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SL Green Realty Corp. (SLG)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us and welcome to SL Green Realty Corp's Second Quarter 2025 Earnings Results Conference Call. This conference call is being recorded.

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

Also during today's call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's second quarter 2025 earnings and in our supplemental information included in our current report on Form 8-K relating to our second quarter 2025 earnings.

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

Marc Holliday

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

Okay. Thank you. Good afternoon and appreciate all of you joining us. I'm very proud of what we at SL Green accomplished this past quarter, and I'm pleased to be able to share some of the highlights with you today and some thoughts on the market as well as field your questions coming out of these results.

The achievements for the quarter were particularly impressive in my view when you put it up against a volatile economic backdrop in a higher than optimal short-term rate environment. For some firms, the confluence of these events and the current market environment presents challenges, but SL Green is adept at dealing with the volatility, and it's in these types of situations that I believe our platform truly shines the brightest. We are well adapted to threading the needle, finding the best investment opportunities when others are less certain as to where to find that value. Ultimately, it's the diversity of our platform, business lines and skill set that keeps us well-balanced offensively and defensively and enables us to outperform expectations quarter after quarter.

In this second quarter alone, we concluded over 540,000 square feet of leasing, bringing your year-to-date total to 1.3 million square feet of space leased inclusive of last night's announcement. And we have refilled the pipeline to over 1 million square feet for near-term execution. What's notable about the deals done to date and the deals in the pipeline is that they're not really chunky in size. Rather, they are a broad cross-section of mid-sized leases that are renewing, expanding and relocating within our portfolio at a rate which is bringing down vacancy levels in class A midtown buildings.

A good stat I have on that is that the pipeline of 1 million square feet I referenced, 80% of those leases are 25,000-square-foot and under. Half of that pipeline is financial services. But the other half is a broad range of legal, professional services, government and non-profit, TAMI and real estate, all of which is about equally dispersed within that remaining 50%. So, very diverse, very numerous. And I think evidence of a very healthy environment, not only for our top buildings, but throughout the portfolio. In fact, half the pipeline by square footage represents non-Park Avenue properties. So, this is definitely an indication that the demand has radiated out kind of from east to west within our portfolio from Third Avenue all the way to Seventh. And we're going to start to see in the second half of this year significant occupancy gains as we get towards our projected 93.2% by the end of the year.

As you also know, our ability to source and execute is really a validation of our pipeline. The investment we made in the 522 mortgage position last year is perhaps one of the best trades of the cycle where we realized nearly \$90 million of profit on a \$130 million investment in well under 1 year's time. We also consummated a transaction with a new domestic partner by selling a 50% participation interest in the preferred equity position we hold in 625 Madison Avenue, which carries a PIK preferred rate of about 6.65%. When combined with the proceeds of the 522 transaction, the 625 interest sale yielded over \$300 million of fresh cash proceeds into the company that we now intend to deploy into new and accretive opportunities.

And lastly, we announced the closing of over \$500 million of fund commitments, bringing the total close to date to over \$1 billion, a significant milestone for the company. That's an announcement we just made. It's probably crossing your screens right now. That gives us corporate liquidity and fund availability combined of over \$2 billion to fund our new opportunistic investment pipeline and solidify our position as a market maker in midtown Manhattan.

But perhaps one of the most momentous events of the quarter was something that wasn't even included in the earnings release and that is the filing of our response to the state's RFP in the casino license bid project. It represents almost four years of work, effort, planning, partnering and listening to the community and other constituencies, all of which came together in a 13,000-page document that was filed in the second quarter at the state's offices near Albany. And it was a privilege to present to the state, Caesars Palace Times Square. It's located in one of the world's most iconic destinations that will provide far and away more tax revenue for the people of the state than most other and if not all other proposed facilities while bringing a new attraction to Times Square that befits its location at the center of the entertainment universe.

Caesars Palace will achieve this lofty ambition without displacing residents or utilizing land that could otherwise be developed for much needed housing. The project has been intentionally and uniquely designed and programmed to uplift surrounding businesses and residents, not displace them. And that makes this project truly unique among all the proposed projects. Caesars Palace Times Square is set precisely where a global entertainment facility should be, Times Square, the world's greatest tourist and entertainment destination at the crossroads of the world.

All of – wish us luck in that endeavor. It's the start of a 90-day process that with the Community Advisory Committee that was formed, and we hope to be through that and be able to make it to the next step of the bid process in Albany after we are able to get the consensus that we need at the CAC and majority vote to move on. We're very confident because we have a fantastic proposal on all merits and more to come on that on the next call.

This all combined to enable us to raise our earnings guidance at the midpoint by \$0.40 a share. There's a lot of ins and outs that go into that, but mostly it's reflective of substantial increased profits at the company above our earnings guidance. More on that from Matt DiLiberto.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Thanks, Marc. Clearly, been an extremely busy six months for this team. Because we're a very active company across multiple business lines, there are dozens of items that can affect our results each quarter as well as the trajectory of earnings over the course of the year. And yes, some of those income streams are unpredictable or that was, a lot of people use the word, lumpy. This is why we set guidance on an annual not a quarterly basis and use a relatively wide guidance range. When we give guidance, we are confident in it. Needless to say, we are very pleased that our successes so far this year allow us to not only increase our FFO guidance range only six months into the year, but by a meaningful \$0.40 or 7.4% at the midpoint.

The drivers of this upward revision are most easily summarized into two basic categories. First, in our debt and preferred equity portfolio, the repayment of our mortgage investment at 522 Fifth for \$200 million, which was substantially more than what we purchased the position for. Generated about \$0.69 a share of incremental FFO. I say incremental because our original guidance included various forms of income from holding this investment over the course of 2025 as well as income from other debt and preferred equity investments. This incremental income is offset by \$0.19 a share of reserves that we booked in the second quarter on our preferred equity investment in 625 Madison Avenue. This is pursuant to the sale that Marc alluded to of 50% of that investment which closed earlier this week to generate incremental liquidity.

While the transaction closed in the third quarter, because the deal was largely known at June 30, accounting rules require us to not only take a reserve on the portion that we sold, but an equivalent reserve on the piece that we retained. All told, that's \$0.50 a share of uplift just from the debt and preferred equity book. Offsetting this incremental income, interest expense is trending a bit above our original expectations by about \$0.10 a share. This is not necessarily the result of higher rates because our debt is 95% hedged and the current SOFR curve is not that far off from the curve we used for our initial guidance. It's primarily related to decisions we have made around potential asset sales that changed the size or timing of them. As a result, we carry the debt on these assets for longer. If they have debt and don't realize the benefit of the proceeds from the sales, they pay down corporate debt.

Across the rest of the business, we are largely performing in line with our original expectations with NOI trending slightly better as you could see in our second quarter results offset by SUMMIT, where second quarter results were slightly below our expectations due primarily to taking the Ascent experience offline during the quarter, which is a premium ticket that generates incremental revenue. We expect to bring that back online before the end of summer. From an attendance perspective, overall attendance at SUMMIT was actually higher than our projections in the second quarter, and we are right on top of our projections for the first six months of the year.

As it relates to discounted debt extinguishment gains, we have maintained our original assumption of \$20 million or \$0.26 a share of discounted debt gains in our updated guidance range, but we see a potential path to more than that. As noted in the earnings release, an affiliate of the company and a partner have purchased the debt at 1552-1560 Broadway for just \$63 million as against the total debt claim of \$219.5 million, \$193 million of which is principal. However, the debt is still outstanding for very specific reasons. Accounting rules don't allow us to record a debt gain until the debt is extinguished. When that debt is extinguished, which could potentially be this year, we would recognize a debt gain substantially larger than the \$20 million we currently have in guidance. Aside from 1552 Broadway, we are also evaluating other opportunities to take out existing debt at less than par.

In closing, I read and hear a lot about the complexity of modeling the company. We sympathize with all of you on that because we have to model it too. I also see a lot of analysts or investors that want to discount the unique ways that we generate real cash gains, that generate real FFO, that pay a real cash dividend and I'll admit I'm a bit perplexed by that. And I'm sure there are plenty of other REITs out there that you can model in your sleep and run rate every quarter in perpetuity with laser precision. But those are not the companies with a team like ours that will work like animals to evaluate every opportunity presented to them with an eye towards generating profits and creating shareholder value. Being unique and creative in the ways we make money for our shareholders is in our DNA and that won't change. And if the price of that profitability is more complexity, we can't be apologetic for that.

Now, I'd like to open it up to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from line of Steve Sakwa from Evercore ISI. Your line is open.

Steve Sakwa

Analyst, Evercore ISI

Q

Yeah. Thanks. Good afternoon. Marc, look, I'm sympathetic about you focusing on the annual and not really focusing on quarterly trends. But I think the market might have been a little bit surprised at the slight dip in occupancy in the second quarter. And I don't know if maybe a couple of deals slipped from a timing perspective, but maybe can you just, you or Steve, kind of walk us through the pipeline, the timing and then just any known move-outs that could affect your ability to hit that 93.2% leased occupancy by the end of the year? Thank you.

Marc Holliday

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

A

I think it's a silly overreaction. I mean, to measure 30 million square feet on quarter to quarter variations, go with management guidance. If we feel confident that we're going to be at the levels that's the reiterated guidance, we're not going to do quarter to quarter. If a lease signs three days after June 30, that pops it up. We just announced, I think – how big was the deal [indiscernible] (00:19:12) 64,000-foot. Now, so if that's two weeks earlier, it might drive occupancy. It's something really that I think is not a productive use of time for this call.

The leasing volume that we do is the best and the most in the business. We have 1 million square feet of pipeline. We reiterated our guidance for the year. We generally hit our reiterated guidance. You guys, it's only been 27 years together as a public company. We set these outperformance goals. We don't hit all of them. We try. My commentary was meant to convey that we see a very strong and diverse leasing market out there, which is increasing occupancy market-wide and in the portfolio. If we had a couple of roll-ups, [ph] it could roll off (00:20:13) in the second quarter.

Steven M. Durels

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

A

The blip is really driven by – there was an unbudgeted tenant default at 711 Third Avenue. So, nobody could have predicted it. The space went dark. So, there we go. The other thing worth noting is where we have that occupancy in same store, of course, is only half the story. Rest of the story is where we're doing a lot of leasing in

redevelopment properties like One Madison Avenue. So, the pipeline is full, the leasing velocity is strong. And the focus on one narrow part of the portfolio is, I don't think, giving a true justice to the accomplishment.

Marc Holliday

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

A

Let me give you a stat that's interesting, Steve, on sort of expanding on what Steve Durels just said. The AI and tech demand in Midtown South is just starting to get revved up. We had two deals done in the quarter, one with Sigma, one with Pinterest, and we got two more pending in pipeline, one at One Madison, one at 11 Madison. In total, that's 287,000 square feet of net new demand in those two properties, both done and part of pipeline, in size that are all driven by AI and tech. And that's only increasing in our opinion.

And financial services is still half the market and the money being made in financial services as a result of volatility that you saw in the first half of the year, people look at that volatility and say, oh, my God, what's that doing to the economy? Well, look at the trading profits of the big five banks and look at the trading profits of the Wall Street member banks, which was, I think, \$15 billion in the first quarter alone. I've got stats here. The investment banking, the M&A and equity issuances is down, but far more offset by the trading profits.

So, volatility yields opportunity. Volatility yields profit. No city in the country benefits more from that than New York City does. And that's why the city budget passed a few weeks ago unanimously, fully funded, credit ratings affirmed, tax receipts at like all-time highs, private and public sector employment at all-time highs, tourism trending towards all-time high. There's no narrative of weakness that we see. And if we did, we'd be the first to tell you. Next question, please.

Operator: Thank you. One moment for our next question. Our next question comes from line of John Kim from BMO Capital Markets. Your line is open.

John P. Kim

Analyst, BMO Capital Markets Corp.

Q

Thank you. Congratulations on the gain that you had at 522 Fifth. I guess my question is, if you – when you made the investment, did you expect it to be monetized so quickly? And also, the disclosure on the investment is a little bit murky. We couldn't find it on your balance sheet. It's not in your DPE investment disclosure. Wondering why that was the case. And then finally, should the gain be larger than the amount that you raised guidance?

Marc Holliday

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

A

[indiscernible] (00:23:48). So, the answer is, I mean, we had – when we take these kind of positions which are on the more opportunistic range of the scale, we have a range of outcomes, some of which are expedited, some of which are long and protracted. So, I don't think we had a singular resolution in mind when we made the investment. We had a range of outcomes that we projected anywhere from TPO to restructuring to sort of ultimate enforcement of remedies. That's typically the full gamut in any non-performing loan acquisition. When this one happened to be a relatively rapid resolution, which I think also plays into the strength of the kind of collateral that we identify. It's collateral that is capable of being refinanced, sold or recapitalized and not looking at deals that you have to hang in for long periods of time for market improvement to get the ultimate resolution. So, probably, a little faster than expected, but certainly within the range of expectation. Matt, on the accounting?

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

A

Yeah, disclosure-wise, this was a CMBS investment, which we make a lot of. And we don't put the disclosure that we do for CMBS investments that we do for the debt and preferred equity portfolio and that's that. We do a lot of investments that don't get that disclosure. And by the way, disclosures go in the other direction with the fund, but we're not going to go to the level that we did on the DPE book. Your last question was is the gain larger than the guidance increase? Is that what it was?

John P. Kim

Analyst, BMO Capital Markets Corp.

Yeah.

Q

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Yeah, yeah. Definitely. But remember, we had some income office investment for the balance of the year, so it's not all – my point in my commentary was not everything we got off 522 was incremental, right. We expected to get income off of the investment. We got repaid on it. So, that generates a big gain, but there was income expected to be received off the investment over the course of the year.

A

John P. Kim

Analyst, BMO Capital Markets Corp.

But where could we find this on your balance sheet? And are there other CMBS investments like this?

Q

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

There are two lines and you're not going get any more detail than this, two lines called consolidated CMBS vehicles or securitization vehicles. There's an asset line, a liability line. The net of those are our investment. And we can't disclose more than that.

A

John P. Kim

Analyst, BMO Capital Markets Corp.

Okay.

Q

Operator: Thank you. One moment for our next question. Our next question will come from line of Alexander Goldfarb from Piper Sandler. Your line is open.

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Hey. Good afternoon and congrats. Mazel tov on closing the first \$1 billion on the fund. Two questions here. Marc, you know the city well, you know Albany well, and obviously, good pulse on the city. Have you noticed any change in tenant discussions since the primary, the mayoral primary? Just obviously it's impacting the stocks as people think about New York. And just curious if tenants are talking about it and if it's impacting their leasing decisions or thoughts of expansion?

Q

Marc Holliday

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

A question about whether it's impacting any of our ongoing tenant negotiations. Answer, no, we've not seen a single instance of that being an issue or I'll even say a discussion point. Steve, any discussion point?

A

Steven M. Durels

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

No, nothing. I mean, maybe it's too early to tell, but doesn't seem to be a driver of any kind of decision.

A

Marc Holliday

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

Yeah. No. So, look, New Yorkers love their politics. So, there's no shortage of discussion about mayoral race and other races, but nothing that we've seen that's impacting leasing.

A

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Okay. And the second question is, Matt, in sort of your response to Steve's question on the guidance and the cadence and just look at the full year, you guys have spoken for some time about all the aggressive leasing and the capital spend you're doing now, which will then show up over the next few years in increased occupancy and obviously increased NOI. And that's what definitely we are focused on. My question is, is that sort of that trajectory remains on track that we should think about next year being where we'll start to see a lot of this aggressive leasing start to take hold with meaningful upticks of occupancy or the time it takes for these leases to take effect and show up in the P&L and earnings may take longer than that?

Q

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Well, generally speaking, you would expect to see the economics of a new lease – renewal leases are faster, new lease in 12 months. That's just rough average how long it takes for tenants to build that space. And at that point, we can recognize revenue which shows up in GAAP NOI. So, if you take all the leasing we did in 2024, which was a lot and we increased our same-store occupancy by a lot, you would expect that to materialize over the course of 2025 and then be more fully apparent in 2026. And if you look at where our economic occupancy trend, which is based on commenced leasing, is headed between now and the end of the year, that holds. I'll reserve any other commentary on 2026 until we get to putting out our 2026 guidance in December.

A

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Okay. Thank you.

Q

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

Q

Hello. This is [ph] Victor Fabbio (00:29:44) with Nick Yulico. On your other income line item, what drove the \$15 million quarter over quarter decline and what is your expectation for the second half of 2025 for this line item?

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

We have not changed our other income expectations for the full year on that line item. Quarter over quarter, I think we just had less fee income this quarter than we did last.

A

Q

Got it. And then quick question on your \$1 billion disposition target. Is it still intact? And are there any assets on later stages of negotiations as of now?

Marc Holliday

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

Harry is going to touch it.

A

Harrison Sitomer

Chief Investment Officer, SL Green Realty Corp.

I'll touch it. It's Harry. We're still working through the disposition plan this year as you've seen us accomplish the past four to five years through this market. We set out a lofty goal and we usually try to get every single one of those opportunities done. You may see us shift one or two of those opportunities to something else that's more suited for this market or a specific buyer, but the investment team here is working tirelessly to get done our business plan and no specific changes at this point.

A

Q

Got it. Thank you.

Operator: One moment for our next question. Our next question will come from line of Vikram Malhotra from Mizuho. Your line is open.

Vikram Malhotra

Analyst, Mizuho Securities USA LLC

Afternoon, thanks for taking the question. I guess I was wondering if you could build and give us a bit more color on what this – I guess you said strengthening and widening out of demand in the Sixth, Third Avenue, et cetera. What this could mean for sort of your investment opportunities and how you see that sort of filtering into ultimately effective rent growth?

Q

Marc Holliday

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

Well, I think, first of all, what are the drivers of that? One, tenant demand. There were a lot of mid-market tenants that had delayed their decision making or had been later on the curve in return to office. But now, seems to be a proliferation of these type of deals. And the core Park Avenue spine has just gotten just too damn expensive, I mean, for many of these tenants. So, they're looking where they traditionally do for good value relative to great well-located real estate. But somewhat off the run in a price point they can afford. And now those deals are getting done.

A

And there's also a little bit of a concern with a diminishing supply because in some of those peripheral corridors, there's a lot of conversions of office to resi that are happening and space is rapidly being taken off the market. So, tenants in those buildings, no different in 750 Third, have to relocate and they typically relocate on those same corridors. So, there's more deals getting done as inventory is kind of coming off the rolls as buildings are being converted compounded by the fact that core-core midtown has gotten very expensive and compounded by the

fact that there's just more tenants looking for space and there's no new supply really forecasted for the next four years of delivery. So, some of it is immediate demand. Some of it are people accelerating their decision timelines because they don't want to be left out in the cold come 2026 and 2027 when the market could be much tighter than it is today.

Vikram Malhotra*Analyst, Mizuho Securities USA LLC*

Q

Okay. That's helpful. And then just, I guess, assuming the casino process goes your way, what does that – does that mean – or would you think then that submarket becomes sort of a broader opportunity set for SL Green?

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

A

I think the casino would be absolutely transformational for Times Square. Times Square is the beating heart of New York. It's one of the greatest entertainment assets in the world, and it certainly has a great attraction of tourism, people coming through the Square, which is not really a square to sight see and to sort of be in the moment, those Instagram moments. But Times Square can be much more than that and that's really what we hope to achieve with this project, is making Times Square again a place where people stay, shop, eat, continue to go to Broadway, but also other forms of live entertainment, music, comedy, non-Broadway live performance. I mean the potential is so great. And the halo effect of what it means for small businesses, for the community, for hundreds of millions of dollars which we've committed in and around the area to daycare centers and safety and security enhancements, decongestion strategies, mental health awareness.

It just goes on and on that I think the way in which One Vanderbilt kind of helped to transform Grand Central into the experience it is today, partly because of development, partly because of the enabling zoning, I think you're going to see that exponentially exhibited in the surrounding areas, Times Square, Hell's Kitchen, West Side Manhattan, New York City. There's no limit to, I think, the benefits that will come from a very high-end, world-class, destination-oriented casino. And we're very hopeful to make that happen. And we have lots of properties in and around that area that will benefit, but that's a tangential benefit. The number one goal is to really make Caesars Palace Times Square one of the greatest localized economic development projects of this decade.

Operator: Thank you. One moment for our next question. Our next question comes the line of Blaine Heck from Wells Fargo. Your line is open.

Blaine Heck*Analyst, Wells Fargo Securities LLC*

Q

Great. Thanks. Good afternoon. Marc, you talked about large portion of the leasing pipeline the smaller or midsize leases, which I agree seems healthy. But I'm wondering if that implies you're seeing any slowdown in demand or hesitation from larger tenants given the macro and rate uncertainty that you referenced at the top of the call?

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

A

No, not in the least. I mean, Steve can expand on it, but I think what you're seeing is there is a lack of availability. I mean, that's the issue. Again, I don't know how to hammer it home. There's only like a 1 million square feet and change of net new contribution to inventory over the next four years. This is a big market, 400 million square feet space. If the market grew by 1% a year, that would mean you need 4 million square feet a year of new space. If that was 0.5%, 2 million square feet a year. If you only look at Midtown, 1 million square feet a year, four years, 4 million square feet. We're talking about just somewhere over 1 million square feet in the next four years of

delivery. So, part of what I think you're seeing is there's not a lot of space to do deals. There were a couple of big deals. Deloitte did a big deal over in Hudson Yards. I think that was, what, 800,000 feet or something. And, Steve, was there another big one that might be...?

Steven M. Durels

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

A

Sure. There was a couple. But to Marc's point, I mean, I think the real way to look at it is what's overall tenant demand in the market. And there's a known 28 million square feet of active tenant searches right now, as compared to a year ago, it was only 22 million square feet. I mean, that's a big stat to say it's 6 million square feet of known active tenant searches. And what he was really trying to hit on, okay, the big blocks, there's plenty of big tenants floating on the market. I've got proposals on my desk. They're not in my pipeline because they haven't matured to a point of a conversation where I would add them yet, but they're indicative of big tenants searching the market for several hundred thousand square feet. I've got three of them on proposal stage at 245 by itself. I don't have the space to satisfy all those.

So, those tenants will land somewhere. But a lot of these guys will end up renewing because there's a dearth of quality big blocks. Just to put a pin in it, if you looked at the best building category in our [ph] 400 (00:38:55) square foot marketplace, there's only two 100,000 square foot contiguous direct availabilities in that category. It shows you how tight the market is. That'll drive more renewals and in-place expansions by a lot of these tenants that will then drive the other tenants to be overflow into the rest of the market, which is really what Marc was driving home earlier when he said, that's why we're seeing this proliferation of small and medium sized deals. There's no room left at the end of these guys.

Marc Holliday

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

A

Yeah. Another example on the investment side is going back to 522 with Amazon buying 522 Fifth Avenue, it's just another example of when blocks of space come available, which they rarely do, tenants are trying to gobble them up and even buy them in [indiscernible] (00:39:43) 525,000 square feet.

Blaine Heck

Analyst, Wells Fargo Securities LLC

Q

Yeah. No, that's great color and all makes sense. Thank you. Second question, can you talk about any progress you've made on securing the development site you alluded to at the Investor Day? Whether you still think that that's a priority for the company this year and whether you're seeing any increased competition for those potential development sites?

Marc Holliday

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

A

Yeah. So, I think the goal was development and/or large scale redevelopment site. The good thing is we're working on both and it's among the highest priorities of things we're working on right now. It's not, I would say, one. I'd say we're working on multiple opportunities. These deals take time, but we're sticking to our guns and there's still a lot of runway in the [indiscernible] (00:40:39) something like that. And we got some time and we've got opportunities well within our sights and we're going to work hard in Q3 and Q4 to put them under contract.

Blaine Heck

Analyst, Wells Fargo Securities LLC

Q

Great. Thanks, guys.

Operator: One moment for our next question. Our next question will come from line of Ronald Kamdem from Morgan Stanley. Your line is open.

Ronald Kamdem

Analyst, Morgan Stanley

Q

Hey, just two quick ones from me. Just one on capital markets, if you could just comment on what you're seeing in the transaction markets and cap rates and specifically sort of post Liberation Day and the tariffs, just any signs that foreign buyers are maybe pausing or are not participating in the market? Thanks.

Harrison Sitomer

Chief Investment Officer, SL Green Realty Corp.

A

Yeah, sure. The markets on the equity side still feel healthy. The most obvious example to point to would be 590 Madison. That was a very competitive process. Three buyers were really there at the end, all with contracts, all negotiating right down to the finish line. The deal ended up getting done at about \$1.1 billion, which was about \$1,050 a foot and in the mid 5% cap range. Another example to just point to, which was another entrant back into the market, Blackstone at 1345 AOA, which closed in May of this year. Both really good examples of trophy assets that are seeing assets that for a little while you weren't seeing clearing or trading now trading again and getting big capital demand. The capital behind those deals in the case of Blackstone is obviously Blackstone. In the case of RXR mostly private equity capital is our understanding.

Ronald Kamdem

Analyst, Morgan Stanley

Q

Great. Thanks so much. And then my second question was just going back to the same store NOI sort of targets for the year. And obviously we're not talking about 2026, but if we're following your logic in terms of occupancy building in the second half of the year and into sort of 2026, is that – should the same store sort of follow the same trajectory in terms of a build in the second half of the year and into 2026? Just why does that logic not make sense? Thanks.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

A

That logic makes sense. The trend into the end of the year from economic occupancy, as I talked about earlier, is upward such that the spread between leased occupancy and economic occupancy is a few hundred basis points tighter than it was at the end of 2024. That sets – and a lot of the NOI of 2024's leasing, therefore not in 2025. That is the setup for same-store NOI increases along with the leasing we're expected to do this year because same-store occupancy is going up another 100-plus basis points this year. That is the setup for same store NOI increase in 2026, yes.

Ronald Kamdem

Analyst, Morgan Stanley

Q

Great. Thanks so much.

Operator: One moment for next question. Our next question comes from line of Omotayo [indiscernible] (00:44:01) Okusanya from Deutsche Bank. Your line is open.

Omotayo Okusanya*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi, yes, good afternoon, everyone. I just wanted to go back to Goldfarb's question a little bit about Albany in general and the New York City mayoral kind of election race. Just kind of curious, just given how New York City real estate seems to have reacted to the idea of Mamdani becoming the next mayor, just curious how you guys are thinking through that scenario or thinking through any other kind of mayoral scenario when we eventually get a new mayor?

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

A

So, question is what are we doing here at the company? Is that...

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

A

What [ph] would you call it (00:44:47) if Mamdani wins?

Omotayo Okusanya*Analyst, Deutsche Bank Securities, Inc.*

Q

What's the company doing? And again – and how do you kind of think through that scenario? Like, if it's a lot of like the Mamdani type socialist bent policies become reality for New York City if he becomes mayor, like, how do you kind of think about operating in that environment?

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

A

Well, I don't – I mean, we already operate in an environment that's one in which we have to be very adaptable to a city council that's very progressive, has a high level of representation of democratic, liberal and progressive council people that make the laws. We've been through five administrations, I think, as a public company, five different mayoral administrations and we flourished under all of them. So, I mean, we've been supportive of Mayor Adams from his time before he was a mayor. We think he's done a very good job with taking situation in New York City in 2022 and bringing it to a place today that's much better on almost all metrics, including supply of affordable housing and safety and crime, et cetera.

But the voters are going to determine the outcome and I'm very confident in our ability and given our relationships across the broad spectrum of the political ideology, to continue to operate and succeed in whatever political environment that we're facing. But we've been pretty clear in what we look for in a mayor in terms of being both pro-business, but also active in social causes and in affordability. And we think Mayor Adams has achieved that. But the voters will have their day in November.

Omotayo Okusanya*Analyst, Deutsche Bank Securities, Inc.*

Q

That's helpful. And then one other quick one on SUMMIT and any update on additional locations, what progress is being made there?

[indiscernible] (00:47:14).

Marc Holliday

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

Oh, for SUMMIT?

A

A

Yeah, SUMMIT.

Marc Holliday

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

You know, Rob Schiffer is not here at the moment. Rob and Mike Williams and the team are the ones who – and Kenzo, of course, are, I would say, on the road almost every other day. Our target cities are Tokyo, London, Seoul and others. And I think we're very optimistic that we'll have something hopefully to announce by end of year with respect to a new location. Obviously, Paris, you guys already know about, that's proceeding along well. We're still on track for a Q1 2027 open. The plans are absolutely spectacular. For those of you that have seen SUMMIT One Vanderbilt, I think SUMMIT Paris is just yet a whole new level and can't wait to unveil it. We should be in construction by Q1 2026. We're finishing up our plans and CDs right now.

A

Omotayo Okusanya

Analyst, Deutsche Bank Securities, Inc.

Great. Thank you.

Q

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

Peter Abramowitz

Analyst, Jefferies LLC

Yeah, thanks for taking the question. I think earlier in the call, Marc mentioned that there were some sort of mid-market tenants that were coming back to the market because they had sort of overcorrected in space reductions post pandemic. It seems that because New York has had a stronger recovery and utilization is much higher than a lot of the rest of the country that maybe we're kind of in sort of the late innings of the tailwinds from return to office. But just based on your comments, I guess I'm curious on how much incremental absorption or demand is still out there that you think you can capture kind of as companies come back to the market and possibly correct some of their prior overcorrections for space reductions?

Q

Steven M. Durels

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

Well, I don't think you can quantify it because it's an ever-changing dynamic as far as tenants coming into the market and where their businesses are going. But the trends that we see are all of our major industries are active in the market as opposed to us being reliant upon just one industry like financial services. Right now, we're seeing tenant demand from financial services, from tech, from general businesses, services like whether that's accounting or engineering or something like that. Healthcare, government, education, all are active in the marketplace right now and the biggest change from a year ago was clearly the tech demand. And in that world, we're seeing tenants of size.

A

Marc laid out some of the activity that we're seeing just in our portfolio in Midtown South market, where we've got two deals that were signed, two deals in the pipeline, all 50,000 square foot to 100,000 square foot type deals. And we couldn't have said that a year ago. I mean, that is a game changer for the overall Manhattan market and certainly for where we think we're headed with our portfolio on some of our big buildings.

The other thing I'll say is with the return to office initiative, this idea of hybrid work environment, stuff like that is really out of the narrative. I say that not to promote our industry, but more to just as an observation, we're not hearing from our tenant base. It's all about bringing the employees back to the office. And I think it's trending more that it's more square footage per employee than it was four, five years ago. Sure, densification and going to open plan layouts is still there, but the introduction of more amenities and giving people more space at their workstation is resulting in more square footage per employee.

So, I think there're several different trend lines that are all positive and that combined with supply coming off the market because of the 13.5 million square feet of resi conversions that are either actively in construction or announced and the lack of new construction, those are dynamics that create a very healthy leasing market.

Peter Abramowitz

Analyst, Jefferies LLC

Q

Okay. That's helpful. Thanks, Steve. And then just wondering if you could comment on concessions specifically sort of Class A or A-minus assets kind of below that trophy space. But the kind of group of assets across the market that are benefiting from the trickle down of lack of trophy availability, just how concessions are sort of trending in that space?

Steven M. Durels

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

A

I still think the concessions have been flat and have been flat for the past, I don't know, a year and a half or so. I think what you're really seeing and – I've said this in the last couple of calls is face rents are going up. And that's true not just for the best buildings, but you're seeing it in some of the tighter submarkets. So, if you look at Grand Central, right, or you look at Park Avenue or Sixth Avenue, you're starting to see rent appreciation. So, face rents are going up before the concessions come down. I think ultimately we will see some tightening in the concessions. Hard to say whether that's this quarter, next quarter or whatever. But first thing if that happens is, rents will go up in a material way before the concessions come down.

Marc Holliday

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

A

Steve has given you that perspective for the market generally. I'm just looking right now at the supplemental page. I guess this is your new supplemental table, Matt, right.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

A

Yes.

Marc Holliday

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

A

And I find it very useful. So, good job on this.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

[indiscernible] (00:53:33).

A

Marc Holliday

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

This shows free rent for the quarter at 6.3 months average free rent per – I guess, per lease done. And that's the lowest it's been in the last five quarters. The TI was \$78, close to \$79 a foot, which is the lowest it's been in the last four quarters and equal to what it was five quarters ago. And the mark to market over the past five quarters have been positive in four of those five quarters. So, there's the trend in the market and then there's the trend in the portfolio. And the trend in the portfolio at this moment seems like it's decidedly in the nature of what Steve said leveling or in our case possibly tightening improving, concessions combined with increases in rent. So, you get sort of a double compounder on the net effect. It's now – next quarter might be different and there might be a blip up or blip down. But looking at it over four or five quarters, I think you start to really see the trend, and so, we hope and expect to see that trend continue.

A

Peter Abramowitz

Analyst, Jefferies LLC

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

Q

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

Seth Bergey

Analyst, Citigroup Global Markets, Inc.

Hi. Thanks for taking my question. I guess just given your comment on the strong demand environment and the 1.3 million square feet of leasing activity to date, just kind of how comfortable are you with the 2 million square foot leasing goal? And is that something you could look to kind of do better than expected on?

Q

Steven M. Durels

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

Well, I think we feel very confident that we'll hit that goal. And there's a lot of reason to believe that we'll exceed it.

A

Seth Bergey

Analyst, Citigroup Global Markets, Inc.

Okay. Great. And then just...

Q

Marc Holliday

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

The pipeline right now is 1 million feet. But do remember this, there's going to be more additions to pipeline in July or September, October. And Steve is going to be under enormous pressure to get all of that signed by [indiscernible] (00:55:40). So, I wouldn't look at the 1 million feet as finite. We will be adding to pipeline as time goes on.

A

Seth Bergey*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks. That's helpful. And just a second one kind of going back to the mayoral primaries and just thinking about the office supply picture. But how does the plan to kind of freeze rent impact the underwriting for office to resi conversions for projects such as the 750 Third Avenue? And does that kind of change how people are thinking about those opportunities overall?

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

A

Yeah. The proposal, I think, is out there as a concept. It requires, for the most part, state involvement. When you get to things like the Rent Stabilization Board, et cetera, and as I understand it, refers only to the stabilized pool of assets and is completely inapplicable to free market and new affordable housing that was passed by the governor back in the last budget. So, I think there's a conflation, I think there's a misunderstanding. I'm not going to go through it on this call. There'll be time in the future. And I think step one is to figure out, first, see where things shake out. I think it's going to be a tight race. We'll see.

And when we have better visibility into where things are in the fourth quarter of this year, certainly in December, we'd be able to address that much more head on and specifically. But we are not in the rent stabilized business. I'm going to hazard to say we have no rents – I mean, I don't think we have a single rent stabilized or rent-controlled unit in the portfolio. So, if you're asking specifically about the impact on us, I would say negligible to none. But it will have an impact on other building owners and rent [indiscernible] (00:57:44). I don't think it's a healthy thing for the market in general. I think that rent freezes are only going to cause landlords to warehouse more units than they're already warehousing, which puts further pressure on the availability of units. I don't think it helps the affordability issue as attractive as it may sound to some. I think in the long term, we've seen that if there's no fundamental economic basis for improving and redelivering stabilized units into the market, then landlords won't do it and there'll be pressure on those landlords. But we don't have investment in that sector.

Seth Bergey*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thanks.

Operator: One moment for our next question. Our next question comes from the line of Brendan Lynch from Barclays. Your line is open.

Brendan James Lynch*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks for taking my questions. I want to ask about trends with the special servicing designation. Are most of the distressed situations known at this point or do you still think there's some more to come?

Harrison Sitomer*Chief Investment Officer, SL Green Realty Corp.*

A

I think, as you noted, as we noted in the earnings release, we grew our special servicing quarter over quarter. I think that's been a consistent trend the past six or seven quarters. We now have about \$17 billion of current assignments, \$6.1 billion of which are active, \$10.5 billion are not active, but could be at time where we get called upon for specific assignments. I would expect to continue to see those numbers grow over the next few quarters.

And there are a handful of deals that we're working on now where resolutions are imminent and that will lead to additional fees paid to the company.

Brendan James Lynch*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you. And then also on office to resi conversions, have you identified any additional opportunities within your portfolio or has the tightness in the office market made that a less attractive opportunity than it might have appeared a couple of years ago?

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

A

Well, it's not – I mean, our buildings are almost entirely leased, so those are not the most attractive candidates. We do have some that may have some near-term roll or forget about the words near term, roll coming up in the portfolio where we could consider such a move. But I would say that beyond 750, we would expect most of our participation either as a converter or a financier of conversions, to be for new pipeline and new property, not necessarily coming out of a portfolio that's close to 92% leased for reasons I think are mostly obvious. Successful office buildings don't make great conversion candidates. It's either antiquated or obsolete or where there's full building or significant roll. Those are the best candidates and we don't really have a deep inventory of that.

Brendan James Lynch*Analyst, Barclays Capital, Inc.*

A

Great. Thank you.

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

Caitlin Burrows*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Maybe just two quick ones. Following up on the discussion about pricing and strong demand, limited supply. As you look across your portfolio, what are the in-place lease escalators that you guys have? And as you're signing new leases, I guess, have you seen any shift in that over the last five-plus years?

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

A

Well, the majority of leases have a pass-through in increases of operating and real estate taxes. So, the tenants pay their proportionate share of any increase in the building's operating expenses or real estate taxes. Then typically there's anywhere between a \$5 and \$10 a foot base rent increase in addition to those pass-throughs every five years of lease term. Some of our leases we've gotten away from a pass-through of operating and we've used a CPI escalator, but that's a small percentage and typically smaller sized deals. But when we do that, [ph] that's a profit center for the firm (01:02:18).

Caitlin Burrows*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. And then just on the casino bid, do you guys have any idea, like how many bids are still being reviewed and whether you're 1 of 5 or 1 of 20 at this point?

Marc Holliday

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

A

Well, we've got a pretty good handle. We're either one of eight or one of seven because one of the bids is, I think, in question as to whether the land use will enable it to continue on, but I think off filed applications, I believe we are one of eight for three licenses.

Caitlin Burrows

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. Thanks.

Operator: Thank you. That's all the time we have for Q&A. I would now like to turn the call back over to Marc Holliday for any closing remarks.

Marc Holliday

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

Thank you. And it's great catching up. Have a good rest of your summer, everyone. We'll be back to you in October.

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

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