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SL Green Realty Corp. (SLG)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

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

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

Thank you. Thank you to everyone for joining us today. I hope you're all healthy and safe in these unprecedented times. Here in New York City, I'm pleased to report that we have come a long way since the start of paused New York and are now leading the nation in terms of getting COVID-19 under control from a health perspective. New York City has started to wake up. Residents are engaging in outdoor dining. New Yorkers have begun going back to places of work. Construction has resumed and retail stores have reopened. There are a number of positive developments happening citywide right now, including the open restaurants initiative, outdoor dining and the planned reopening of public schools come this fall.

With that said, office space utilization is still quite low during these summer months, and most of our tenants are telling us that they are planning for a 50% plus or minus return to the office after Labor Day. While we still have a long way to go with this pandemic, the trend here is very positive and has been in that way for weeks now with various parts of life starting to return to normal. That said, we now know that the economic impacts of COVID will not disappear overnight or as quickly as initially hoped. Very few industries have been able to avoid the impact of this pandemic, not just in New York, but nationally. It has affected all of us from a personal, health and family perspective and certainly from an economic and jobs perspective. This is something bigger than any industry or any company and we are certainly not in a position to make predictions on how long it will take for economic activity to begin returning to pre-pandemic levels.

Whatever it is, with the incredible level of resources devoted to finding a solution to this virus, we're hopeful this downturn will be relatively short in duration. What we do know is that this nation's leading urban center and the avatar of an urban lifestyle that remains incredibly popular and appealing, New York will rise up and meet these unprecedented circumstances to show resiliency as it has in the past. As a global financial capital and as an incredibly diversified center for the tech industry, healthcare and higher education, we will rise back to the top when this pandemic has been arrested.

For SL Green, then, our 24/7 focus since March has been on excelling at the things we can control or influence in this time of uncertainty. We are working tirelessly and completely to ensure that this company is in the best position possible to deal with the immediate and near-term impacts that COVID presents and, looking forward, ensuring that this company is in a position to excel and outperform once the Manhattan workforce is firmly back in the office and economic recovery begins in earnest. Our job is to make sure the company gets from here to there in a way that maintains SL Green's leadership position as the largest, best and most prolific operator of Manhattan commercial office.

In a moment where everyone will be unavoidably impacted, we are confident of our position and our actions relative to our competitors. Fortunately, we built this company to withstand moments of great uncertainty. You could even say that we've spent the past 21 years planning for the unexpected. From the global financial crisis in 1998 to the aftermath of 9/11, from the housing-led meltdown in 2007-2008 to the current pandemic, we never know where or when the challenge will come so we have [indiscernible] (00:05:39) company to guard against all of it. So, let me describe how we fortify the company to withstand this particular moment.

It starts with our rent roll, which is an intentionally diversified group of approximately 800 predominantly credit tenants on largely long-term leases. It is no coincidence that through this pandemic today, our office tenants have paid rent to the tune of 96% of gross billings, an incredible statistic given what's happening. The months ahead will not be easy. But when you compare that to other sectors like multi-family and hotels where the daily, monthly and annual turnover of contract exposes those segments and segments like that to much more downturn, our average nine-year lease term provides a significant long-term protection in contrast.

So, our focus needs to be on getting through the next 6 to 18 months because we know that we will come out of this in a position of relative strength once we reach the other side and we are all very well-situated for this coming period however long it lasts.

We had cash liquidity of over $1 billion at quarter-end. We have a manageable debt maturity schedule with less than 8% debt maturity in the next 18 months. We have modest lease expirations of under 10% for the balance of this year and throughout all of 2021. Our asset base of premier properties have all been substantially improved under our ownership such that the mandatory capital needs over the next 18 months are really quite modest. And as I mentioned, our rent collection is at the top of the industry. That's an enviable position to be in on a relative basis for those things that we can engineer and control, leading up to this moment.

But it's not all about fortification. We are also incredibly active in the market, doing more than our peers, and I think you've seen that throughout the second quarter. Investment sales, JVs, financings, new lease signings and development projects, all moving ahead during this pandemic.

I want to share with you just some of the examples of this activity just from this past quarter. 280,000 square feet of leases signed during the quarter, that's Manhattan office leases; $510 million of secured financing, non-recourse financing of the News Building; one of the largest real estate JVs in the world closed with NPS and Hines at One Madison Avenue; sale of 609 Fifth and an agreement to sell 400 East 58th Street at prices that still demonstrate strong demand still exists for high quality and relatively high yielding real estate in New York City as index rates approach zero; our consummation of five individual investment loan sales near pre-pandemic levels; continuing initiatives throughout the pandemic to lead in the area of sustainability with a recent upgrade just received from MSCI from BB and BBB; partnering with Chef Daniel Boulud to launch Food1st, one of our company's proudest moments actually in the past three months, a new non-profit organization that by end of this week will have delivered 250,000 meals to first responders and families in need. We now have 15 restaurant partners and we've reactivated kitchens feeding New Yorkers and continuing to give back to this community, basically our sole community that we do business in.

So, sorry for all those examples, but we've been a bit busy. And we did it all while reengineering our buildings to meet the highest and best safety practices for virus protection in order to give our tenants confidence to return to the office, whether that's already happened or will happen in the future. The key to getting it all done is that on any given day, we are close to 100% of our company workforce right here onsite at our 420 Lexington Avenue corporate headquarters and in our satellite building offices.

We are leading by example to show that work from office can be done safely and without major risk when the right precautions are taken and that there continues to be no more productive way to work than in a collaborative, creative and efficient office setting. I don't underestimate the challenges that lay before us. Trust me. The next few quarters will be difficult and there will be hurdles to clear. But we are built for these moments. We believe in New York and we expect to be stronger and better positioned compared to our competitors when this crisis too shall pass.

I'd like to turn it over to Matt who can dive into some more of the details on the second quarter.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Thanks, Marc. On our last call, I highlighted our $1 billion plan strategy to accumulate $1 billion of cash by the end of the second quarter as a measure [indiscernible] (00:10:58) uncertainty ahead. In early June, we announced that we had completed that plan more than 30 days ahead of schedule and exceeded the $1 billion target by almost $200 million at that time, which allowed us to commence the share buyback program again.

Since then, over the balance of the second quarter, we continued to focus on cash, overall liquidity, leverage and share buybacks such as we ended the quarter with a cash balance of just over $1 billion. It's $1.15 billion if we include our share of cash at our joint ventures while executing over $143 million of share buybacks and OP unit redemption and paying down debt. We reduced our line of credit balance by $500 million from its peak balance of $1.45 billion and completely repaid our $147 million debt and preferred equity repurchase facility. The activities that generated this cash run the gamut and evidence the depth of capital that still exists in the New York market.

Real estate sales generated nearly $200 million, including the sale of 609 Fifth Avenue, which wasn't even a part of the plan we laid out in April and the sale of a JV interest in One Madison Avenue, and we expect to receive another $20 million in the third quarter from the pending sale of 400 East 58th Street. In the debt and preferred equity portfolio, we generated almost $500 million of cash through the strategic sales of five positions, totaling $259 million and repayments totaling $229 million. Coupled with the conversion of one debt and preferred equity position to JV equity in the quarter, our portfolio balance stood at just $1.25 billion as of June 30. More on that portfolio to come.

And on the financing front, we closed on an enormously important $510 million mortgage financing for the company and for the broader market at 220 East 42nd Street that was provided by a syndicate of world-class financial institutions. On top of that, we have the refinancing of our project at 410 Tenth Avenue still in process, which is expected to repatriate equity we have funded into the project as well as cover future equity needs.

As to share repurchases, we remain committed to a disciplined execution of our program. And after curtailing it back in March, pending execution of the $1 billion plan, we commenced buybacks again in late May, taking advantage of extraordinarily low share prices as our liquidity plan was executed in an expedited manner. Since then, we've completed $163 million of buybacks, including $20 million in early July, bringing total executions to $401 million year to date and now over $2.6 billion through our $3 billion authorization.

At today's share price, which is a 7.3 times multiple, 13.8% FFO yield and over 7% dividend yield, virtually all sources of incremental liquidity are accretive into buybacks. So, with a careful eye on the balance sheet, meaning, we're not using leverage to buy the stock and a focus on maintaining a substantial amount of protective liquidity, we will continue to evaluate further opportunities to sell assets and generate incremental liquidity to continue share repurchases in the second half of this year and beyond.

Turning to earnings guidance. In April, we took what many considered a very bold step in this environment and provided revised FFO and FAD guidance. Most other office REITs pulled their guidance and most of them are likely to withhold guidance again this quarter. But we feel we owe it to all of our constituents to share our views. We have a view, let's not keep it a secret, and three unique months later after a ton of activity, more projection models than I care to count and reviews of those models no less than two to three times a week, there's been some movement in the line items, but we remain comfortable with the guidance we provided and are maintaining our FFO guidance range of $660 million to $710 million a share and FAD of at least $400 million.

Highlighting a few items in the real estate portfolio, as Marc highlighted, collections remained solid for the entire second quarter and now into July, with second quarter office collections approaching 96%, retail at 70%, which is now a very small component of our business and overall collections at 91%. Tenants are definitely paying at a slower pace, but the vast majority are paying and the pace of collections has actually improved every month from April through July.

One point of clarification, I just want you to remember that our figures are gross collections based on contractual billings, not reflective of any rent relief deals that may have been cut or the very rare use of security deposits. If we were to report on that basis, as I see many others doing, the numbers would be substantially higher.

While collections have been solid, we have historically taken a very conservative view of our receivables, and in this environment we're being even more conservative. In the second quarter alone, we recorded a total of $14.9 million of bad debt reserves on a combined basis, comprised of $7.6 million of reserve against actual billed receivables and $7.3 million against straight-line balances, which are essentially future rents. These are the highest such reserves we've ever booked in a single quarter. For comparison purposes, in the first quarter, we recorded total reserves of about $1 million, and in the second quarter of last year, it was only $1.4 million. And our bad debt reserve now covers 45% of tenant unpaid balances. Could this prove to be too conservative? Based on historical trend, possibly, but always better to err on the side of caution in times like this.

On the positive side, we've seen a dramatic drop in our projected full-year operating expenses by over $14 million just since we revised guidance back in April. Obviously, reduced occupancy levels over the last several months have contributed to the savings, but Ed Piccinich and his team have also implemented longer-term cost saving plans, which we will benefit from even after the buildings gain occupants, all while taking into consideration the nominal incremental costs of operating our fully redeveloped portfolio at a Class A standard in a post-COVID world. Collectively, these savings also have the effect of improving our same-store cash NOI expectations for the year versus what I outlined in April. In the debt and preferred equity portfolio, our portfolio is now almost $1 billion smaller than it was just one year ago, and we continue to assume no new originations for the balance of the year.

With regard to reserves during the quarter, we booked an incremental $3.4 million of reserves against one retail loan position, but otherwise felt the conservative view we took in December and March, as part of the CECL process, continues to be adequate and on a percentage basis far in excess of our historical loss ratios. We also recorded $3.4 million of realized losses against DPE positions that were sold in the quarter. Needless to say, the sales have gone very well, credit to David Schonbraun and his team, and that leads us to considering more of them over the course of the year.

In our initial guidance in December, we included more than $160 million of income from the debt and preferred equity portfolio. Now with a dramatically reduced size, our income projection is down by over $40 million, including the $5 million fee we recorded in the second quarter and excluding the effective reserves. Just a couple years ago, the $120 million we expect for this year was over $200 million from that portfolio. Yet our FFO per share remains high even while the contribution from our DPE business has shrunk. This is contrary to what many have long predicted would be the case. Thus, proving there is incredible value to the debt and preferred equity business in the SL Green platform and we expect to do this business for many years to come, but as a component of the earnings power of this platform, not the driver of it.

A couple seconds on other income. In the revised guidance we provided in April, recall that we reduced our generic full-year projection of lease termination income down to $6 million from $8 million for the balance of the year. That assumption didn't last long as we recognized $12.4 million of termination income in the second quarter following negotiation with two retail tenants to vacate their space early. Given its unpredictability, we have not assumed any further lease termination income in 2020.

And finally, on the expense side, we continue to manage G&A very closely, taking further action to reduce G&A during the second quarter even after reducing it coming into the year and again in the first quarter and now see total expense down by about $10 million or 10% from our 2019 levels. So, as I said earlier, some movements in the income and expense line items and a lower share count than our April guidance as the share repurchase program is active again, but all in all, sitting comfortably within our previously provided guidance range.

With that, operator, we can open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Michael Lewis with SunTrust. Your line is open.

Michael Lewis
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. Thank you. I want to ask kind of a broad question about the risk of work-from-home strategies that's kind of overhanging the stock. There was another Reuters article this morning stating that 25 large companies already discussed significant reductions in their office space needs on their 2Q calls. I was just wondering, have you had tenants telling you that they intend to permanently work from home and decrease their space, or have you seen other signals in your portfolio that maybe there's a tidal wave of this coming?

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

A

Well, I'll sort of take that. Steve, you can sort of chime in. But tenants have worked from home before pandemic, and we expect tenants will work from home and, in some cases, hotels, shared desks, everything post-pandemic, maybe in increasing amounts. But I think that it's premature to get any real read on to what level that will be until people are firmly back in the office, which we're hoping for. Great strides in that direction between Labor Day and year-end is when we expect to see the bulk of our tenant base return.

The leasing activity that we have in front of us right now that we consummated during the pandemic quarter and have in front of us right now indicates that there's still good demand out there for New York, albeit at lower levels obviously than in 2019 and at the start of this year. We had projected 1.6 million of lease volume in our office portfolio at the beginning of this year. I think we're going to revise that down more like to – down by about 20% to 1.280 million. That would still imply more leases we expect to sign during the second half of the year than we signed during the first half of the year. We expect to do another 600,000 square feet, 700,000 square feet or so between July and end of December of this year.

So, we still think that most of the tenants we talk to and what we're hearing is that most are very much looking forward to get back to work. I think it's very hard to manage from afar. We absolutely have seen productivity and efficiency declines. We hear that from the tenants. But to say with a broad stroke, will some of the bigger companies incorporate some amount of work-from-home going forward, yes, that's to be seen. We have 800 to 900 tenants in the portfolio and then we have hundreds more conversations going on. So, sure, in some of those cases, I think people are going to experiment with work-from-home, but I would put it at a small fraction of the overall demand in this 400 million square foot marketplace. So, Steve, I don't know...

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

A

Yeah. From what I hear is tenants are more about work flexibility as opposed to – it's not a choice of either/or, it's a choice of giving their employees flexibility and say, okay, you can work from home part of the time, but you're still going to be in the office most of the time. And I think that's more of the flavor from what we're hearing. We're yet to hear any one of our tenants of size saying that work-from-home is the predominant way that they are going to migrate the operation of their business. The number of phone calls that we're on, as Marc was indicating, whether it's the brokers community or the tenant community, where there was a novelty to working from home for the first couple months and after that I think there is a lot of frustration where people are, like, enough of this already, let's get back to the office and get back to my desk and so much more effective. And I think, as time goes by, that will be proven out to be even more so.

Michael Lewis
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. Thanks. And then I'm actually – I actually want to ask about the residential portfolio. I realize it's a relatively small piece. But it looks like kind of across the board, you saw some material occupancy decreases. We know people are kind of moving out of the city at least temporarily in a lot of cases. Any thoughts on the residential market and kind of what you see in your portfolio?

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

Yeah. I don't think we're a good barometer to answer that question. I would pass on that rather than – the last thing I want to do is opine on this sector and give information that really isn't targeted. I mean, we have I think one or two buildings remaining in the portfolio that – one building I think is under 100 units and the other is a rent-stabilized building on 57th Street, which is a good building, that's all we have in this portfolio right now and that's not nearly enough to give any kind of public guidance on the questions you asked. I don't think we're in a position to do it.

Michael Lewis
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. Fair enough. Thanks.

Operator: Thank you. We have a question from Rick Skidmore with Goldman Sachs. Your line is open. We have a question from Rick...

Richard Skidmore
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Sorry about that. I was on mute. Just, Marc, you mentioned some of the OpEx declines and, Matt, you mentioned that on the call as well. Can you just talk to what you're seeing on the operating expense side, what are the things that you're doing that is allowing you to bring down the OpEx?

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

Yeah. I mean, Ed's not here with us, but he and his team really took – back in April and then again over the last three months went through every line item in our operating expenses and cut them back dramatically. Now, part of that is driven by occupancy, obviously. The portfolio occupancy got very low at the bottom and it's coming back, but that allows you – it shows the scalability, the expenses that allows you to cut security, cleaning, maintenance costs, dramatically, R&M. The buildings quite simply just weren't getting used. But in doing so and looking out over the balance of the year, the pause has been longer and the ramp back up has been slower so that allows us to save those types of expenses. But there's also some expenses – common area expenses that we can save on through the balance of the year and that allows us to see a pretty dramatic reduction even beyond what we just said three months ago throughout the balance of the year. And also remember, we're covered in large part on our expense load by the tenant base.

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

A

Yeah. The building staff and utility is probably the top two items, I would think, that comprise a lot of that savings. And not just operating savings, Richard, but we went back and show that because these buildings have been so improved to a high level, we were able to scale back a lot of the discretionary capital. That would be a little bit more proactive and preemptive, which we'll do in the next year or two, but we took it out of 2020 largely and we saved an incredible amount of money, not only on operating expenses, but on discretionary elective capital, which we will save for a later date. And the combination of that was – you've seen in our earnings results, which were very solid for the quarter and also in our cash liquidity position, which quickly ramped up to over $1 billion about three months ahead of schedule from where we expected it to be. We're probably 60 days ahead of schedule from where we expected it to be.

Richard Skidmore
Analyst, Goldman Sachs & Co. LLC

Q

And you mentioned in the prepared comments that some of those savings would be potentially longer term. Certainly understand how things may have been impacted in the second quarter with people not in the office. But what are some of the things that you think might be longer-term savings...

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

A

I mean, look, think of all – interest rate savings for us is enormous. Utility rates now have dropped and we get more and more efficient as we invest more in our sustainability program. So, we're using less energy and reducing the carbon footprint. The capital, as I mentioned, we're getting more efficient with it and we're seeing the bids come back more competitive. So, there had been a lot of construction cost escalation since 2015 that was almost unbridled that all of a sudden in just three months – it creeps up, whatever it is, 3%, 5%, 7% a year. And then in the span of three months, it might drop 10%, 15%, 20%. So, all these things are offsets to what otherwise are the impacts of the down market. There's substantial savings for a business of our scale and I think we are scouring every nook and cranny to take advantage of it.

Richard Skidmore
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. And we have a question from Alexander Goldfarb with Piper Sandler Your line is open.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey, good afternoon, and thanks. So, just two questions. First, on the DPE book, you guys took what would seem to be actually rather modest marks. And I'm just sort of curious, your positions are performing the cash flow and there's really buyers for your positions that you're selling and it sounds like you guys are going to sell even more. So, what really drove the marks? Was it just sort of interest rate, like mark-to-market on where the yields are versus where buyers would get yields today? Or I'm just really curious what drove the mark because it doesn't seem from a performance basis that they were taking any things on cash flows.

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

A

Hey, Alex. It's Andrew. I mean, I think one was on a position that we sold and, as Matt said, the other was on a retail position. We're winding down the retail portion of the DPE book as much as possible, but retail is definitely an asset class that's struggling and we just felt it was prudent to take some additional reserves there.

Alexander Goldfarb
Analyst, Piper Sandler & Co.
Q

Okay. But Andrew, what you're saying, though, is overall on your DPE book, you're not seeing a degradation of any cash flows, they're all current and paying and all that?

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

Aside from a couple of retail loans, yes.

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

Yeah. We worked very hard since 2015, if you go back and look at all the commentary since then, to pare down our own real estate portfolio and then I'd say in the past 18 months, our DPE real estate portfolio that was secured by retail. But whatever is left as little as it is, I mean, retail as an asset class is pretty highly impaired and fortunately for us I think it's less than 5% of revenues on the owned basis and that which we own is generally well long-term lease...

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

Long-term credit lease.

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

...to credit. So we feel very good about our retail portfolio and we have very little retail left in the DPE portfolio. I'm going to say like a couple of assets, David...?

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

Yeah. We do have. Three or four assets, yeah. So it's very little, it's a couple of percent of the overall...

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

Yeah. Which we've already marked...

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

Yeah.

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

...in one case anyway. So, we feel like we've really managed that retail exposure well and come through that well. But to answer your question I think, Alex, which is why do we take those marks, the marks on retail were credit-driven marks. And that's just the way it is. But the good news is we don't expect hopefully no more of those marks because we don't have much left and with respect to everything else, which is mostly secured by office, yeah, we feel very good about those positions that remain.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And then, Marc, perfect for the second question. Albany yesterday, the assembly at any rate asked what seems to be sort of a very pro-tenant unilateral right to exit leases and be it the landlord sort of holding the dime, if you will. What is your sense for the potential that the Senate may pass this and what's your sense that this could really come to fruition, which would seem to really upend the commercial rent construct or a lease construct?

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

A

Yeah. No, I think I know what you're referring to, Alex, and I wouldn't overstate it. I mean, I think it's bad law and I do not think it will get passed in the way that it's currently drafted. However, when you look at the impact of what it is – just to be clear, under current New York law, a landlord has no duty to mitigate damages, but we almost always do. So, what this law says is, hey, landlord, you have a duty to mitigate damages. That's different. Legally we think that's misguided. But I also want to point out, in almost every case, the tenant leaves and we have a claim against that tenant, the measure of damages is mitigated against whatever we get in terms of replacement rent, and we're always replacing that rent. So, that nuance as to whether we have a duty to mitigate or not, we oppose it, but I don't think there will be any practical effect because we and maybe others don't, but we always mitigate.

The other question, which is significant, is the burden of proof, and that's just really legal dollars. The burden of proof should absolutely be on a tenant to prove up whether or not we've carried out – whether we've attempted to mitigate. And we always do. And for a landlord like us, it's irrelevant. I mean, we have records and – I mean, as soon as the space comes back, we're leasing it within like sometimes the same day, sometimes before even. So I think it would be unprovable, at least in our case, to show that we didn't try to mitigate. But if there is a duty to mitigate, it should be on the tenant, it shouldn't be on the – proof of that should be on the tenant, not the landlord. Those are the two flaws I see in that bill. I think cooler, calmer heads will prevail in the Senate and hopefully with our Governor to reject or greatly modify that bill. We'll see. But I would say to you that we are in a position that I don't feel we will be affected by it. Okay?

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you, Marc.

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

A

Thanks.

Operator: Thank you. Our next question comes from Manny Korchman with Citi. Your line is open.

Emmanuel Korchman
Analyst, Citigroup Global Markets, Inc.

Q

Hey guys. Matt or maybe Marc, you keep talking about the $1 billion sort of cash balance plan and how you've gotten there more quickly. But what is so special about that $1 billion number that you wouldn't use some of that for buybacks or that you only want to use incremental cash to that to do buybacks. What's the actual $1 billion earmarked for?

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

A

Well, it's a nice round number, Michael (sic) [Manny] (00:36:20). I mean, we talked about on the last call, we said point blank the $1 billion was somewhat arbitrary. It relates the way we look at it as to a multiple of our dividend that we have to pay in a pinch. If my cash flow with zero, which is a draconian method. So, it's probably more of a cushion than we need to maintain. But in a market like this where you feel like you can never have enough, $1 billion is a very formidable war chest. It's probably, as I said, an overabundance of liquidity for what we need because all of our capital needs going forward largely are capitalized, either with equity commitments from third parties or from coming out of loan proceeds, which are committed, or covered by cash flow from a property.

So, arguably, I would agree with you. It's a bit arbitrary and we probably really need less and would be fine with less, but it's just a goal that we and the board developed. It's something that was an abundance of caution, significant number and something that was many multiples of our fixed obligations that we felt we wanted to cover for situations that could stretch out years into the future and that's how we got it.

Emmanuel Korchman
Analyst, Citigroup Global Markets, Inc.

Q

And I want to go back to your comments on retail. Certainly, it's structurally impaired right now and been an issue in the city. But given the fact that there's so much retail at the base of your buildings and of neighboring buildings and how much culture or flavor or personality is given to New York City, how do you envision that retail being replaced that New York City remains sort of a special place that people don't just go in and go in an elevator and get to the office space, but want to be in the streets and visitors want to be in the streets and tourists want to be in the streets and bring back that vibrancy to New York City?

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

A

This is Steve. I'll add my two cents and I'm sure Marc or Andrew will weigh in. But what's in the base of our buildings by and large is service retail. And even with the changing landscape of retail over the past year or three, we've never had a problem leasing up that kind of product. So, those are the restaurant spaces, the takeaway food spaces, the drug stores, the banks, that kind of stuff. And I think, going forward, you'll see some shift in that where landlords for at least for a point in time on the food guys will do a little more partnering with them on percentage rent deals because, you're right, it is an amenity to the building, we view it as an amenity building, we've always approached it as carefully curating the types of uses that are in those spaces. But I think you got to separate that from when Andrew and/or Marc speak about retail, the high street portfolio, which is entirely different.

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

A

Yeah. And I think the assets we're talking about in the DPE book and in the own real estate book are really the high street retail portfolio standalone and there we do have some great long-term credit leases to fall back on like Nike and others. And the sort of commodity retail at the base of our building, our commentary on retail really is not related to that type of retail. That's not where we got high rents in the past. We didn't see the kind of rent growth in that space as we saw in the high street retail. So we don't expect as much sort of falloff in that retail as in the high street portfolio.

Emmanuel Korchman
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks, guys.

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

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

Great. Thank you. I'd like to get your thoughts on lease terms and where you think we are in terms of net effective rents and have face rents moved or concessions moved or free rent periods moved? How should we think about what's been happening in the last few months?

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

A

We've seen more movements – and it depends on whether you're talking about renewal deals or new deals, but let's just start on the renewal deals. By and large, the renewal deals that we've been working on, I would say, for the past two or three months, many of those deals have been kind of net effective type transactions where concessions were just netted out of the face rents. We've done a lot of those deals, maybe the majority of those deals without the participation of brokers. So, there's been a lot of capital savings on those deals.

On the new deals, I think the market is still very unsettled exactly where rents are, where they're headed. But by and large, I think the tenants are looking for more movement on concessions as opposed to face rent. And that's not so surprising. We've said it in prior calls that we've had with people that whenever there's a major market disruption, tenants go on the defensive. And that means they try to shorten their lease terms on renewals, they try to husband their capital and they're willing to pay the rent, but they want the concessions to be beefed up and that comes out of the landlord's pocket and I think we'll see that again in this cycle.

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

So, if you were to boil it all down in terms of how much net effective rents have changed, what would that answer be?

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

A

I don't think anybody knows right now because there's not enough deals out there to really get a good barometer on it. There's some broker reports that says that it's been like 2%, 2.5% net effective change, but I wouldn't count on that because it's too early in the game.

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

Okay. And then, Matt, a little bit more specific for you, just thinking about One Madison and the capitalized interest from that, did that change at all with the JV sale and how should we think about that impact for 2020 guidance and as we think about 2021 how does that number move?

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

It was all part of our guidance. So, you remember back to December, we projected the JV. So, the timing of the JV, the manner in which we did it, the size, all consistent with the guidance we had in December. It's actually one of the few elements of our model. I don't think that has changed since last year. It will reduce our capitalized interest over time because it's based on funded dollars, but that's all consistent with what we had projected back in December.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

So, can you remind me the dollar amount?

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

The dollar amount of capitalized interest?

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

Yeah. Like the benefit.

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

I have a bunch of numbers around me. That's probably one I don't have.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

Okay. All right. Thank you.

Operator: Thank you. Our next question comes from John Kim with BMO Capital Markets. Your line is open.

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

Thank you. Your rent collection rate has been very high. But as tenants delay the return to work, do you see this collection rate deteriorating and what levers can you pull to keep that from happening?

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

Well, we don't see it deteriorating. I mean, we certainly hope it doesn't and I think the buildings are open and available for occupancy. So, there's a lot less discussion even around deferrals or any type of rental accommodations. I think that the levers we've pulled as to be a market leader in terms of opening the buildings and having them be ready for safe occupancy. So, you come into our buildings and there's way-finding, your temperatures taken, there's signage that clearly illustrates the seriousness with which we're taking safety. There's air filtration. There's a lot of measures we've taken that tenants see, a lot of measures we've taken that tenants don't see, but that their facilities people understand from our facilities people. And I think we've gotten great feedback from tenants about the steps that we've taken.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

On leasing activity you've done at One Vanderbilt, can you discuss how rents have changed for that versus comparable space and is your preference today to hold the rate as much as you can versus occupancy for the remaining space?

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

A

Yes. One Vanderbilt, I didn't mention that in the opening remarks. But I mean, how great is it that next month we expect to be 100% complete with that building. I think I want to take a moment here. After something that started 20 years ago to the date we'll cut the ribbon, which we're planning for in September, although the TCO should be in hand by August 25.

Through everything that's happened over that period of time, the excitement level here, even with everything that's going on, it's like palpable to come to work every day, and we have the benefit of looking up at this spectacular building, design, achievement, contribution to the skyline, everything. It's just been a monumental achievement and it's something even now, which is years after we broke ground on this project, every day we hear from people, friends, strangers, whomever passes by, what a fantastic job it is.

And noteworthy that there's $220 million of improvements to the public realm that are also going to be unveiled in September, if not earlier, which right now is kind of behind the wooden walls, temporary walls, so you can't see. There is such an extraordinary expansion in addition to Grand Central Station that is weeks away from being conveyed to New York City commuters, straphangers, tourists, everybody that it really is just something that when the day comes, it will be quite a moment for the company.

The tenant community out there, I don't think any of this is lost on because I'd say of old buildings in the portfolio, the one building that seems to have, I would call it, good to excellent foot traffic at the moment where we signed I think two or three leases during pandemic and we have two we're negotiating right now and a proposal in for a third and many others that went on pause just before the pandemic where we're told after Labor Day we want to reengage.

So, it really is a testament, not just to new construction, because I don't know if all new construction is experiencing the same thing. It's really a testament to every element of what One Vanderbilt represents, forward thinking and best-of-class design, sustainability, location, commutability and something that we plan for in general terms, but not specific to a pandemic, the building is probably as hygienic, healthy and forward a building as exists in New York City with MERV 16 filtration. It's the only building in our portfolio that has MERV 16. It might be one of the very few buildings in the city that has MERV 16. Frictionless pass-through of turnstiles, destination dispatch, you don't have to hit the elevator call buttons, light and air that reaches like 90% of every floor. The amenities which have been modified to adapt to social distancing, it checks every box.

And it's no coincidence that the tenant community still has a great affection for this building. And while the leasing will sort of unavoidably be delayed a few months for the months lost to the pandemic, we were so far ahead on leasing that I think we're still ahead on our underwriting projections, but behind probably on the 2020 goals and objectives. I think we would hope to end at 82% for the year with the original projection. I think now we're looking at closer to 72%. Still, as I said, on or ahead of original underwriting, but delayed as it relates to 2020 for I think, as I said, unavoidable and obvious reasons.

As it relates to some of the terms, Steve, I don't know if you have commentary on that.

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

A

Well, the deals that we closed, it's much like I was saying before. We topped up the concession a little bit with some free rent and work, but there wasn't any material trade on the face rents. And the deals that we've got on the table, similar story, a little bit of erosion on the face rent, more focus on the concession side than anything else.

And I'll just add one other thing to Marc's list of the highlights of the building. I think in the new world, the building's location being next to public transportation is even a greater enhancement because there's a lot of discussion out in the broker and tenant community about being able to be on a one-stop public transit location, so you don't have to take two modes of public transportation to get to your office. So, that speaks well for One Vanderbilt and it speaks well for the rest of our portfolio, which is Grand Central-centric.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

I'm looking forward to the property tour. So, you're saying that the stabilization period has been extended. Are you saying also it's going to come in at the low end of your yield expectations?

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

A

I'm sorry. What was it?

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

The yield expectations.

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

A

I don't know where you heard that. I mean...

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

A

No, no, no, I...

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

A

We're ahead of underwriting.

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

A

Right. We're not at the low end of it.

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

A

No. I won't even say we are at the midpoint of – I think we're above the midpoint. For sure, we have been and continue to be. I had only talk about timing of the leases, which for a period of about three months everything sort of went on hold.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you.

Operator: Thank you. Our next question comes from Blaine Heck with Wells Fargo. Your line is open.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. Can you guys just talk about the demand for office space in Manhattan from some of the large tech tenants that have been taken down big blocks of space or even rumored to be looking in the market? How have their requirements changed, if at all, in the last few months in terms of, number one, desire to be in New York; number two, the aggregate size of space requirements; and three, their rental rate sensitivity?

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

A

We haven't seen any pullback by the tech industry as far as any of the deals that we're working on. I can tell you probably the best barometer for us is the tenant interest for One Madison Avenue and we did a number of virtual presentations during the work-from-home period and we continue to market that building today. I don't think there's been any slowdown on tenant interest on that project given its uniqueness and its size and its spectacular location. Some of the tenants that we were talking to, the feedback was they were previously looking for space where they were incorporating a hoteling concept. So, if they had 1,000 seats, there were going to be space for 700 or 800 people with the balance of people circulating through on hoteling. And we've had a couple of tenants come back and say, they're not doing hoteling, so now they're looking at seats for 1,000 people. So I don't know if that's indicative across the board, but it's been our experience over the past couple of months and the feedback that we've had.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks, Steve. And then one for you, Marc, probably at your Investor Conference, you laid out an impressive NOI ramp into 2024 from development projects. I'm sure you don't want to get into or can't get into any specifics. But just generally, can you comment on how this crisis impacts that development outlook, whether it be from delayed development timelines or declines in asking rent that might call the economics on any of those projects into question?

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

A

Well, I mean, we'll likely, but we haven't really thought about it fully yet. It's a little premature trying not to think about until after the summer, but we'll probably do a full update on each of those projects in December. I would say that, at this point, all the projects are on or ahead of schedule. One Vanderbilt, obviously, completing on schedule. Leasing achievement, we expect to be fairly in line with all the guidance previously given to get stabilization. One Madison, as Steve just said, tenant response during this difficult period I think has been very good, uplifting. Obviously, you got to see what you convert to leases, but you guys start with the RFPs and the conversations and the walk-throughs and that's been ongoing for the past few months and we're encouraged by it.

I also think we're going to get a significant break on construction costs on One Madison. That's an aside. So, we got to look at everything. Interest rates in terms of the LIBOR curve, I mean, when we were projecting LIBOR in December, it's a little bit of a different curve right now to our benefit, construction costs, I think to our benefit in terms of breaking ground there. We're still on track to break ground. October 1, we have possession agreements in place with every single remaining tenant in the building we didn't have that in December. We do now. We actually got a jump on some of the demolition because we got early possession agreements. So, we're probably a little ahead of schedule on construction there.

185 Broadway continues to be topping out in September. That was per the original goal, so that goal we're not revising. We expect to meet on its original terms. And we still feel like the rents we underwrote there were conservative relative to market, so we're hoping that the leasing achievement there, which really won't begin in earnest till sometime in 2021 with the bulk of that occurring, I guess, in 2022 or second half of 2021, beginning of 2022, we have every reason to think that that new amenitized product will outcompete its competitors and will perform at the high end of whatever the range of rents are for the buildings that surround 185 Broadway. That deal that Andrew took you through last year, 15 – did we go through 15?

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

A

No.

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

A

No. Well...

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

A

410 Tenth.

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

A

Okay. The good news is a development deal we didn't even have as part of last year, we not only have it now, but it's fully leased as I think everybody knows, net leased and that deal is moving ahead. What else?

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

A

410 Tenth is leased.

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

A

410 Tenth is fully leased. So that's – we didn't lose any time on development of 410. So, obviously, since it's leased, there's no income diminution, there's no time diminution. So, look...

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

A

[indiscernible] (00:57:22)

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

A

We'll update everything. But I guess as I sit here four months ahead of that exercise, I'm not expecting any material changes to what we presented.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

All right. Great. Thanks.

Operator: Thank you. And we have a question from Nick Yulico with Scotiabank. Your line is open.

Nicholas Yulico
Analyst, Scotiabank

Q

Thanks. I just want to go back to the rent question. Your mark-to-market did weaken in the second quarter and down versus your original guidance for the year, down versus the first quarter number. So, looks like your rents are down about 5% to 10%. I mean, is that a good ballpark number and how should we think about the mark-to-market on the portfolio for the rest of the year?

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

A

I really think that's a little misleading. You got to get deeper into these numbers because the strategy has shifted from doing full concession deals on new leases to very capital-efficient renewal deals where the concessions are far lower, but the head rents are lower. Net effective – I think Steve already took you through and said the net effectives were about the same. I mean...

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

A

Yeah. The net effectives I think were about the same or probably above where we were otherwise budgeting for the year because we did – so, much of the leasing was oriented towards renewals. As I said earlier, a lot of those deals were done without the capital cost of broker commissions. The TI was very modest. We gave some free rent. But we also in many cases – in some cases, dropped the face rent only because we were dealing with tenants that had escalated way above current market. But on balance, forget the mark-to-market number, it's all about the net effective on these transactions.

Nicholas Yulico
Analyst, Scotiabank

Q

And Marc, I want to go back to your commentary earlier about the next couple quarters are going to be difficult, but then you feel pretty good next year. What's giving you that confidence? I mean, the economy in the city right now has gone to unprecedented problems. What is it that just you need to get people back to the office to work and that to create better traction in the leasing environment? I mean, what are you looking at that gives you confidence beyond the next two quarters?

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

A

Well, I don't know about the next two. Those are your words. But my confidence is New York City. I mean, I've always done business in this city for – let me get my numbers right – 31 years. This is it. Been some 31 years in the city in almost every aspect of it from structured finance, mezzanine lending, workouts, new business development, adaptive redevelopment, et cetera. And through that period of time, many, many cycles, each of which at the trough, it was – New York will never be the same. I guess, after four or five of those, you become a little hardened to that and you look past the rhetoric of New York will never be the same to New York will come out of this. People will come back to work. All the things that made New York one of the most desirable markets in the country will be here again once the pandemic is arrested. And I think I referred everything to that moment where whether that's a remedy or a cure or a vaccine or a herd immunity, I mean, this isn't a medical conversation, but you pick which of those things that will – when you get past it and then you get passed I think a lot and then you start working on the healing of the disruption to this economy, which I think will occur immediately after one of those three or four things happen. Maybe slow and steady. It's not to say we'll be back to 2020 levels and to use your words, two quarters.

But at that moment, remember, the market is always forward-looking. It's not a question of when will we be back to 2020. It's when will this be behind us with the prospect of a resurgence. And I do think that can absolutely be in 2021 and that's what we're looking forward to and that's based on all the advice and guidance that we and everybody else gets out there in terms of where we hope to be in terms of attacking this virus. So, even without that, I think we're a shining example of a company that's operating at nearly 100% capacity, safe, effective, much more productive. I got to tell you if we were all sitting at home, literally just sitting at homes in our bedrooms, so there's no way I could have rattled off that list that I rattled off to you in those prepared comments. There's no chance that would have – but I don't know if we would have done half of it.

So, the only reason we did what we did and maybe you've got some other calls today and you'll have similar list from other companies or later in the week or next week, I don't know. But I don't see too much of it out there in that volume and I attribute that to a confidence level in the city we operate in and experience with the city through all sorts of calamities and chaos and crisis. But knowing that fundamentally this is still where the best educated work base is, this is where the most international community of residents and employees are, it's young, it's vibrant, it's going to come back. It has to get past COVID-19 and it will. But to take a position that it's never coming back, New York's done, we make money coming out of downturns on thinking like that. That's where we usually make the most of our money. I'd say most of our money has been made within one to three years of coming out of downturns because we take advantage of sort of apocalyptic thinking that I don't think will apply to the situation. I can't say that with certainty. We've never been through COVID-19. But we feel like already New York is way ahead in terms of dealing with the situation and we think the economic healing will be commenced as soon as you got remedy, cure, vaccine or herd immunity, which we're told by the medical professionals, will come in time.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. Thanks. Appreciate it.

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

Jordan Sadler
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks and good afternoon, everyone. It's Jordan Sadler with Craig. So, it seems like you guys see an arbitrage still between public and private markets, which makes sense buying back the stock, but you also want to keep leverage in check, which also makes sense. The transaction market obviously has been pretty muted, especially for larger assets. I'm kind of curious how you would characterize your posture and ability to sell assets today so that you could continue down the buyback path?

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

A

Well, we're optimistic that we're going to get more asset sales done in the second half of the year. We have a healthy pipeline of deals we're bringing to market or that are in the market. Those include both debt and equity positions. And we think there is still institutional interest in New York assets and we intend to take advantage of it. So, we're pretty optimistic in terms of our ability to execute on some capital-raising measures in the second half of the year.

Jordan Sadler
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then you touched on debt and equity position. So, as it relates to the DPE book, you had some progress there in the quarter. How are you feeling about the overall credit quality of your office loans, as we make our way through the summer here? And do you think you're going to see – you guys have historically looked at some of this underwriting from a loan to own perspective. Do you think you're going to see opportunities there?

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

A

Well, there's one – I don't know where it stands in the – can we talk about the deal? Yeah? Yeah. So, we have one – every downturn usually results in one or two – actually use just one. I could think of – last time it was 100 Church, I think, right, and it's turned out to be a great deal for us. I don't even know what it was before then. But anyway...

[indiscernible] (01:06:44)

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

A

Well, 510 – we never took ownership of the 510. But yeah, I mean, that turned out to be a great deal. So, in this downturn, The Lipstick Building at 885 Third is a position where we were originally, well, owner then fee owner then pref equity and fee owner and now on track to basically have pref equity ownership rights again in the fee unencumbered by the leasehold. So, we will intend to lease and manage and operate that building going forward. And that's a big opportunity for us because we think we're in at a very attractive basis. It's an iconic property, used to office there for seven years before SL Green, love the building, always have. We made money with the building over the years. And even though there's a law firm that's rolling out next year, we've been working internally on a plan. Each of us here along with Ed and others on coming up with an appropriate redevelopment plan for that building, which probably is more like a 2022 event, retenanting to get to a point where we think Lipstick has been and should again be probably achieving the highest rents on Third Avenue, best building on Third Avenue.

So, it's a very good iconic building. It'll have a lot of international and domestic appeal for third-party capital, if we choose to go that route. And so that's one situation that comes to mind when you – that's not loan-to-own, by the way. That may be the outcome. The intent was never loan-to-own. The intent was we make these deals on an arms' length basis. But in this particular case, ownership has made the election to pass the baton as it were.

Jordan Sadler
Analyst, KeyBanc Capital Markets, Inc.

Q

And the credit quality of sort of the rest of the portfolio conversations with tenants, you're feeling pretty good that everybody is going to be performing through this summer?

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

A

Yes. I mean, solid. That was earlier...

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

A

We spoke to the credit quality...

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

A

Yeah. We talked earlier about that.

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

A

...DPE portfolio.

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

A

Yeah. Feel good about it.

Jordan Sadler
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thank you.

Operator: Thank you. And our next question comes from Steve Sakwa with Evercore. Your line is open.

Steve Sakwa
Analyst, Evercore ISI

Q

Thanks. Good afternoon. I was wondering, Marc, if you or Steve could just expand a little bit more on the leasing environment and your comment about the second half being greater than the first half. I'm just curious how much of that is kind of early renewals maybe being pulled forward, how much of that might be new leasing activity. And if maybe Steve could just speak to kind of the pipeline and the tenant makeup of who's in the pipeline today kind of by – maybe by sector?

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

A

Look, Steve, I mean, I know there's a lot of focus and we've got a lot of questions on market, everyone is now leasing market, leasing market, leasing market. And understandably and I get it and we'll do our best in this limited window to try and give you a little more flavor of that. But you're getting – you can tell I think from what we accomplished in the second quarter and what we're projecting for the second half of the year, basically where the market is relative to what it was, the proportion of leasing has shifted from new to renewal, which is very intentional on our part and on a net effective basis equal or ahead of probably where we had projected even at the beginning of the year for those renewal deals. But with that said, Steve, is there anything more to add to that?

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

A

We've got a pipeline that's a little under 600,000 square feet right now. Of that, 200,000 square feet are new deals, new tenants, either expansions or new tenants to the portfolio and another 370,000 or 380,000 square feet of renewal deals. If you rewind the tape a little bit, in March, a lot of the leasing that we were doing in March and April was wrapping up transactions that were in the pipeline at that point with advanced discussions or lease documents. Then when we went into, I guess, what, May-June, a lot of focus went into renewals. And now as we're back in the office over the past three weeks, four weeks, tour activity has picked up. It had basically stopped when everybody was on the work-from-home mandate. But over the past three or four weeks, we started to see tour activity again. A number of the tenants that had put the requirements on hold have dusted that off and come back to the table with, I'd say, a good deal of focus on some of the bigger blocks and some of the better quality buildings. So, not to suggest that things are returning to normal, they certainly haven't, but there are clearly reasons to believe that things are on the mend.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay. And I guess, the second question. Marc, obviously, you talked about the DPE book coming down by about $1 billion. I mean, how much lower should we think that that book could go in order to be one tax efficient source of capital for buyback? Is there a sort of a minimum level that you sort of feel...

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

A

No. I don't think there's a minimum level. I think in 2007, 2008, I think we brought it down to like $600 million is the...

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

A

[ph] $610 million (01:12:26)

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

A

...number that stick out of my head. That wasn't from a $2 billion plus starting point, but it might have been from $1.5 billion starting point or something like that. So, no, there's no -a few of the positions are quasi-strategic. So, I don't think you'll ever see it at zero. But where does this stand now at? $1.3 billion or...

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

A

$1.25 billion.

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

A

$1.25 billion. Could it go below $1.25 billion? I mean, Andrew said we've got some more loans in the market and David is working on that. So, yeah, we're still selling more than we are originating. But Steve, when we feel that inflection point in the market, we'll probably net originate again and we'll have to weigh the net origination proposition against stock buyback at that time. I don't think that time is now. But based on what I answered earlier in response to the question from – I think it was Nick, we do expect that time to be upon us again. And so, it'll probably go lower, but someday we'll start to rebuild it with some opportunistic investments, I would think. And so, that's kind of our view on that portfolio.

Steve Sakwa Q

Analyst, Evercore ISI

Great. Thank you.

Operator: Thank you. And our next question comes from Derek Johnston with Deutsche Bank. Your line is open.

Derek Johnston Q

Analyst, Deutsche Bank Securities, Inc.

Hi, everyone. Thank you. Just another one on the DPE book. We noticed that balances went down, but income went up, and it typically doesn't work that way without some other influence. I guess, was there any one-time item that may have drove income higher? I think I may have heard $5 million fee. Could you perhaps provide some color?

Matthew J. DiLiberto A

Chief Financial Officer, SL Green Realty Corp.

Yeah. We recognized a $5 million fee, the restructuring fee, one-time recognition in the quarter.

Derek Johnston Q

Analyst, Deutsche Bank Securities, Inc.

Okay. Got it. And hey, so, most of my questions have been asked already. So, how about a fun one. With most companies fading in-person meetings and travel and this enhanced work-from-home arrangements for what seems to be the remainder of 2020, would you guys consider maybe breaking the trend and leading again by example and having an investor event early fall at One Vandy?

Marc Holliday A

Chairman & Chief Executive Officer, SL Green Realty Corp.

Well, we're doing a dry run today. There's 12 of us in a 72 foot circle doing this call right now. And it seems to be working just fine. So, we'll look to expand that. I guess, if you do the math, to get 200 people, we'll need a...

Derek Johnston Q

Analyst, Deutsche Bank Securities, Inc.

Big space.

Andrew W. Mathias A

President & Director, SL Green Realty Corp.

Check the Governor's guidance on large gatherings.

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

We may need Yankee Stadium, but if it's available, we'll get it and we'll do it in person because we're not a big fans as you might imagine of doing a Zoom call with 250 people.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you, guys.

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

Thanks.

Operator: Thank you. And our next question comes from Vikram Malhotra with Morgan Stanley. Your line is open.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC
Q

Thanks for taking the questions, I know it's late. So, maybe just putting all of this together, maybe this one's for you, Andrew. You referenced, I think it was last quarter, maybe at an earlier call, sort of seeing a difference in value between buildings that are higher quality, newer versus older value-add and I think there were some comments on what you had heard about in London. Just curious as it stands today with all the moving pieces, what sort of your view on what the bid-ask is for asset values, where do you think we're going.

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

Well, I think the bid arrays are certainly wide and you have – we get a ton of incoming inquiry from all different flavors of capital, the opportunistic guys who read the press and think that we're desperate for capital, so they're lobbying in very low bids, and then the longer-term guys who have more realistic and constructive approach to valuation, and those are the guys we wind up transacting with. So, I do think the bid-ask for spread is very wide because there's not transaction volume out there and any kind of level that's more normal. But we are seeing, as we always do, different types of capital and new entrants come into the market, some pension funds and some overseas capital that wasn't previously active in New York that's now looking for opportunities and we try to identify those sources with whatever product we have in the market, whether it's structured finance or buildings. And I do think Class A well-leased assets are still most attractive to people. But the redevelopment projects, if they're priced right hold allure to us. There's not enough liquidity out there to really give you specific examples and illuminate the bid-ask in each of the different asset classes. I would just say it is wide right now and there's a lot of bottom fishers out there.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC
Q

Okay. That's helpful. And then just maybe a broad kind of maybe theoretical question, but Marc for you. Few years ago, street retail was pretty hot in 2016. Now it's, as you said, it's structurally impaired, permanently impaired. Assuming there is not a massive shift in office, but some incremental shift in work-from-home and that impacts office fundamentals permanently in, say, CBD markets. Would you be open to sort of widening out sort of broadening away from New York in areas around New York, maybe suburban market, maybe using the DPE book to make some early investments? IF this does come to fruition theoretically, would you be more open to other markets and other strategies?

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

A

No. I really think that once the virus is arrested and put behind us that all of the attributes of New York City and Manhattan proper are still here and are still going to be far and away the most compelling for businesses to want to locate here and people to want to live here 24/7. Right now, we're in this moment and we've been in this moment before. And so, this isn't the moment for us to be making any bold redirection of investment strategy. This is where we just sort of hunker down and manage through this, which we're doing I think quite well. But I don't think this is going to result in any kind of meaningful shift to the suburban markets, which we have a lot of experience with.

We've sold I think every suburban asset we own except for 1.5. And I don't think we're going to look back at that as having been a bad decision. I think that will still be a good decision three to five years down the road because I think the amount of demand that may spill into those outlying areas is going to be just immaterial relative to the 400 million square feet of demand for New York City and I think all the tenants we speak to so want to be here in New York. They may siphon off. It used to be densification. We had to deal with that. You got to remember, densification was one of the greatest challenges we faced over the past decade, far more of a challenge than new additions to inventory. And I think that densification trend is now dead in its tracks. And arguably, as Steve said earlier, it's going to reverse itself. That is a much bigger influence and a positive influence for our business if that comes to pass then whatever marginal demand might siphon off to the suburbs. So I don't think we're going to head in that direction, Vikram.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. Thanks so much.

Operator: Thank you. Our next question comes from Anthony Paolone with JPMorgan. Your line is open.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks. On One Madison, is there going to be cash back to SL Green either from your partners' equity investment here or maybe the construction run at some point. I'm just trying to understand the cash in and out there for you all.

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

A

Yeah, Tony, we've got cash from them in the second quarter when we signed up the deal and then the construction financing that we have in process will fund essentially the construction of the project. And then on the other side of that, we get the remaining equity contribution from our partners.

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

A

Yeah. It's a good point actually because the substantial equity repatriation at the end of this project is not really part of our liquidity.

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

Correct.

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

So, the $1 billion liquidity as of June-end doesn't include the vast majority of the committed funds from our partner, which is sort of future factored receivable, which is out there and will become liquidity, but we don't even include it in our stats.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Got it. And I just wanted to understand. Thanks. And then the second one is on the collections side. You kind of gave the cash collections. But it looks like you recognized 100% there from like a GAAP and earnings recognition point of view. Is that right or did I miss something?

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

If the balances are deemed collectible, yeah, they are in earnings and in the revenue line. But I also highlighted we took a significant amount of reserves. WE normally book $0.5 million to $1 million of reserves against receivables. And we booked $7.5 million this quarter. That's looking at unpaid balances and saying we have some skepticism around collections and we will take 50% or even 100% reserve against those receivable amounts.

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

I just want to check Matt's world of reserves, a $7.5 million reserve is like seismic. With a company, which I think is $1.6 billion of revenue, last I checked, I would call it microscopic. I mean, we're in the business of taking risk. And I think that when you measure our revenues and income relative to these what I'd call very minor, modest, almost a tiny reserve as a proportion of those revenues. I think it's a real testament to the collections effort and the balance sheet. So, yes, they are substantial reserves because we usually take almost no reserves. But in the context of $1.7 billion of revenues and in the context of a component of that, which was $200 million a year of DPE revenues was supposed to $160 million a year this year. The reserves we're taking at a very tough point in time against that revenue stream I think speaks to the scrupulousness of the underwriting process and credit process here that the reserves as a percent are fairly small.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Okay. But is there a way to think about that dollar amount, though, in terms of either like a quarterly or annual number? So, like, for instance, if COVID didn't happen and now it is, how much quarterly revenue has become uncollectible, I guess, out of the $7.5 million [indiscernible] (01:24:44) $7.5 million cover some other period of time in like straight-line write-off or some other number?

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

No. There is no way to extrapolate it.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Can you give us the number or just give us a sense of like how much?

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

A

It was $7.5 million for the quarter, which is higher than we've ever recorded. I mean, I don't know how to take that up beyond that.

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

A

No. We're going to do the best we can on collections going forward.

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

A

There's no estimate for future quarters, if that's what you're asking for. I mean, we don't estimate future losses. I mean, the idea is hopefully we don't have future losses. But I mean, if there are or some become visible to us then [indiscernible] (01:25:29) reserves. But at this moment, $7.5 million is the substance of our reserve.

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

A

Booked this quarter. The total is much larger. That was just what we booked this quarter.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Got it. Thanks.

Operator: Thank you.

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

Okay. Well, for those that have hung in there hour-and-a-half call, appreciate the questions, and look forward to hopefully achieving a lot of the high bar we've set for ourselves over the next three to six months leading up to our investor call. Everyone, have a great summer under the circumstances as best as possible and have a safe summer. Thanks.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone have a great day.