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EDITED TRANSCRIPT

SLG - Q1 2016 SL Green Realty Corp Earnings Call

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PRESENTATION

Operator

Thank you, everybody, for joining us, and welcome to the SL Green Realty Corp.'s first-quarter 2016 earnings results conference call. This conference call is being recorded.

At this time the Company would like to remind listeners that during the call, management may make forward-looking statements. Actual results may differ from 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, and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure, can be found on the Company's website at www.SLGreen.com by selecting the press release regarding the Company's first-quarter 2016 earnings.

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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.

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

Thank you. It's an absolutely glorious day here in New York City. The sun is shining and the stock is up, and we're glad you joined us for our first-quarter earnings call. Andrew Mathias is back in the saddle and with us today after his surgery, and we look forward to answering all of your questions.

But first a few comments on the quarter and the outlook for New York City market. Our Q1 results, by any measure, were outstanding and indicative of a company that is firing on all cylinders. By my count we have done over 70 of these earnings call since IPO, and there are none that I can remember where the earnings results were so complete and so satisfying.

On this past December 7, we set out for ourselves a host of intentionally challenging and specific goals and objectives, with the hope and expectation of meeting all of them in 2016. On January 27 of this year, against global market headwinds, we reaffirmed our guidance, evidencing the confidence we have in our Company, ourselves, our market to continuously deliver superior results on both an absolute and relative basis.

This is because our discerning approach to investing in assets with significant growth opportunity and the constant recycling of our portfolio enables us to generate market-leading earnings growth while also assembling the highest-quality property portfolio in New York City. These activities have resulted in our steadily increasing funds from operations, from just $1.70 per share in our first year of being listed on the stock exchange to a normalized amount of approximately $7 per share estimated for 2016, a rate of growth that is unsurpassed in our industry sector.

Overall, New York City remains extremely solid, notwithstanding the dislocations we saw in the financial sector in December, January, and the first half of February, volatility that has since leveled off. New York is often perceived to be heavily dependent upon the financial services sector for jobs and office space demand. The reality, however, is that New York is by far the most compelling, diversified, and resilient commercial property market in the country, possibly the world, and continues to attract businesses and investment capital notwithstanding where we are at any one point in time in the market cycle.

Further, New York City's dependence on financial services industry has been reduced as other industry segments have proliferated, such as media, technology, education, and healthcare. In fact, the financial services industry's contribution to incremental leasing absorption has fallen in recent years from 34% of square footage leased to 24% of square footage leased over the last five years, thereby reducing occupancy risk if that sector were to shed jobs, though we have not witnessed any material shedding.

Population, tourism, and job growth continue in New York City, with industry profiles more diversified and less reliant on any one sector than ever before. The first-quarter numbers coming out of the Bureau of Labor Statistics were surprisingly strong for the first quarter, as New York City added net new 38,000 private sector jobs, 11,000 of which were in the office-using sectors of business services, fire, the fire sector, and information -- and that's just in the first three months.

Obviously, if that pace continues into the second quarter, the City would have to revisit its 2016 forecast for private sector job creation, which was reduced by them to a still healthy total of 50,000 net new jobs earlier in the year when they revised that number. But, as I said earlier, almost all of that job creation has been experienced in just these three months.

While the City estimate is lower than the record-setting growth rates of the last five years, millions of square feet of positive office space absorption are still expected. And we have come out of the gate strong in 2016, with 850,000 square feet of Manhattan office leases signed in the first quarter alone, at a remarkable 39% cash rent mark-to-market.

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Furthermore, in the first 21 days of April, just three weeks, we have leased an additional 72,000 square feet of Manhattan office space. And the near-term leasing pipeline is similarly growing, with 1.3 million square feet of Manhattan leases in active leasing negotiations, out for signature, or advanced stages of term sheets.

We are also very pleased to see that asset values in New York continue to hold up from their record levels in 2015. And demand from both domestic and international equity investors and commercial lenders remains strong, as evidenced by recent activity which exceeds $6 billion so far, notwithstanding the market pause that we saw in January and February.

Investors will be more discerning this year, and certain asset classes like residential condominium projects, hotel, and land will see values fall as investors concentrate on well-located, income-producing assets with embedded growth opportunity, the kind of assets that dominate SL Green's portfolio. Noncore or transitional office assets may see some downward pricing pressure; but as money continues to flow to quality Manhattan commercial assets, it is likely that their values will remain relatively steadfast.

From an overall investment capital perspective, we are seeing a continued flow of money from foreign investors, sectors that we have highlighted over the past few months and on the last call: Japan, China, Korea, Germany, Canadian money, and still money coming from Middle East. These are investors and nations that regard New York as the safest and most attractive place to invest and diversify their holdings.

A number of overnight reports made reference to our Q1 results being evidence that of a solid New York City market. Certainly that is a major contributor factor.

But the much bigger story, in my opinion, is the way in which we have positioned SL Green to be a dominant force with this market and sector, and to drive earnings and increases in shareholder equity while running an investment-grade portfolio, an investment-grade balance sheet that represents less than 40% loan-to-value on a consolidated basis. We have strategically fortified our Company by upgrading and diversifying our portfolio through selective acquisitions and dispositions, expanding business lines -- but within our market -- and by operating a portfolio with a focus on long-term leases, high occupancy levels, low annual lease rolls, and high credit quality tenants.

Despite our many successes, one significant frustration that we share with all of our investors is a stock price that does not nearly reflect those accomplishments, does not correspond to the current value of our underlying assets, and undervalues the substantial additional growth embedded in our portfolio. For our shareholders, we will work relentlessly to illuminate value, continue our earnings progression, invest opportunistically, manage our liabilities, and build substantial liquidity.

I want to thank you, and we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Manny Korchman, Citi.

Manny Korchman - *Citigroup - Analyst*

Hey; good afternoon, everyone. Marc, if we just look at the forecast and the actual job creation, do you think they were just light on the forecast? And maybe, do you have any idea of why they would have been light on the forecast earlier in the year? Was it just a scare because of volatility, or were there other deeper trends going on, and now you think those have abated a little bit?

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

Well, I think that there's -- the environment as it's played out was probably different than when the forecasts were being made. It might have been a little too conservative going into it.

So we'll see how it plays out. The year is only three months over.

But I think they were looking at downward estimates of GDP. They were looking at what the effect of the minimum $15 minimum wage was going to have on jobs in the City.

I think that you have to remember at 50,000 jobs, it's still by most accounts an extraordinarily high number. So I don't think they were looking at it as being conservative or fearful or concerned. I think that was maybe misinterpreted on this call three months ago, that a 50,000 job creation number in the private sector is somehow a number that has a negative connotation to it. To the contrary, it's a strong number.

Now will the City exceed that? Clearly if it stays on the path it's on, it will not just succeed it; it will blow it away.

But these things have a seasonality factor to it. You have to, I think, let more than three months pass to see exactly where things level off.

But clearly sitting here through what hopefully would be the worst part of the market for us, having seen that kind of robustness not only evidenced in the job numbers but in the leasing statistics, gives us much better confidence as we sit here today.

Manny Korchman - *Citigroup - Analyst*

Then maybe switching to One Vanderbilt, was hoping you could give us an update on where you are in discussions for both a JV on that project, and construction financing. And maybe a leasing update as well if you have anything.

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

Okay. Let's cover One Vanderbilt. We'll bring in Steve and Andrew and others as part of the conversation, but I just want to lead it off by saying in general I want to everyone on the phone to under (technical difficulty) partners. There is an intense amount of scrutiny for this one investment; and understandably, because it's a large development.

But I would say to you that this is going to be the premier project probably in the City, maybe the world, when this is completed. That's how we feel about this project, and that's the kind of feedback we've gotten from every single player we have presented this to.

Now in terms of the financing, the financing is going exceedingly well. We still are on track for what we hope will be a closing and completion by the end of the summer, which is what we said on the last call.

Then following that we will focus in on equity capitalizations from JV partners -- understanding that we get calls daily on this. We have a queue of potential interested investors that's not measured in the dozens; it's measured in the 50 to 100. It's a matter of us being very deliberate about going about this very long-term project to make sure we get it exactly right.

The first order of business is the financing, and completion of the demolition, and the beginning of excavation, which starts this summer, the finalization of our marketing materials, which are spectacular, and which many of our investors will get to see in December. And then getting out on the road and finding the right equity investor for us.

We're committed to finding a partner for this project. I'm confident we will have more than one party to choose from at the end of the day. We'll be basically just bidding terms for who we think brings the most to the table beyond just capital at the end of the day.

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So with that, let me turn it over to Steve on the leasing side. What do you -- what's your update there, Steve?

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

We are presenting the building on a very regular basis to tenants. It gets rave reviews at the end of every presentation. I don't think we've ever been involved with a project where the presentation to prospective tenants is so well received.

Our single greatest challenge, quite frankly, is that we're five years out as far as being able to deliver. So that's very early in the timeline for tenants to be able to make decisions.

Notwithstanding that, we present this building to significant size tenants if not once a week, sometimes as many as two to three times a week. The majority of those tenants are either financial service-related type businesses or very high-end international headquarters type companies.

I think that as time will tell, but we have three or four tenants that are doing active diligence on the building. And I feel personally very, very confident about where we stand in the lease-up process.

Manny Korchman - *Citigroup - Analyst*

Thanks, guys.

Operator

John Kim, BMO Capital Markets.

John Kim - *BMO Capital Markets - Analyst*

Thank you. You accomplished 43% of your full-year Manhattan leasing targets in the first quarter alone. I'm just wondering if there was any particular tipping point in the market or change in your strategy that basically opened the floodgates.

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

Well, any change in strategy? I don't think there was a change in strategy. I think that there were a number of things that came together for us, in some cases early, in some cases accelerated from future years.

Credit Suisse exercising renewal options for 170,000-odd square feet at 11 Madison was unexpected and not modeled; had a huge boost, I think, a positive sentiment on the market, a huge boost for the asset. I think it really cements exactly the reason why we think 11 Madison is as great as it is.

We had a very significant pipeline going into the first quarter. You heard me say that on the last call. And a lot of it converted.

Steve, I don't know if we -- there's no change in strategy per se, just --?

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

No, none at all.

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

Good leasing.

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

I think that's the point. We had a very full pipeline of not just prospective tenants, but since the fourth quarter of last year we've had a significant number of leases that have either been ready for execution or have been in advanced stage of negotiation.

The stars aligned, and we ended up converting a bunch of those transactions over. And the good news behind that is that even with those conversions we've been able to refill that pipeline.

John Kim - *BMO Capital Markets - Analyst*

There were some local reports that asking rents had declined in certain buildings. Did that help your cause at all?

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

I don't think that had anything to do with Q1. There were two or three buildings where we had pushed rents extremely hard -- Tower 46, 10 East 53rd. In those projects we probably brought those back $10 or so. Still well ahead of underwriting, but you don't really know where the market settles unless you push. And then if you find you pushed a little too far then you recalibrate back.

There is excellent activity on those two projects. But I don't think that had anything to do with Q1.

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

Just to clarify some of that, where we adjusted some rents on those spaces that we had pushed rates arguably ahead of the market, those adjustments were done on a select handful of spaces on only a few buildings. So it was not all buildings and not all spaces, by any stretch of the imagination.

In fact, at the same time that we had moderated some, we had actually increase the rents on some of our other space. So it certainly got -- that fact got lost in the mix.

John Kim - *BMO Capital Markets - Analyst*

Got it. My second question is on One Vanderbilt and if you've seen evidence of increasing construction costs. That seems like it's permeating throughout the City, and if there's a risk that cost will elevate above $1,000 a square foot, (multiple speakers)

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

Where are you hearing increasing construction costs permeate throughout the City?

John Kim - *BMO Capital Markets - Analyst*

Various sources across all asset types.

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

I would say, to the contrary, our experience had been increasing construction costs leading up to, let's say, middle or end of 2015. My expectation is you're going to see a leveling off or in certain of the trades possibly a slight decrease in construction costs relative to what we had projected.

Because you got to understand, for One Vanderbilt we took a trend line of increases, which were substantial, and then like added 5% a year compounders on top of that, and then took significant contingency on top of that. So we're kind of set for whatever the market may bring.

But I think that the reality may be that we may catch a break here, along with others, building during this time period and over the next few years of possibly pricing that we hope will be right on target, or maybe we can bring it in inside. So, no, we don't see that.

Unidentified Company Representative

John, you have to remember, most of our vertical construction here is in 2018 and 2019. I think if you surveyed the trades now, there is a little bit of concern about how much of a backlog they're going to have for 2018 and 2019.

Whereas they're very busy, very engaged now building out a lot of residential projects, there is some concern that on the back end of that there may be some excess capacity -- which we intend to take advantage of on price.

John Kim - *BMO Capital Markets - Analyst*

Great. Thank you.

Operator

(Operator Instructions) David Toti, BB&T.

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

Hey, guys; thanks for taking my questions. Just broadly, can you walk us through the acceleration of the 388 Greenwich deal and why that was moved up early? Was that really the buyer driving that, or was it more of a call on the forward market conditions?

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

Well, I would say that it was -- the buyer probably had more of a desire than we did. From our perspective, the deal was inked; and whether it closed next year or this year, and we collect the earnings now or over time, I think we were somewhat indifferent.

I think we had heard a message from certain shareholders that now better than later if the economics makes sense. But I would say that we were equally happy or willing to go along with a midyear, end of year close, or as scheduled.

So I would say more or less there were certain advantages probably for the buyer in this case which drove the transaction. For us it worked out. (technical difficulty)

Operator

Ladies and gentlemen, please remain on your line. Your conference call will resume momentarily. (Operator Instructions)

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

Does this mean I get to ask an extra question?

Operator

(Operator Instructions) You may begin.

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

Okay. David, did we cover your question there? We got dropped. The line dropped.

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

You did. I was sort of hoping I would get an extra question, though.

Just one more, actually, which is more of a strategic question for you, Marc. Obviously you're still pretty bullish on metro New York City and confident in market fundamentals. If we were to go into weaker market conditions -- and we can leave that open ended -- how would your capital recycling strategy change in the context of maybe lower rent growth or less investor demand? Would we see significant shifts in activity?

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

It's hard to say, David. We are the most active capital recyclers, right, by far. We sell, I think certainly by number of properties, more in a year than any of our REIT peers.

So I guess the question is: If the market outlook worsens, how would that affect sale? I guess to the extent the market for sale is still there but our outlook is worse than other investors, then you would continue to sell. That would be the natural inclination.

If everyone is on the same issue, then it becomes harder to sell. So your sales volumes may take a pause until the market gets better.

We typically look at things when a property is ready for sale. When we feel it's mature to a level that it's ripe to be harvested, it doesn't have any further strategic value for us, or the ability to drive NOI over a 5- to 10-year period is below the average trend line for the portfolio, we will be much more readily desirous of either selling or JV-ing that asset. And we do that constantly. I mean, we do it annually and we do it in size.

So I think we'll continue to do that. I guess the answer to your question would be, we'll continue to do it provided the market is there to do it. Sometimes the market isn't there.

But right now it's excellent. There is a lot of demand for New York City assets. I'd say as much demand as there was last year, the demand has just shifted, as I said in my remarks. I think it's a little more discerning; I think it's really focused in highly on quality and income producing assets.

It's in our sweet spot. So we are actively pursuing sale and JV opportunities.

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

Okay. Thanks for the detail today.

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Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Thanks. Good afternoon and nice quarter. First question is, with regards to the proceeds from the Citi sale, should we think about that as a permanent reduction in debt as we start to think about 2017 estimates, now that this will have a full impact on next year? Or will these proceeds be used to make other investments? Like, how do you think about it?

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

Hey, Tony; it's Matt. We are going to use the proceeds from the sale for debt reduction, unequivocally. In the interim we're going to pay down our revolving credit facility; and then in November we're going to repay the $450 million mortgage on 485 Lexington, which opens up for repayment in November. That's a 5.6% debt position, so it is going to be used exclusively for debt reduction.

Anthony Paolone - *JPMorgan - Analyst*

Okay, thanks. Then I guess second question for you. If I just look at your first quarter, the $1.85 times 4 is $7.40; and apples-to-apples your guide is $7. I know relative to our model you beat us on almost every line item.

Like, what rolls off in the next few quarters here?

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

Yes, In the first quarter, Tony, you had $0.12 right off the bat that was in the first quarter that's not replicable in the second, third, or fourth. $0.07 from the repayment of a debt position; we would have recognized that $0.07 over the course of the year. It was accelerated in the first quarter.

We also had $0.05 of one of our favorite topics, FAS 141 income, off 11 Madison; that's attributable to 2015. That was in our guidance number, but again, comes through in the first quarter, not for the remainder.

And as I look through other line items, lease termination income of $3.6 million is a couple million dollars higher than we otherwise project for each coming quarter. So based on that we said $0.05, given only three months of activity so far, is a pretty healthy raise; and that's where we ended up.

Anthony Paolone - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Alexander Goldfarb, Sandler O'Neill.

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Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

Hey, good afternoon. Two questions. First, Marc, in your opening comments I think you talked about you guys focus on relentlessly growing earnings, at the same time closing the NAV gap. Given the demand in the market that you spoke about, what's your appetite for maybe sacrificing earnings growth in favor of selling more, crystallizing some of that NAV discount?

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

Well, I think that's what you're seeing in this first quarter and probably for most of the second half of last year, was the continued illumination of value typically at prices that we see are well ahead of analyst and shareholder models that bear out, I think, the NAVs that I think are intuitive to people. We show it in December investor what the implied NAV looks like at market cap rates.

You folks on the sell-side have your own NAVs which average about $135 per share through your models. And many of our investors are at that level and higher.

So I think that we continue to illuminate that value through sales, and we'll do that. Often I think we've shown an extraordinary ability to, one, recycle that capital into very profitable undertakings; and two, at this point in time the recycling is less necessary because we have so much extraordinary embedded growth in the remainder of the growth portfolio, in our retail portfolio, and just through mark-to-market of our stabilized office portfolio. You don't need to do a lot of investing if you are marking to market on a cash rent basis well into the double digits and you're leasing up retail assets like we did with Armani, like we did with McDonald's, like we did with Nordstrom's at rents that aren't X% higher; they're multiples higher -- 2, 3, 4 times what the expiring rent was.

So we have that kind of embedded earnings velocity that will carry us through 2016 and 2017 and beyond without incremental investment. But obviously, we do look for incremental investments from time to time.

Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

So, Marc, if I understand you, though, you're saying that if you guys accelerate dispositions, the embedded growth in the mark-to-market in the growth portfolio is enough that you guys could still have positive FFO growth even if you sell more assets than you planned?

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

Yes. I think the answer is generally yes, because we've done it almost every year. But I don't want to make any statements now about 2017 because we don't have 2017 guidance out on the Street.

But I think you can look back at the history of the Company over the last 19 years and draw your own conclusion from that. But we are not making now statements about 2017 or beyond. We'll do that later in the year.

Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

Okay. Second question is for Durels. You guys leased about 850,000 square feet in the first quarter versus 2.5 million all last year. The beginning of this year the market sentiment was that everyone was on the sidelines, paused, given the volatility in the capital markets. Yet obviously leasing was very strong.

Can you just help us understand the disconnect? That sometimes we hear capital markets are upset and therefore tenants are on the sidelines, not leasing space; and yet clearly they were out leasing space in the midst of some pretty rough capital markets activity.

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

Well, I'm not certain there's a correlation between the capital markets and the fundamentals of leasing market per se. But just to start with a couple data points, one is we've said for the last couple of quarters that we've had a very full pipeline of transactions.

Two, that pipeline had a great deal of diversity in the types of tenants that we were talking about. Three, the feedback that we get from our tenants and prospective tenants as to how they view the health of their business, and the hiring prospects, and therefore the rent -- the space demands have really not moderated at all over the past year, even as we sit here today, which would explain why even in the face of doing 800,000 square feet we've been able to then replenish the pipeline.

So I think that there was a lot of uncertainty in the market that people had about where the future held. But the reality is our tenants are still feeling very strong about where their business is, how it's performing, where their hiring is, and therefore how much space they need.

Alexander Goldfarb - *Sandler O'Neill & Partners - Analyst*

Okay. Thank you.

Operator

Steve Sakwa, Evercore ISI.

Steve Sakwa - *Evercore ISI - Analyst*

Thanks. I guess first question, to follow-up on the leasing, maybe Steve, could you talk a little bit about price points and just where you're seeing the activity? My understanding is that the really, really high end of the market has really taken a pause, maybe, north of $125 a foot. I'm just wondering if you could comment on where your pipeline fits today in terms of price point; and have you experienced that same thing?

Then I just wanted to follow up on the mezz book when you're finished.

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

No, I really haven't seen any moderation on deal volume on the high price point part of the market -- or any other part of the market, quite frankly. Maybe the best example of that, although I don't have a lot of product where I currently have vacancy at $125 or above, but I do have plenty of product that's $80, $90, and $100 kind of space.

Maybe the two best examples of that, of where we're seeing transactional volume is 10 East 53rd Street and Tower 46. 10 East 53rd Street, I'm enthusiastic, as I said to Marc and Andrew yesterday. Yesterday alone we converted five tenants over to leases out. So all of a sudden that building, which is $80 to $90 to $100 kind of product is like on fire.

And Tower 46, which is side street -- great quality product but side street location, although we haven't signed a lot of deals there yet, we have a tremendous amount of prospective tenants coming through and are trading term sheets with a number of very significant tenants at big rents in the $90 to $100 price point. So we're feeling very bullish about the prospects for that building.

I think those are two very good barometers about the strength of the overall market, even at the high price point.

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Steve Sakwa - *Evercore ISI - Analyst*

Okay. Then I guess I noticed that the mezz book did come down by several hundred million dollars. I'm just wondering. Is there a strategy at all to try and take that book down? I know there's been some investors that have been a bit concerned about that.

I realize it can be lumpy quarter to quarter. But just what are your thoughts on making new investments there? How do you think about payoffs and maybe shrinking that book?

Unidentified Company Representative

It's definitely more quarter-to-quarter movements than any kind of strategy to reduce the book. To the contrary, we have a very active pipeline right now of new investments. We did sell and syndicate a bunch of investments in the first quarter, so that brought the balance down. But not representative of any broader corporate strategy. We're still very dedicated to that business.

Steve Sakwa - *Evercore ISI - Analyst*

Okay. Thanks.

Operator

John Guinee, Stifel.

John Guinee - *Stifel Nicolaus - Analyst*

Great; thank you. 11 Madison Avenue, I think you bought that about a year ago. You had a while until it got to be stabilized. I think you partitioned it into some tenant and common positions, so that you may or may not be able to monetize a -- sell out a JV position. Where are you on 11 Madison?

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

Well, 11 is -- we've owned it now I think for about nine months. The Sony work is done and the tenant has moved in. As I mentioned earlier, Credit Suisse exercised its renewals. For the two floors that we could've gotten back, won't be getting back, that represented a very substantial mark-to-market.

There is, I think, one space remaining, about half a floor if I'm correct, that we have significant activity on. And I would hope that in the next -- in the near term we'll go to lease on that vacant space, at which point the building will be basically fully leased at rents that average like $70 a foot in a market that's north of $90 a foot.

So it's worked out excellent. It's got long-term debt in place.

We will talk to investors. That was something we had talked about setting up as a JV for future years. Stabilization of that -- meaning full rent paying -- is still about, I would say, plus or minus 18 to 24 months off; so I think the maximum execution for something like that could be end of this year, maybe next year, in that regard.

It's not part of our guidance, but it's there as a storehouse of cash and liquidities we can monetize in the future to use either for debt repayment or new acquisitions in the future. And by doing so, there is little to no tax gain the way we structured by selling that JV interest; so that is one of those well-structured deals and a deal that will be a little bit more opportunistic in our timing for generating those funds and redeploying those funds or for paying down debt.

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John Guinee - *Stifel Nicolaus - Analyst*

Great. Then a follow-up question for Steve Durels. The headline is 39% rental rate increase, $71 number. I guess that means it's coming off a $50 base.

Can you give a little more color as to how sausage is made? What sort of an OpEx reset you'd have, or base year reset you'd have, and what $71 would look like on a net basis, and then what sort of leasing commissions you should factor into that equation?

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

So let's just make sure we got the question, John. The question is, on a $71 gross rent -- and just so I'm clear, where does the $71 come from? That's what?

Unidentified Company Representative

Average starting rent.

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

Average starting rent in place for the portfolio, or no?

John Guinee - *Stifel Nicolaus - Analyst*

No, for the quarter.

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

Oh, for the quarter? Okay. Then of that $71, how much is -- what kind of expenses and taxes go against that?

John Guinee - *Stifel Nicolaus - Analyst*

Well, what's happening, you're going from $51 full-service to $71; your operating expenses are moving around in that equation. I'm curious as to what the net trend is going, from where to where, and then also to get a sense --

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

Hey, John? Andrew makes the point: the $51 -- we don't -- other people quote like the nominal rent. We don't do that.

John Guinee - *Stifel Nicolaus - Analyst*

Okay.

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

The $51 is as escalated. So the $51 is base rent plus OpEx plus real estate tax. And when we say the rent is going from -- I'm just using your numbers, cause I don't have those in front of me -- $51 to $71, that $20 increase is bottom line. There is no expenses against the $20, because whatever ops and taxes against it are in the $51; the $71 is the new rent; the cash mark-to-market is $20. That's all bottom line stuff, Matt, yes?

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

Yes. That's right.

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

So that, to be clear, we don't mark new rents to old base rents, in which case you'd have to ask the question you just asked. This is better and more transparent. We're using fully escalated rents and then marking against that.

Unidentified Company Representative

Then the $71 generally comes with base year operating and taxes starting roughly this year. So you pick up right where you left off in terms of escalation.

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

Right, so we're completely inflection inflation protected on the $71 going forward.

John Guinee - *Stifel Nicolaus - Analyst*

Is it too much of a stretch to say going from $51 to $71 is a $20 increase in net rents, or a $15 increase in net rents?

Unidentified Company Representative

I think it's $20.

John Guinee - *Stifel Nicolaus - Analyst*

Fair enough. Thanks.

Operator

Jamie Feldman, Bank of America Merrill Lynch.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Thank you. I'm hoping to just get more color on the transaction market. Marc, you had commented that prices are holding firm. Can you just provide some more anecdotal evidence of what's going on out there in terms of deals we may see in the market, and pricing, or buyers that are lining up?

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

Okay, so how do we want to --?

Unidentified Company Representative

Sure. I think you saw 1285 Sixth and 787 Seventh close, so those were the two large transactions from the end of fourth quarter. And then there are a number of assets -- an asset went to contract earlier this week on Wall Street that was market rate residential. That cap rate has a 3 handle on it. That's to a US opportunity fund.

We've had a number of retail assets that are in the market that are drawing very strong bids, one of which on Fifth Avenue is reportedly under contract, though that's not -- I don't think it's been publicly announced yet.

Unidentified Company Representative

Yes, there's probably in total about $6 billion to $8 billion worth of assets on the market now. Some of those are going to be straight trades of office buildings; some large recaps both in Midtown and Downtown.

Unidentified Company Representative

Then you saw in Brooklyn, the Watchtower portfolio go under contract. That's a large tract of land and an off commercial building, which is a complete redevelopment from sort of industrial space to office space is the plan. That drew very wide competition and pricing that pushed up to a level that I think exceeded the initial expectations in the market.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay. Then in terms of the buyers and their financing, it's still more equity buyers? Are you seeing leverage? What are the capital sources?

Unidentified Company Representative

CMBS has come back, AAA spreads are in the 130s now from the wides of call it 170s. So I think CMBS is viable again, and there are a bunch of CMBS deals getting done currently in the City. But the bank market continues to be very active, both syndicated loans and bridge transitional loans. So it's a mix, I would say.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay. Then my second question, for Steve Durels. A couple years ago you made a comment that there would be a premium for large blocks in the market. Can you talk about what you're seeing today and, as we are seeing more blocks come on the market, just your perspective on whether you think that's a risk to the market or you think that there is still a premium for those kinds of spaces?

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

I think there is still a premium, in all reality. Because if you're a tenant who goes out looking for a couple hundred thousand square feet and you need that space in a relatively reasonable timeline, in the next 12 to 18 months, 24 months, your availabilities, your selections are pretty thin, because not all blocks are created equal, either because of geographic or space quality or price point or delivery timeline, whatever it may be.

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So if a tenant had to lease that block as opposed to the landlord turning around and saying I'm going to lease it floor by floor, I think I would still expect to see a premium on the bigger block.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay. Then do you see heightened risk of subleased space coming on the market here?

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

No, I don't. There has been -- if you look statistically, we're at the low end historically of sublease availability. Even the most recent stats that have come out from the various brokerage houses, I think it's like 1.7% or something like that. It's very, very modest.

And, quite frankly, with the phenomenon of densification in the market, even if we were to hit a rocky point where tenants laid off employees, it becomes very difficult for a tenant to then put space on the sublease market, because they've packed so many people into their spaces.

So I don't see it near term, and I don't see any indicators to suggest that it's an issue to worry about for the balance of this year.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions) Ross Nussbaum, UBS.

Ross Nussbaum - *UBS - Analyst*

Hey, good afternoon. I'm here with Nick Yulico; we'll split them up. Marc, can you talk about -- one of your goals -- or actually I think it was two of your goals from the Investor Day last December were relating to acquisitions of both office and retail. I think in total you had over $1 billion combined of office and retail acquisitions in the goal category for this year.

Now that we're almost four months through the year, how do you feel about that goal, I guess, in relation to the current state of affairs in New York and the volatility that we're seeing in the capital market?

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

Let me make sure -- that last thing you just said, given the volatility of the capital markets?

Ross Nussbaum - *UBS - Analyst*

Yes, I'm just curious how the state of affairs in the world over the last four months, have they shifted the goalposts for those original goals you put out?

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

Got you. Okay. Let's just clarify one thing up front on the acquisition targets, which we said on the last call and said in December investor and want to say it again now. Those goals that were originally set forth, as they always are when we put those goals forth, are gross targets. So it doesn't account for deals we do in joint venture.

I can give you an example. There is a residential asset that we're looking at in pipeline -- very good off-market situation -- where we might be anywhere between, call it, roughly a third to half the asset if that thing turns out. I don't know if it will or won't. That would be a gross value even though, A, our share of it would be far less; and B, joint ventures tend to have secured debt so the equity component of a JV of an asset tends to be quite small.

So when people hear $1 billion, $1.5 billion of investment activity they think equity, and that's the wrong way to think. The equity component of that $1 billion, $1.5 billion is far, far less. That's A.

B, I would say four months into the year the office goal is probably something we'll reassess midyear, possibly downward, because we certainly don't have a pipeline now that comes anywhere close to that number. But the way these things go -- the assets in New York are big, a deal could pop up second half of the year or towards the end of the year that might be of a size to make some kind of dent in that goal.

But it's not -- right now our focus has really been on the things we've talked, about which is consummation of the Citi deal; that's done. Certain sales and JVs that we are out there in the market with and have make good progress with to date, and we'll continue to work on that through the balance of the year.

There is a pipeline of some retail resi and an office asset that could or could not come together between now and the end of the year. If we do, they will be deals that we think are going to be highly accretive to value and earnings in the future.

Or else in a market like this we would be more discerning, as are other investors. So we're only looking for deals that we think have high value-add for somebody like us in this market.

But, I would say, the office component is probably something that could come in less than originally budgeted. The retail, too early to say. It's only April.

I wouldn't even make any assessments there, because the number for resi-retail I think was $500 million in total. So $500 million in total, if it's a 50 JV it's $250 million; if it's levered that's $100-some-odd- million of investment. We could do that like in December.

I couldn't sit here in April and predict it. But I can say there's nothing near-term in pipeline that would have us reaching those goals anytime in the next quarter.

Nick Yulico - *UBS - Analyst*

Hey, it's Nick. I just had a question on the Omnicom renewal. I guess there is still over 300,000 square feet that Omnicom did not renew. Can you remind us where in the building those floors are, and what are your plans there?

There was some talk -- I guess there was an article the other day about how you're exploring selling a condo interest in that space. Can you just give us an update on what's going on there?

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

Sure. The article was a little premature, but the reality is that we are in very advanced discussions and negotiation of a transaction with a tenant for a leasehold condominium. So it's not a sale of a condominium in perpetuity; it's a leasehold condominiums, which has a finite life to it of 30 years.

That transaction is expected to close in the next several months. It's really just subject to a couple of outstanding approvals. But that will take care of the lion's share of the Omnicom space, which is over 300,000 square feet.

I think the second thing to note about that is that -- and it's a good segue into the following fact, which is of that 300,000 square feet, that will knock off a big chunk of our 2017 lease expirations, of which we've already signed almost 460,000 square feet of leases for 2017, and have another 500,000 square feet including this deal that we just talked about in active negotiations.

So we're way, way ahead as far as being able to knock down our 2017 expirations.

Nick Yulico - *UBS - Analyst*

That's helpful. Just quickly, I mean -- and understanding you may not want to give full economics. But how do we think about the economic impact here?

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

Nick, we're going to have to move on from that question. We're not in a position to discuss more than what Steve just said on the phone, unfortunately.

Nick Yulico - *UBS - Analyst*

Okay; thanks.

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

Hopefully by next quarter --

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

Soon enough.

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

Soon enough, hopefully. Sorry.

Operator

Jon Petersen, Jefferies.

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Jon Petersen - *Jefferies LLC - Analyst*

Great. Thank you. I was just curious if you can talk about -- obviously the leasing and the quarter was very strong, 850,000 square feet. I believe at the Investor Day your guidance was for 2.2 million square feet for the rest of the year.

So just hoping to get a little more context on -- I know you didn't update your full-year leasing guidance. But how should we think about this quarter and what it implies for the remaining three quarters of the year?

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

Well, it was a very -- it was an excellent start to the year. Obviously, we're trending ahead. We'll reevaluate probably next call; and if there is any cause for guidance shift, I think we will evaluate it then. We certainly don't do it quarter to quarter.

We'll see how things bear out. But obviously, I did mention there is 1.3 million of pipeline. So if we have a great second quarter and convert very high ratio of that 1.3 million, then we may have to look at that stat for upward revision.

Jon Petersen - *Jefferies LLC - Analyst*

All right. (multiple speakers)

Unidentified Company Representative

The goal was 2.0 million, to be clear.

Jon Petersen - *Jefferies LLC - Analyst*

2.0? Okay. Then you're even closer.

Then just one other question. We've touch a little bit on retail. I'm curious what your thoughts are on rents in the street retail in Manhattan, especially in the major corridors, Fifth Avenue, Times Square. Just what your thoughts are on the durability and the growth of those over the next couple years.

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

What we're seeing and experiencing is durability, for sure. I think growth in retail rents has moderated in certain submarkets, Fifth Avenue and I would say Times Square as well.

That's after multiple, multiple years of very significant compounded growth in those rents. So they're leveled off, I would say, in those submarkets; but then there are other submarkets in the City, SoHo and Downtown particularly, where we continue to see increases in rents.

Jon Petersen - *Jefferies LLC - Analyst*

Great. Thank you.

Operator

Vincent Chao, Deutsche Bank.

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Vincent Chao - *Deutsche Bank - Analyst*

Hey, good afternoon, everyone. I think last quarter when you were talking about the pipeline of leasing, you noted that the mark-to-markets were pretty strong. I was just curious if you can comment a little bit on the pipeline in terms of what kind of rental rates you're seeing in that pipeline, as well as the composition by industry and between new and renewal.

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

All I would say is it's very healthy mark-to-market for the pipeline rents, in excess of our guidance, which I think was around 15%, thereabouts. I would say that incrementally that pipeline exceeds that mark-to-market.

I would also say it's not 39%. So something in between.

Vincent Chao - *Deutsche Bank - Analyst*

Got it. In terms of the split out between new and renewal?

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

I'm sorry?

Vincent Chao - *Deutsche Bank - Analyst*

Split out between new and renewal?

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

I don't know if we have that -- I've had it in the past. I don't have that today. I think we've got to get back to you on that.

Not on mark-to-market, just on pipeline. On pipeline, how much is renewal and how much is new?

Give us a minute, we'll get it. We do have it, and we'll come back to you, okay?

Vincent Chao - *Deutsche Bank - Analyst*

Okay, and just maybe one other one if I could. It's a little bit maybe at odds with the commentary earlier about the type of investor demand that you're seeing this year versus last. But you've sold a couple suburban assets recently, and it seems like the fundamentals there have held up pretty well or looked pretty good for the last couple quarters. I'm just curious if there's an opportunity to do something larger.

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

Well, there's opportunities to do something larger. I don't know that it's a strategic goal of ours to do something larger.

The market is good for the better suburban assets. We -- the guys in White Plains have done an extraordinary job of bringing that portfolio to a level that's far in excess of the markets. Those suburban markets are highly impaired generally in the tri-state area, with 20%-plus vacancy rates.

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And our occupancy level is far better than that, and our average rent level is far better than that. So I think it's better for us as a Company to take those assets one by one and optimize and sell.

There is no pressure. There is no -- I don't see any pressure to do something -- I think we should call it of a large size, unless something made extraordinary sense. But we like having that portfolio there to create longer-term value with and continue to monetize and harvest as time goes on.

I think we've done an excellent job of stewardship on that portfolio, as have the guys up in White Plains. I think we're reaping the rewards for that now on some of these sales which have been occurring in 2015 and 2016.

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

Just to answer the first question of leases that we have out for either signature or that are in active negotiation, there's 650,000 square feet of new leases in negotiation and 160,000 square feet of renewals. And then I don't have the breakdown on the term sheets.

Vincent Chao - *Deutsche Bank - Analyst*

Okay, thanks.

Operator

Blaine Heck, Wells Fargo.

Blaine Heck - *Wells Fargo Securities, LLC - Analyst*

Great; thanks. Just following up on 388, 390, I think around the time the Citi lease renewal was announced in early 2014, you guys estimated a 9.7% levered IRR for your holding period, assuming the purchase option was executed in the period established. So I was wondering if you guys had run the math again and whether this early purchase agreement had any significant effect on that IRR.

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

Yes, the answer is yes. The 9.7%, or whatever the number you quoted, that was actually what I'll call yield to worse, which was exercised at the end of 2020, I guess, or sometime in 2020. The way the deal is going down with an early exercise and the other components of that deal, the total IRR over I think it's a nine-year period, so it's a nine-year annual compounded IRR of 10.9%.

Blaine Heck - *Wells Fargo Securities, LLC - Analyst*

Okay, great. Then can you just give any update with regards to 1745 Broadway? Last quarter it seemed as though you might have something to announce by now.

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

No, I think we continue to entertain offers on the asset, but nothing to announce at this time. It's one of a number of assets we're exploring selling, but we're trying to optimize in terms of what we wind up transacting on or not.

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Blaine Heck - *Wells Fargo Securities, LLC - Analyst*

Okay, great. Thanks.

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

We're going to have to -- operator, I think we'll go to 3:15 because usually we tried to keep these to an hour as a courtesy to our shareholders and analysts. So we'll take another maybe seven or eight minutes of questions.

Operator

Craig Mailman, KeyBanc Capital Markets.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Hi, guys. Just curious, Marc, with the updated first-quarter numbers here, if your view of market rent growth in Manhattan has changed at all relative to where you were trending on the 4Q call.

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

No, I think that the call that I had last time we had said the rent spikes that people were putting in of 5%, 7%, 10%, we thought that the second half of the year you might see something more in the single digits. I think I said something along the lines of 2%, 3%.

I think at least from an underwriting perspective, that's what we're going to continue to use and broadcast just for the second half of this year. We have given no guidance for 2017 and beyond.

I could see a scenario where, as the market settles and this job growth continues apace, that you could get into growth rates higher than that beyond this year. I could see that definitely occurring. But we're not making that call now.

I would say pretty much no change in guidance for the back half of the year in the 2% to 3% up in rents range. So good, with the emphasis being on up. I think there was, again, a misinterpretation by some on the last call that we had said down.

There is no down. There is only up in our guidance, and the question is: Up by how much?

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Okay, that's helpful. Then just secondly, I noticed the lease terms obviously went up on leases in the first quarter. But anything else driving the rise in TIs this quarter?

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

The lease term probably went up as a result of Credit Suisse. Credit Suisse is a 20-year lease.

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

It's a function of the ratio of how many leases that we do that are for new, first-generation tenants coming into the portfolio, as opposed to renewal deals, and frequently whether those -- the length of the lease as opposed to whether it's a 15-year deal, a 10-year deal, 5-year deal; that can drive the concessions.

So there is no shift as far as the market goes. It's more a function of the variables of those specific transactions.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

But I guess we were just looking, TIs looked like they spiked and renewals were the lion's share here. So I'm just trying to reconcile those.

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

When you say spiked, let's just use exact numbers. So, TIs were --

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Craig Mailman - *KeyBanc Capital Markets - Analyst*

Well, you guys were in the 50s on TIs this quarter. I think you were $17 last quarter.

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

Matt, can we look at that and pinpoint some deals which is the bulk of the 50?

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

Yes. Well -- and we were 50 a couple quarters ago and probably 50 before that. It varies quarter to quarter, and it's dependent on what buildings at what rents for what term we're leasing space. So I think that's a pretty consistent trend across.

If I look at one large renewal that had a full package, because it's a 20-year renewal, is the CS deal at 11 Madison. So while it is considered a renewal, because they are in the (multiple speakers)

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Oh, that's interesting. Okay.

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

(multiple speakers) 20 years, actually 21 because it goes out to 2037. So they get a full package with that, and that's 180,000 square feet.

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

Just to be clear, that was pursuant to contractual option, not that it was negotiated by us that way. Their renewal provides no downtime and a significant mark-to-market; but their option also provided for a TI package because it is a 20-year lease.

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And somebody like a Credit Suisse making a 20-year commitment to 180,000 feet is going to want to refresh the space. So I don't see that as a -- it's not a shifting market trend, because it was embedded within the lease document.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Great. Thanks.

Operator

Brad Burke, Goldman Sachs.

Brad Burke - *Goldman Sachs - Analyst*

Hi, thanks for taking the question. I wanted to ask on the big rent mark-to-market for the quarter. At your Investor Day you brought up the embedded rent for the Credit Suisse space at $42; and you thought the normalized market rate for that space would be $87.

So as we look at your lease spreads for the quarter, is it fair to say that that was the big driver of the outsized result that you had?

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

No. No, no. This was really broad-based. Matt can probably give you a few others besides that one.

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

Yes. In addition to the 11 Madison mark-to-market, the Omnicom renewal at 220 East 42nd Street is about 167,000 square feet, had a mark-to-market even higher than that, north of 70%. We also did a renewal at 100 Park with a material mark-to-market north of 30% there as well.

So it was very broad-based. And even without those deals, I would say we would be at -- approaching 20% mark-to-market, even excluding those three big ones I highlighted.

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

Yes, I don't think we did more than 20,000 or 30,000 square feet of deals out of that 800,000 square feet that had a negative mark-to-market. Of the 800,000 square feet every other transaction was positive mark-to-market and in most cases obviously very, very substantial.

Brad Burke - *Goldman Sachs - Analyst*

Okay. So --

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

We'll take -- do you have anything else, Brad?

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Brad Burke - *Goldman Sachs - Analyst*

Yes, and I guess just for the second one on the guidance. You're increasing it $0.05 for portfolio NOI and interest expense savings. I would assume that the interest expense savings is going to be more than $0.05, just by virtue of what you're going to be paying down over the course of the year.

So I was just hoping for better clarity on your expectations for property NOI specifically versus the original guidance you gave in December.

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

That is much more property NOI than interest expense if you look at what we're paying down in the short term. That is probably our lowest cost of debt capital, because we're going to take the proceeds from 388 and repay our revolving credit facility. We won't be repaying the more expensive debt, the mortgage at 45 Lex, until November or December; so that benefit will really reap its rewards in 2017.

Brad Burke - *Goldman Sachs - Analyst*

Okay, thank you.

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

Thanks. We'll take one more -- one last question, operator.

Operator

Jed Reagan, Green Street Advisors.

Jed Reagan - *Green Street Advisors - Analyst*

Thanks, guys. I think you talked about getting debt-to-EBITDA down to about 7.5 times, 7.6, I believe, pro forma the Citi sale. I'm just wondering if that's still the right betting line for the end of this year.

Then can you talk about your longer-term debt-to-EBITDA targets as we look out to 2017 and 2018?

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

Yes, so we are still on track for 7.6 by year-end, as to your first question. And that, I think on the math we've run is about -- somewhere between a 35% to 37% debt to value on a consolidated basis; low 40%s on a combined basis; and right within the strike zone of all the rating agencies.

So I think we will probably wind up taking it down further, just based on how we're modeling not just the year but some of our long-term plans going into next year and beyond; and application of funds; and while still keeping our earnings momentum.

I think it will allow us to reduce that further. Although I would say when you get into that 7%, 7.5% range, we view the portfolio as pretty much completely de-risked and delevered, especially given the cap rate environment we operate at, which is typically between 3.5% and 4.5% cap rate environment. Debt-to-EBITDA I think is not the best model to use.

I know you guys use it, and that's the one you like. But there is also a notion of equity or embedded equity which is more of a loan-to-value concept.

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I think because New York is a very liquid market with anywhere between $40 billion to $70 billion a year of transactions, you can get a pretty good handle on the NAV. I know you guys carry a pretty high NAV for the Company relative to where our stock price is. And if you look at the debt on a debt to -- I'll call it your NAV as opposed to debt-to-EBITDA, I think we would be right in the middle or possibly even below peer average.

Jed Reagan - *Green Street Advisors - Analyst*

Okay, thanks. Steve, it sounds like you're seeing pretty good broad-based leasing demand out there today. But just wondering if there is any submarkets or industries or tenant sizes that really stand out as seeing particularly good amount of activity.

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

Well, the TAMI sector, whether it's in our portfolio or in the overall market, continues to be a big driver. But Marc in his opening comments I think spoke a little bit about the diversity of tenants. If you break it down, of the deals that we have in pipeline it's composed of TAMI being the leader; healthcare being a big chunk of it; financial services being a significant player; legal services; and then general business services; and even government to a certain extent are the five or six major industries.

But the top four being, TAMI healthcare, financial services, and legal. I don't think that's really different today than what we were seeing through most of last year, quite frankly. And I think we take a lot of comfort from seeing that kind of diversity.

Jed Reagan - *Green Street Advisors - Analyst*

Any submarkets stand out as particularly strong or soft?

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

No. I think there's a lot of questions that we get about the West side, meaning Midtown West, meaning Sixth Avenue in particular. And like a couple years ago when Sixth Avenue had a bunch of vacancy, Sixth Avenue right now has probably got some of the biggest deals that are in negotiation. One of the big headline deals that's over there is 0.5 million square feet going to Major League Baseball.

So Midtown proper is a very active part of the marketplace, and I think it's active on both East and West and all parts of Midtown. So I think Midtown is more active than Downtown right now, quite frankly; and we're certainly feeling it in our portfolio.

Jed Reagan - *Green Street Advisors - Analyst*

Great. Appreciate the color, guys.

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

Thank you. Okay. Thank you, everyone, for whoever's left on the call, and we're happy to have shared this great quarter with everybody and look forward to speaking again in three months' time.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation and have a wonderful day.

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