that. You don't have it on the DPE page and just didn't know if that was because it's securities or if the thrust of that investment is just different than your sort of DPE investments?

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

A

Yeah, it's not in our DPE line because it is a different type of investment. We've invested in securities from time to time in the past. We did do more this quarter. They have very unique accounting rules around securities. So we had to add a couple of new lines to the financial statements. But again, today, it's $109-ish million investment in securities. We are very careful to stay away from specifics on those, as we do DPE in terms of the properties and yields and strategies and things like that. But this is a furtherance of our previously announced strategy to source this type of opportunity in dislocated debt stacks in our backyard. And we'll continue to do that.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

But is it the, sort of, thing that you're just looking to get paid back and make a return on it? Or is this something where there's something to do with the property?

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

A

I'm going to stay away from the strategy on those types of investments. They're all different.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from line of Ohad Bregman from Deutsche Bank. Your line is open.

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Yes, good afternoon. This is actually Tayo from Deutsche Bank. In terms of the DPE book, again, back in the days, that book was kind of a substantial size. Just curious, when you guys look at the outlook, how quickly you think DPE can continue to kind of grow. You guys sound really much more constructive on that business segment now?

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

A

Yeah. Just understand we're doing the DPE business in a different format this year. So it's not going to be the same as our prior 26-year track record, if you will, 22 of those 26 where we were investing heavily. But we're going to be doing it in a fund format. So the capital commitment is going to be fund-by-fund, typically, where we have percentage of the fund which we'll be able to illuminate when we announce a closing.

But clearly, other than putting together pipeline and seed opportunities, the intent is for, as Harry said earlier, everything to go into the fund and then we'll own our piece of the fund. So it'll be, we think, highly profitable based on the returns that we expect. And there are certain fees associated with the fund that we didn't necessarily have previously, but we won't have – we don't expect the same amount of balance sheet capital commitment to DPE as we've had in the past because of the new format.

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Q

Got you. That's helpful. And then just a quick one on as you kind of start thinking about fourth quarter 2024 and first half of 2025, any significant move-outs or rightsizing of office space that we should be aware of as we [indiscernible] (00:53:42) models?

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

A

There's nothing – there's nothing – there's no new surprises. I mean, anything that we've got budgeted or scheduled in our business plan, it's I'd say, just the opposite. You know, we're doing more renewals than we had originally anticipated. So nothing significant as far as any kind of move-outs.

Omotayo Okusanya
Analyst, Deutsche Bank Securities, Inc.

Q

Perfect. Congrats on the solid leasing.

Operator: One moment for our next question. Our next question comes from the line of Jeff Spector from Bank of America. Your line is open.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Great. Good afternoon. Marc, when we saw you in May, you talked about the office to resi conversion as an opportunity. I don't think you discussed that yet on this call. Can you provide your latest views on that?

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

A

Well, you know, I feel like we're on target with them and stand by those comments. You know, there's an accelerated program down at the city that takes applications, if you will, to help accelerate projects that are not necessarily committed to going resi, but think somewhere between committed to or thinking about or tending to. And at last count, my understanding was that accelerated program was up around 75 applications. I think the total square footage identified by those applications is in excess of 25 million square feet. That's not to say all 25 million square feet are going to happen.

And I don't think I could give you a projection in the near term of what's going to happen. I do believe there will be over 25 million square feet in the next five to seven years, for sure, and that was a number I floated out at that same time, 25 million square feet to maybe as much as 40 million square feet when you think about all of the secondary and tertiary office buildings. The need and the demand for workforce housing and affordable housing, I don't want to say it's endless, but it's strong. There's a lot of demand out there at those price points for that kind of studio, one and two-bedroom housing in Manhattan.

And, we've, between the projects we're working on, projects we know others are working on, buildings that we know have taken their space off the available office inventory list, I'd say, there's at least solidly, Harry, you might have [ph] in about (00:56:22) 10 million square feet, that's kind of what I would say is I think pretty well dialed in and locked in. Maybe in December, we can share some locations and more data on that. I don't think we're prepared to on the phone right now. But deals that are, like I said, pretty well dialed in. Most are rental, some are condo, some are other uses, life sciences, et cetera. But most will be under the affordable program.

It's not easy, but it's certainly not undoable for people who have experience with the product. It's a big opportunity, and I think that is a major contributor to what you'll see as net absorption in this market, what you saw in Q3 as of 9/30. I think you'll see more in Q4. You know, it's also – there was a question earlier about an investment sale volume. And there are deals that are being traded now with the intent to convert. You know, 625 is one end of that spectrum, which we sold to related for condo conversion on Madison. And then there's other deals that are being sold now for affordable conversion. And all of that just contributes to a winnowing supply of office.

Now, the only thing I think that could derail that is if the office sector gets tight enough and rents are rising and occupancies are falling, then you may get back into that zone of indifference where buildings may look equally as attractive as office and resi. But for right now, I think that that trend is bearing out on conversions. And we're hopeful to see a lot happen over the coming years.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Thank you. And if I could ask for as my second question, a follow-up, Steve, earlier in the call, you talked about concessions will tighten up and free rent would be first. I think it's an important comment just there is so much focus on effective rents. Can you clarify that a bit? I don't know if you can talk about expectations on timing. And I assume you're talking about the broader market for New York City.

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

A

Yeah, I think – well, it was a three-parter, right? First, I said that I thought you'd see a continuation of rents rising. And you're seeing that on Park Avenue and Sixth Avenue. I think you'll see it more broadly next year. So that'll be the first of the three components to change. Then I think with specific to concessions, free rent is most likely to tighten.

I can't really put a timing on that, that's anybody's guess. But it certainly feels like the trend line is there, the leasing velocity is there to support it. The tenant demand is there. And I think you'll start to see it specific to where the strongest submarkets are right now, Park and Sixth Avenue. And the last component will be TI. And I think that's probably much further off in time because, as rents rise, construction costs haven't slowed down, so tenants are still looking for the landlord to support them on – with these elevated TI contributions.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Thank you.

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

Peter Abramowitz
Analyst, Jefferies LLC

Q

Thank you. Yeah, my first one is for Steve. You mentioned still financial services kind of leading the market. But just wondering if you could talk about any updates on tech, their presence in the market, any changes in their appetite [ph] for space (01:00:24)?

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

A

Yeah, they continue to be an increasing part of the marketplace. There's over 6 million square feet of active tech ongoing searches. So if you compare that versus a year ago, it was a little over 3 million square feet of active searches. And you've seen some of the – the combination of some of the household big names that are in the market. I won't be too specific, but I think a lot of us heard some of the big names, whether it be Amazon or Apple or who it may be, but as to what their specific requirements are.

But you're also seeing sort of a smallish to midsized requirements driven by a couple of different things. AI initiatives are creating new businesses and creating new initiatives in existing businesses. There's organic growth in some of these businesses that are driving it. And clearly a return-to-office mentality are bringing a lot more people back and forcing some of these existing tenants to come back into the market where they had laid off space because they thought they were going to have a more robust hybrid work environment. And now they're bringing the bodies back, it's forcing them to take more space.

I mean, we're enjoying it right now. We've got a very significant lease going out and as a result of exactly that – of that function. It feels like that whole industry is coming back to life in a material way. So time will tell us what it means for next year. But it certainly feels good right now.

Peter Abramowitz
Analyst, Jefferies LLC

Q

That's helpful. Thanks, Steve. And my second question, just to sort of follow-up on Jeff's question, some of Marc's comments around residential conversion. Wondering if you can comment on 5 Times Square? Any thoughts on the strategy there? I know it's been in the press that it's something you and your partner are considering to convert at least part of the building to residential.

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah, this is Harry. This is an ASP asset. We're working with our lenders and our partners and we'll share more at the appropriate time.

Peter Abramowitz
Analyst, Jefferies LLC

Q

All right. That's all for me. Thanks.

Operator: Thank you. One moment for our next question. Our next question will come from the line of Caitlin Burrows from Goldman Sachs. Your line is open.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Hi, everyone. Maybe following up on Tayo's earlier question, you increased your leased occupancy rate for the end of the year. Just wondering if you could provide any commentary on how you expect that to flow through to economic occupancy and recognizing rents?

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

A

Yeah. It's Matt. So, when we're leasing up vacancy, that income recognition typically has a delay on it because you're typically building out space. So generally speaking, we would say, at the very short end, six to nine months. Typically more like 12 months after lease-up, you start income recognition. So we'll start to see the benefits of 300-plus basis points of occupancy pick up this year over the course of 2025 and beyond.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. And then just wondering if you could give a quick update on 245 Park regarding the redevelopment and leasing and thinking on timing of a JV sale there?

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

A

Oh, it's a...

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Or I realize there are three...

[indiscernible] (01:03:54)

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

...245 Park.

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

A

Well, you got the leasing, the development and the JV in there. So the development – I'll start. The development is going right on schedule. It's approximately $200 million, plus or minus, redevelopment, which is really touching many, many areas of building from podium facade to a great new plaza, fully landscape, relit and new seating, new signage, new everything.

It's going to be a really vastly improved plaza and front-door, if you will, approach to the building, spectacular lobby. I think it's a 20,000 foot amenity with fitness and other clubs, lounges, amenities, food and beverage offerings, and a fully serviceable rooftop garden in the spirit of what we did over at One Madison. So it's exciting. It's what all that leasing – Steve talked about leasing has been sort of activated based off the excitement around these improvements which have begun. They'll be done in about 18 months or thereabout. We're already doing selective demolition and closing [ph] porch (01:05:23). Is Lexington closed? It's...

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

[indiscernible] (01:05:26) it's closed.

[indiscernible] (01:05:27)

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

Yeah, I think Lexington [indiscernible] (01:05:27) is close. So work is underway. And the tenant community reception has been spectacular.

A – [06WKCQ-E Steve Durels]>: [ph] Caitlin (01:05:34), on all the leasing front, we've posted a lot of big lease announcements this year and fully expecting to have another big announcement in the very near term that will take the building above a 90% occupancy, which puts us in a great spot, given the fact that there is no near-term lease expirations. That building is going to be stabilized before we ever get halfway through our reconstruction.

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

And with the redevelopment underway and Steve getting the building over 90% leased, the asset's going to be positioned as one of the Fortress office assets in New York City. It's sitting right across from JPMorgan's new headquarters. And we expect on the investor side, the opportunity is going to resonate well with investors. We kicked off our discussions a little while ago. We're meeting with potential LPs, and we're going on a road show in the coming weeks to further discuss the interest, along with some of the other capital markets executions we have for the end of this year and into early next year.

Caitlin Burrows Q
Analyst, Goldman Sachs & Co. LLC

Got it. Thanks.

Operator: Thank you. That's all the time we have for our question-and-answer session. I'm going to turn it back over to Marc Holliday for closing remarks.

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

Okay. Thank you for those still with us. The investor conference date is December 9 this year due to the dates around Thanksgiving late November. December 9, One Vanderbilt, and we look forward to seeing everybody there for our annual and should hopefully have a lot of great things to talk about then and see you soon.

Operator: Thank you for your participation in today's conference. That does conclude the program. You may now disconnect. Everyone, have a great day.