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SL Green Realty Corp. (SLG)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us. And welcome to SL Green Realty Corp.'s Fourth Quarter 2023 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 the 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 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 measures most directly comparable to each non-GAAP financial measure discussed, and the reconciliation of the differences between each non-GAAP financial measures and the comparable GAAP financial measures can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's fourth quarter 2023 earnings and in our supplemental information included in our current report on Form 8-K relating to our fourth quarter 2023 earnings. Before turning the call over to Marc Holliday, Chairman and Chief Executive Officer of SL Green Realty Corp., I would like to ask those of you participating in the question-and-answer session of the call, please limit your questions to two per person.

Thank you. I would like to turn the call over to Marc Holliday. Please go ahead, Marc.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Okay. Thank you. Good afternoon and glad everybody could join us today. I'm extremely happy and I'm extremely proud with how we ended 2023 navigating what was a challenging year and showing that we have turned the corner going into 2024. We're just a few weeks into the year and only seven weeks on from our investor conference, but we already have so much new activity that we want to talk about and share with you today. Normally, I don't like to repeat the earnings press release. Most of you have it, you've read it. And I don't like to do that on these calls, but I think today is different. I think it deserves a moment to reflect on what we have achieved in the fourth quarter and at the outset of the year during these first few weeks. At 2 Herald, we increased our ownership in a well located asset and fully resolved a $182.5 million leasehold mortgage. All of which was accomplished for very little out of pocket. There's more work to be done for sure, but we are on our way to stabilizing this asset.

There was seismic news in New York City retail this month with Jeff Sutton, our long-term partner and friend, and among the best retail dealmakers in the city. Wait, Jeff, if you're listening in, I know what you're thinking. The best retail dealmaker in the city pulled off not one, but two amazing deals. 717 Fifth Avenue sold for $963 million, generating full repayment of the capital stack, plus distributions to Sutton and ourselves, equating to approximately $8,000 per square foot of sale price. And to prove this isn't an outlier, right across the street at another legacy Green Wharton asset, Prada bought 720 and 724 Fifth Ave for $835 million, a deal that was also just recently closed. And these deals developed quickly and confidently. And I think it's very, very exciting for the city.

We had a third great example of user acquisitions in the retail space in the past 30 days with a Swiss retailer, Akris, buying the entire retail condo that we owned at 21 East 66th Street for over $40 million and exceeding $7,000 per square foot, thereby putting an exclamation point on the trend of retailers making permanent commitments to New York City through the purchase of desirable retail assets. This is Akris' second purchase from SL Green over the past year. We expect this trend to continue as we are already aware of another transaction in the works in that part of town. Obviously 717 wasn't an anomaly and confidence in Fifth Avenue and High Street retail in New York City is once again on the rise. But let me remind you, some of the headlines from the past few years, relatively recent headlines. When FT declared the death of High Street retail. Crain's talked about a retail apocalypse on Fifth. And New York Times concluded that retail has abandoned Manhattan. My point here is simply that people often underestimate how quickly things can change from these sort of hysterical media headlines to record-setting transactions just a few years later. I urge you all to keep this in mind when you read similar headlines about the office sector.

Speaking of office, we ended the year strong with over 500,000 square feet of New York office leasing in the fourth quarter, which enabled us to report an uptick in occupancy for the second consecutive quarter after having stated publicly last summer that we believe the market had essentially hit bottom. And JLL recently reported that SL Green signed the greatest number of triple-digit leases in all of New York City last year. There's good news on the debt front as well. We gave you a business plan in early December with ambitious plans to extend, modify upwards of $5 billion in debt, which certainly gives new meaning to the definition of stretch goal. Happy to report that even before the year ended, we put the first one on the board with Seven Day, which we successfully extended to three years, at terms that are favorable for the asset and should help us get our JV done on that asset.

Another aspirational goal we set of $1 billion of debt reduction this year on the heels of $1 billion of debt reduction last year, and we've accomplished already over $200 million of that reduction sitting here in sort of mid-Jan. So not to be overshadowed by all these great news, our premier development on 760 Madison, which has really set, I think, a new standard for Upper East Side bespoke New York luxury. And we just signed a contract this morning for the ninth floor, bringing us to six out of 10 units spoken for with a contract out on a seventh. So we're off to a great start, certainly confident in our business plan and optimistic about the city's continued recovery where we have some positive indicators to report.

The city's OMB forecast for 2024 is hot off the press and looks really good with over 90,000 private sector jobs forecasted for this year and another 97,000 jobs forecasted for 2025, certainly continuing to bring New York's employment base to record highs. As and more importantly, after a year where we saw slippage in the office-using employment, the city is forecasting a robust reversal that will more than make up for those losses with 42,000 office-using jobs projected for this year and that would also set an office using record in 2024. So kudos to the Adams and Hochul administrations and all involved for helping to bring back tourism, improve security and implement pro-business policies.

As a result of all that, we are launching our fundraising efforts to amass a minimum of a $1 billion capital allocation to become active participants in this city's ongoing recovery and resiliency. In fact, after we get off the phone, we're heading to the airport and we're on a plane to Asia to formally kick off those efforts. We're excited about the prospects of this. Got a lot of excellent response and inbound inquiries on these efforts. Most importantly, what we're doing, along with other announced deals, shows that new capital is forming in this market. The second indicator that we've passed the bottom, of course, the first indicator being our statements to you in July of last year.

With that, I'm happy to open it up for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is going to come from the line of Steve Sakwa with Evercore ISI. Your line is open. Please go ahead.

Steve Sakwa
Analyst, Evercore ISI

Q

Yes. Thanks. Good afternoon. Marc, I was just wondering if you could provide a little bit more color on the 2 Herald transaction. I think just what the bank did in effectively letting you basically pay off that mortgage for close to zero, it's a great deal for you. I think everyone here is just trying to understand kind of the hows and the whys, and how that deal ultimately kind of unfolds, and how you're thinking about the economics of that deal.

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

A

Well, I take that as kudos for getting a great job done on that deal. I think that everybody in this market is trying to come together to make sure that these assets have a safe landing. This is a great asset. I love the location. I know it's Ulta's number one location in sales per foot in this entire 400-store portfolio throughout the country – 1,500, sorry, 1,500 throughout the country. Number one, I mean, that says something, but it also says that it's an asset that we're going to have to really start to think about what's the best use. The beauty is there's a lot of different options and alternatives that we could look at here. It's great for office. It's an unbelievable retail location, right across Macy's. It's in a part of town that's seeing a lot of capital investment and upgrade. It has the ability to flex as residential, both dormitory, which we've actually seen because Mercy College is there. And potentially for some conversion to other residential use, lot of options.

And that's what we like. We like deals that give us optionality. We've got to roll up our sleeves here. And writing the capital stack is just part one. But executing the business plan over time will be part two. And hopefully, all of us including our partners and others will come out of this with something good to talk about in the future.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay. And my second question, I think at the Investor Day, you talked about mark-to-market being in the 2% to 5% range for 2024. However, when I look at the disclosure that you have towards the back of the supplemental where you provide your lease expiration schedule and your expectations of asking rents today, it looks like the 2024 leases in both wholly owned and unconsolidated show roll-downs and I realize these are just asking rents and they're different from maybe what gets signed, but is there just any way to kind of tie those two together or what are we missing kind of on this schedule on page 40 and what you provided at the Investor Day?

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

A

Steve, it's Steve Durels. So as we look at our pipeline right now and the mark-to-market associated with the pending transactions or the prospective deals that we think are likely to convert to deals, it's the mark-to-market on in any particular deal is kind of all over the board. I'd say half of them are positive up, about half of them are down to varying degrees. But they're within our current 1.4 million square foot pipeline. There are enough large deals with very significant mark-to-markets that are positive that will drive the overall average up.

Steve Sakwa
Analyst, Evercore ISI

Q

Got it. Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Alexander Goldfarb with Piper Sandler. Your line is open. Please go ahead.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey, guys. Thank you. Good afternoon. And yeah, congrats on 2 Herald. Marc, before you get on that plane to Asia, just want to understand better how investors, the international or domestic institutional investors are thinking about investing in your debt fund versus investing in real estate directly? I mean, you're out with potentially a One Vanderbilt stake, but you're also out with the debt fund and just trying to understand how private capital is thinking about those two options.

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

A

Yes, I mean, it's a good question. I mean, it's different flavors for different investors. Some investors have different pockets for both. It's not exclusive. I didn't mean to imply that, just FYI. The debt fund is one element of what we're having meetings about. I think we've got over 20-some odd meetings lined up over a five-day period. And there's a lot to talk about. The debt fund is certainly exciting, as are some of our JV and equity opportunities that we'll be talking about in addition to some of the other things that we're involved with in the entertainment hospitality world. So we've got a full agenda. Certain of these investors are credit oriented. And that's the way they want to play it. Others are sort of high-end, long-term equity oriented investors. And the best are both, and trust me, we'll be putting lots of opportunities out there. The key is to make sure that all these meetings, not just this is just one leg of many legs that we'll be doing over the next couple of months trips both domestically and internationally, not just to talk about the fund, but to talk about what's going on in New York City on the office front, on the retail front, on the credit opportunities, tourism, hotels, or ADRs and occupancy going up significantly, job growth. I think there were 24,000 new businesses since pandemic created in New York. That's more than most cities even have.

So, it's like an amazing story that I think needs to be told because on the comments I made earlier, if you rely only on the headlines, you get sort of a different impression of what's taking place on the ground.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And second question is, Matt, just thinking about 2 Herald as a template for other deals potentially for those 10 standalone strategic assets. Can you give us a sense of how many of your loans are held directly versus in CMBS? Just trying to understand your ability to negotiate. Can you negotiate as well with the CMBS special servicer as you can if it's being held directly by a financial institution?

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

A

Yeah, it's Matt. I'm going to kick this over to Harrison.

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

To answer the first question off the top of my head, I think it's about four or five loans that sit in the CMBS as opposed to balance sheet. And we've had good negotiations with both CMBS lenders and the special servicers, as well as balance sheets. So I wouldn't say that either option is restrictive to us. There are obviously some more complexities when working with CMBS lenders, but we're working through that on a few loans now as part of the $5 billion plan, and we're well underway in those negotiations.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Tom Catherwood with BTIG. Your line is open. Please go ahead.

Thomas Catherwood
Analyst, BTIG LLC

Q

Thank you. And good afternoon, everyone. Steve, maybe going back to your answer to a previous question, you mentioned kind of several large leases that should bump up the mark-to-market average for the year. A bulk of your activity in 2023, at least earlier in 2023, was more small and mid-sized leases. What are you seeing as far as tenant sizes in the pipeline? Is that starting to skew, you're starting to see kind of larger tenants coming back in the market? Or is it still mainly dominated by those smaller requirements?

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

A

Well, I'll make a couple of points. Right now, our pipeline is almost 1,400,000 square feet. That's up over 100,000 square feet where we were at investor conference and in the face of signing over 100,000 square feet of leases since that time period as well. I would say probably 60% or more of the deals pending right now are financial services businesses. I don't think that's necessarily a commentary as if they're the sole driver in the market. As a matter of fact, we're seeing a lot of tour activity from law firms, government, education, even some tech firms right now. It just happens to be a reflection of where we have availability within our portfolio, and it's a pretty broad range of sizes. A lot of activity in some of the more moderate priced buildings like Graybar Building and some other Third Avenue buildings that are kind of small to midsize requirements.

But then on some of the bigger financial services tenants, we've got a number of notably large deals that are in negotiation. And every single one of them is driven by those tenants having a growth component of their space requirement.

Thomas Catherwood
Analyst, BTIG LLC

Q

Thanks. Appreciate that, Steve. And then for the second question, maybe Marc or Matt, first of all, congrats on getting the refinancing done at Seven Day. And Marc had mentioned the $5 billion of refinancings you had laid out at the investor conference. I know we're early in the year, but kind of what are the next priorities on your list when it comes to refinancings and how are those conversations trending so far?

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Well, I think, just for conciseness, we set out asset by asset in December, which we've never done before, our plan. And we noted in each case where we thought we would be able to be successful in getting some kind of modification extension done on debt that has maturities mostly in 2024, 2025, 2026, we want to try and take care of almost all of certainly 2024 and 2025. And with the goal of getting new maturity dates end of 2027 and beyond to really 2028. And so in terms of like next priority, that group of assets is all the priority. I think there's five or six in total that we're probably working on in various stages. And it looked like – nothing's easy in this market for sure. But between what we showed you last year and what we continue to show in this quarter is there's going to be differentiation in this market between sponsors that partners and lenders are going to want to work with and sponsors where lenders and partners may not want to.

I mean, it happens every time you get a bit of a market dislocation like this. There's a weeding out process and then the market recovers. And sometime in the future it happens again. So I'm just happy and feel fortunate that as a company we've got the reputation and the platform and the resources to be able to work productively with our counterparties, always trying to come up with solutions that are sort of the best available solutions for all.

Sometimes a great solution. Sometimes they were painful solutions, but we're always trying to do it in a way knowing that these counterparties are people in this market we deal with year after year after year and what comes around from these efforts, I think, pay off for us in the future. So I feel pretty good about where we are and the job we have ahead of us this year and next to get all of that debt sort of firmly landed, restructured, extended on terms that we can manage. But it's only January.

Thomas Catherwood

Analyst, BTIG LLC

Q

Appreciate it. Thanks, Marc.

Operator: Thank you. And one moment as we move on to our next question. Our next question is going to come from the line of John Kim with BMO Capital Markets. Your line is open. Please go ahead.

John P. Kim

Analyst, BMO Capital Markets Corp.

Q

Thank you. Kudos on 2 Herald Square, but going forward, the cost to carry is still pretty high given the ground lease. And it sounds like if you can reposition it, it's going to be fairly capital intensive. At this point, are you more inclined to sell it or joint venture the asset, or do you plan to keep it on balance sheet? And will this stay in your alternative strategy portfolio?

Harrison Sitomer

Chief Investment Officer, SL Green Realty Corp.

A

This is Harry. Right now, we're working through various avenues. We got through the first part of this, which is with the [ph] rent to lease of (00:23:54) lender. But we have a lot of time here. We've got a lot of time. We're working through the asset. We know it very well. We've owned it for a few years now and we're working through the avenues and we'll present it to you over the coming quarters.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Yeah, I think this is a business plan that we'll be developing over the course of the year. It's not one we highlighted for you guys in December. Our priorities were elsewhere. Now that there's a reordering of the capital stack, it's now feasible to start thinking about long-term value. But we can't do it in a day or two. I mean, this is something we're going to study and we're going to be testing the market. And certainly by 6 to 12 months, we're going to have a game plan for this asset. And we're going to try to, on a reset basis, something that might not have worked in the old formula will work now. And that's the process we're going through, being in this situation.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

And will this stay in your ASP, and should we just view this as option value going forward?

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

A

Yeah, for now, John, that will stay in ASP.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. My second question is on your month-to-month leases or holdover. It looks like it was 200,000 square feet combined, which is higher than previous quarters. I was wondering if you could just comment on the likelihood of these tenants moving out versus renewing or just remaining in the month-to-month portfolio?

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

A

I think a lot of that is driven by some of the tenancy at 625 Madison Avenue.

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

A

That's right. Yeah. The leases there have technically been terminated.

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

A

Yeah.

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

A

They're holdovers.

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

A

So that building, as you know, is in contract for sale. So it's not really an indicator of anything else that's going on in the broader market.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Right. Okay. Thank you.

Operator: Thank you. And one moment as we move on to our next question. Our next question is going to come from the line of Anthony Paolone with JPMorgan. Your line is open. Please go ahead.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Yeah. Thank you. Marc, you talked about the big retail trades that occurred earlier in your comments. Can you just talk about any shift in sentiment there that you picked up in terms of investing in office and whether that's changed much?

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

A

Well, I think that goes back to the pools of capital that I was referring to. So, yeah, I'd say it changed a lot because there's like, I don't know how many, billions and billions of dollars of announced capital for me for credit and equity targeting not exclusively, but certainly a significant amount is going to be targeted towards the office sector, including our own efforts. And that's the first sign of – this is a playbook you guys have seen a couple of times before. It's not anybody's first rodeo. And it's already been four years since the pandemic, and the business fundamentals in this city are very strong. And people are back to work. And it's time for a lot of investors who have been sort of off to office, except for what I'll call sort of the special assets in great locations, et cetera. I mean, those kinds of assets rode through this period of time like champs.

But there's a lot of other buildings out there that need to be attended to. And I think you're going to see the liquidity break. And the first step are these capital pools forming and then the institutions will follow right behind, in my opinion.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then just second one, you may have given this out and maybe I missed it. But on the debt fund, how much is going to be SL Green's, I guess, co-investment?

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

A

Well, we know, but I think that's TBD in terms of announcement. So...

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay.

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

A

I would say stand by, I guess is – it's not a question. I mean, as you know, we tend to like to have real skin in the game. I mean, we're investors as much as we're managers of monies for others. So we'll have real skin in this game. But it has to fit within our overall liquidity program for the year. And we feel very good about the levels we're going out, which will show our confidence and belief in this program.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. And one moment as we move on to our next question. Our next question is going to come from the line of Vikram Malhotra with Mizuho. Your line is open. Please go ahead.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Thanks for taking the questions. I just wanted to – maybe Steve Durels or even Matt, just you talked a lot about market improvement, the job outlook picture looking better and return to work and all that. Just trying to square that with if you look at the leasing pipeline that you mentioned, plus the expirations and factor and renewal rates, I'm just trying to square all that with your latest thoughts on occupancy and then tying that occupancy back, Matt, perhaps to ultimate FAD cash flow generation. It just seems like there could be a big lag between all the leads up, the non-move-outs, etcetera, before you actually see a meaningful inflection in underlying FAD generation. Thanks.

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

A

Yeah. Obviously, sitting here in January, having given guidance about seven weeks ago, we will say we're on plan. The pipeline is actually a little bigger, as Steve said, than it was back at the investor conference. Even after signing 100,000 feet in January, 100,000 feet back in December, the pipeline still grow. So it puts us and based on what's in the pipeline, puts us squarely on our targets for occupancy increase, which is going from 90% at the end of the year, with a goal of 91.6% by the end of 2024 with a goal of 2 million square feet of leasing. This is a great start towards those goals.

As to how that translates back through to FAD, yeah, of course there's a lag particularly doing new leasing. You've seen that over the last couple of years. It lags when occupancy is going down. The roll down takes time to roll through, and the same thing will happen on the roll up. So we see the biggest benefit of going from 90% to 91.6% in the 2024 FAD? No, it will roll through in the coming years, but we are on the right trajectory and consistent with the plan we laid out in December.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Got it. Okay. And then just, sorry, go back to I know you've had a lot of questions on 2 Herald, but two clarifications. One, can you give us any color or maybe even just based on precedent, like how should we think about the ground lease reset? I believe it's 2027. And then related to that, you mentioned a variety of strategies that you have in mind. But perhaps you can give us some thought about timeline because today, if you look at a lot of office buildings, just where debt is, where values are, you would argue like equity value has been diminished tremendously. And you need to sort of take perhaps a long enough timeframe to think about value creation. And given this building, I think is, what, 20% or 30% leased, it seems like there's a very heavy lift. So I'm just trying to get more thought around how you're thinking about a, the ground lease; and then b, value creation.

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

A

So the value creation question is, I tried to address earlier, I mean, step one is come up with our plan. That's really as far as I can go with that at this moment is this is an asset that we've probably been involved with, redeveloped and maximized assets like this for the last 27 years. And I think we've done 124 million square feet of investment, almost all of which is exclusively midtown, much of which is like 2 Herald. So this doesn't present, in my opinion, the unique challenges you might be referring to. We look at this as opportunity. I love the flexibility and I like the location, and we'll come up with a plan. The comment about it's going to take a very long time. Yeah, I don't know about that. I mean, I heard a lot of that on 625 Madison and that turned into a very excellent resolution for this company in a very quick period of time. So I wouldn't subscribe to the notion that it's going to take a long period or short period of time.

We're going to just manage it the way we manage the other 30 million square feet we're involved with. And I have no particular concern about anything unique to this asset. I think it's a very good asset. It's vacant because we had a tenant go out. I mean, this is like no mystery. I think prior to the tenant going out, it was like very well leased. So buildings sometimes go from well leased to having some vacancy when a tenant rolls out. But then you resolve that vacancy. And I mentioned we can do it in a number of different ways and we're going to have to optimize it. I've said that on the ground lease, there's a reset. I don't know if there's much to talk about there because it's early, but there is a reset. I don't know – does anyone have the details on that reset?

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

A

2027 is correct. I would just say we have a well-aligned fee owner here. They want to see us maximizing, create value. I'm sure you won't be surprised to hear we're in active negotiations with them to give us the opportunity to maximize the value. So we're working through that and it will be part of the update as we get through the year.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

No. That was helpful. My comment, I guess, just I was wondering if there was something more specific because...

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

A

No, not at the moment. I would say stay tuned – and I would stay tuned in June or in the next call, actually. It won't be on the next call. I would say give us six months and we may have more to come on a business plan, but we don't have it yet. Just...

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

I was just surprised, like, in general for the lender that like there was a $180 million loan.

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

A

Okay.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

And like the way you described it, it sounded like there was a lot of optionality. So I was just surprised that the lender was okay with seven.

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

Yeah.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC
Q

And that's why I thought there was something more specific to this asset which was my comment. Yeah.

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

I understand. Thank you. And we'll definitely readdress it later this year.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC
Q

Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question comes from the line of Camille Bonnel with Bank of America. Your line is open. Please go ahead.

Camille Bonnel
Analyst, BofA Securities, Inc.
Q

Hi. Impressive outcome on the 717 Fifth Avenue sale. Are you seeing third-party demand at these levels for High Street retail beyond the user buyers we've seen in the deals that you've mentioned in your opening remarks?

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

Yeah. No. That's an excellent question. We've got Brett Herschenfeld who heads up all of our retail and strategic. Why don't you – so the question is putting user demand aside, how is the sort of the high-end rental market looking like?

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

The high-end rental market was really being driven by Madison Avenue to start. We have the likes of Valentino, and Jimmy Choo, and Dior, and McQueen, Van Cleef all signed big leases on Madison Avenue in the past year. Fifth Avenue is right behind and starting to pick up and that will be nice to see 717 filled on Fifth Avenue. In terms of investors, I mean, related and their acquisition of 625 Madison, a big part of that transaction is value recognition of the retail. And they are an investor, obviously not a user. So, there are more behind that. But we'll be sharing that in the months to come.

Camille Bonnel
Analyst, BofA Securities, Inc.
Q

Okay. And Matt, can you talk to how you're thinking about your floating rate exposure today? Guidance that was set out in December looked to reduce your exposure down to single digits by year-end 2023. Has anything changed on this front and would you be comfortable operating at the current level or higher?

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

A

No, I think we're on the path we expected to be on. Most of the fixed rate debt that we have today is fixed even beyond the end of the year. So there's not much we can do with that. As to the other floating rate debt, a lot of that is what we expect to take out as we reduce debt over the course of the year. In fact, taking out 717 reduces our floating rate exposure by itself, taking down the revolver addresses the rest. And we still want to protect ourselves, even though the rate environment has gotten a little bit more constructive and the forward curve looks to be coming down. We want to be prudent and protective. We put a hedge on late last year, forward starting hedge that's what's flowing through earnings. Rates were higher than they are today, which is why we had a negative mark-to-market. But it's a protective exercise for something we expect to execute at the end of the year. It's protecting the balance sheet.

We at this point, again, are optimistic about where the rate environment is headed, but we still want to be prudent and keep that floating rate debt fairly low.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Blaine Heck with Wells Fargo. Your line is open. Please go ahead.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. Good afternoon. So we're hearing that Park Avenue corridor has gotten really tight at this point given the strong tenant interest in that submarket. Are you seeing a spillover effect in any specific submarkets or maybe buildings within your portfolio that are now seeing more interest since that kind of Tier 1 space is getting leased up?

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

A

Yeah, I don't think it's unique to Park Avenue. But you're right, Park Avenue has got an availability that's like something like 9.4%. So by historical standards, you would say it's at least at equilibrium, if not tilting more back to the landlord and having more leverage on transactions because of the limited supply and lack of big blocks expected to come on the market any time in the near future. But take it to a different level, which is you've seen with the absence of any new construction coming online in the short term, you've seen a lot of the new buildings and newer or heavily renovated buildings filling up. So the beneficiary of that has been Park Avenue, Sixth Avenue, Rock Center, and anything around Grand Central Terminal is all seeing more tenant demand.

So I think it's more tenants are being forced to shop various parts of Midtown. But clearly the tenant drive is for the majority of tenants to focus their attention on the Midtown market as opposed to the Far West side market or certainly the Downtown market. And where we're seeing that spill over on all parts of our portfolio.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks, Steve. And then the second one, just a quick one with respect to 2 Herald Square. As it stands now, does the NOI at that asset cover the ground lease payment?

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

A

I'm sorry, can you repeat that? Does the NOI and what...

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

At 2 Herald, does that cover the ground lease payment that you guys have there?

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

A

No. No, it doesn't in its current occupancy, Blaine. Part of the reason it's in the ASP portfolio.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great.

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

A

Thank you.

Operator: Thank you. And one moment as we move on to our next question. And our next question comes from the line of Peter Abramowitz with Jefferies. Your line is open. Please go ahead.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Yes. Thank you. So I think the EPS guidance raise was $1.38 in the range there, and the FFO guidance range was $1 on the notes. So I think you said it was mostly related to gains on the debt extinguishment, but just wondering if there's any offsetting items or any other moving pieces in there that caused the difference in the magnitude of the raise between those two?

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

A

Yeah, the guidance adjustment for FFO is purely the gain off the 2 Herald discounted debt extinguishment as offset by taking out the generic $20 million gain we had in there. So that math works out to exactly $1. The difference between the $1 of FFO and $1.38, I think, of net income is the gain we'll recognize on 717. That asset did not have a basis on the books. And so it's essentially all gain.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay. Got it. And then one other question on 2 Herald. So I think you guys kind of cover everything from a lender perspective. I guess from your partners' perspective, I mean, can you talk about the motivation for them, it seems like it was just a situation where they wanted to walk away from the asset. So you're taking over almost full control for, I think, it said no consideration in the press release. So you just kind of cover that and what the motivation was and their reasoning was from their perspective.

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

A

Yeah, I appreciate the question. I don't want to speak for our partner on this call and what their motivations were. Unfortunately, not much I can get into there, but we'll continue to update you on 2 Herald as we go on throughout the rest of the year.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Right. I guess, put in other way, anything that – it's obviously a very favorable resolution for you. Anything specific to the situation that influence that, I guess?

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

A

Yeah. I mean, as you know, they're still in the deal with a minority interest, but they still have an interest in the asset. And beyond that, I just, again, don't want to get into how they're thinking about it and what their motivations were.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay. Thank you.

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

A

Thank you.

Operator: And one moment as we move on to our next question. Our next question is going to come from the line of Ronald Kamdem with Morgan Stanley. Your line is open. Please go ahead.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Great. Hey, just two quick ones. So first is just on the trips to Asia that you're talking about after this call. I just wondering, was that sort of related to the One Vanderbilt or the 245 Park JV? And maybe can you provide an update how conversations were going and any sort of timing if that deal is still...

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

A

Everything – I'd say our whole business plan is on the table, not just – I know there's a lot of questions I'm getting about this Asia trip since I mentioned it. We do this like every couple of weeks, not Asia, but all over the country and different parts of the world. We're visiting partners, lenders. And on these trips, we make them targeted, but we're talking about everything that's part of our business plan, really for 2024. And that's how we got to get it done. I mean, it's – you got to start early if you want to get it done by end of the year. And so things like OVA, 245, I don't know, Seven Day, and everything else we talked about in December. Yeah. I mean, there will be discussions we're having on each and every one of those.

On OVA in particular, Harry, you want to give an update?

Harrison Sitomer
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. Consistent with the message we delivered in December, we're in active negotiations on the interest. These negotiations that we're involved in, they're confirming exactly what we said, which is there's global and domestic demand for this – it's a one-of-a-kind asset, and that's obvious to every investor we're speaking and negotiating with. And as Marc said, we're still on plan for this year.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Right. And my second question is just taking a stab at 2 Herald and taking a step back. So the alternative strategy portfolio has 10 assets. And this 2 Herald, congrats on the deal, gets sort of done. And what looks like it's an uneconomic sort of decision from the bank. So the question is sort of like, out of all these other assets in the ASP is 2 Herald just unique, or are there other assets that look and feel the same, and which ones where you could have such an outcome? Thanks.

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

A

Yeah, it's Matt. So first, I'll correct it's not 10 anymore. It's nine assets because 717 was in there, too. And that's now sold. But look in creating this or segregating this portfolio, we said there's very little if any NAV carried for these assets on the Street, don't generate a lot of any earnings, don't have book value. So they kind of were unique from the rest of the core portfolio. But there's a lot of interesting opportunities that may come out of them. Two out of the 10 happened in the first 30 days of the year [indiscernible] (00:46:53). Are there more opportunities to come out of there? Yeah, we're working on a couple of things, we're working on a lot. So which is what we've been doing with these assets and, again, why we put them off in its own portfolio. I can't characterize whether any of them are exactly like a 2 Herald or exactly like a 717. But the reason we are carrying these assets the way we are is because there's embedded value that might not be appreciated. We're going to look to mine it.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Helpful. Thanks so much.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Michael Griffin with Citi. Your line is open. Please go ahead.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Great. Thanks. Maybe just a question on the leasing pipeline. Can you give us a sense if it's mostly new or renewal leases that are there? And then on the concession front, is it fair to say that it's stabilized or maybe even declined somewhat, particularly in a very high-performing submarket like Park Avenue?

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

A

I'll take the second part first. I don't think the concessions have come down. I think they've been stable for all of last year. I think there's a little more strength, particularly on Park Avenue, to your point on the renewal side than there was versus new deals. But it's still expensive from a landlord's perspective as far as the concession packages go. But I think we hit the stabilization point early last year. So that's the good news of that story. And then as far as renewals versus new deals, it's driven sort of 50/50 between new and renewal. But a lot of our bigger renewals also have very significant expansion components in them. And that's, I think, pretty noteworthy because if you really went through every one of our deals that are out there, to see so much growth, particularly within tenants in the financial services sector, but also some of the law firm tenants that are coming through our door, we're seeing a lot more growth, a lot more confidence, a lot more willingness to commit significant capital by the tenant as they look to rebuild and rebrand their spaces. So that makes us all feel pretty good about where we stand right now.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Great. That's helpful. And then just on the [ph] BPE (00:49:37) book, I'm curious if you're seeing any more appetite or opportunities for future originations given the distress and dislocation that we've seen out in the market?

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

A

Well, that's really the underpinnings of the opportunity fund that we're in the process of marketing and raising. We see a lot of opportunities. I mean, we see many, many opportunities. But obviously no different than in prior markets, only select ones that we think are of interest to us and where we want to deploy our capital. But the opportunity set's so big that we want to have some third parties alongside with us to take advantage fully like we've done in past recoveries. Because I've always said a lot of the money is made in the first year or two coming out of recovery. I feel like that's where we are now and want to make sure we got our ducks lined up to take advantage of things. We very possibly may act preemptively and then backfill with the fund. We'll see how these things go. But yeah, we're seeing a lot right now and I think that's the first step towards more normalized institutional participation. Once we can illuminate where values and levels are, especially in this environment where we've got falling rates, which I think will certainly ease the liquidity pipeline and get things going again.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

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

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

A

Thanks.

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

A

Thanks.

Operator: Thank you. And one moment as we move on to our next question. And our next question is going to come from the line of Caitlin Burrows with Goldman Sachs. Your line is open. Please go ahead.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good afternoon, everyone. Maybe just a question on leasing broadly, the starting rent per square foot on the leases signed in the quarter was pretty high at $105 per square foot and included as you mentioned some leasing at 280 Park and 245 Park. So I was wondering, could you talk more about how tenant activity and leasing activity is shaping up across the portfolio, including some of the more affordable buildings?

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

A

Well, yeah, the rents were high because we did some big deals on Park Avenue. And they were driven by some of our higher price point buildings. But as we sit here right now looking at the pipeline, of the 400,000 square feet of leases that we have out right now, I'm just looking at this real quick. Every single one of those, with the exception of one moderate size deal, is in more of the moderate price point buildings. So 485 Lexington Avenue, 11856 Graybar, 711 Third Avenue, things like that. So those are rents that are generally in the $60 to $70 price point as opposed to the triple-digit rents that you saw us print of some of our Park Avenue buildings at the end of last year.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Got it. And maybe just as a follow-up to that kind of list of deals that you're looking at, do you have a sense for if those tenants are ones that are generally renewing space they were already in and if they're alternatively like moving in from somewhere else where they might have been coming from?

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

A

Yeah. Well, I mentioned earlier that of the 1.4 million square feet pipeline, it's roughly 50/50. It's between renewals and new tenants. And on the renewals, 95% of those are tenants that are renewing in place as opposed to relocating to a different building or different space within our portfolio. But what's not really articulated well as far as saying it's 50/50, is that a good number of the deals that we're working on right now have significant expansion components, whether they be renewal deals or new tenants coming into the portfolio.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Sorry, by expansion component, you're saying they are expanding or they have an option to expand in the future?

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

A

No, meaning they are making it – they're searching for larger spaces.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you.

Operator: Thank you. And one moment for our next question. And our next question comes from the line of Nick Yulico with Scotiabank. Your line is open. Please go ahead.

Nicholas Yulico
Analyst, Scotiabank

Q

Thanks. I just wanted to go back to 2 Herald and be clear here. Did you already own any piece of the mortgage there, or buy it at some point like in the last year and that's what's affecting the net payment number that you're citing?

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

A

I don't understand the question.

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

A

Is it third party debt or did we own any of it? Is that your question, Nick?

Nicholas Yulico
Analyst, Scotiabank

Q

Yeah, exactly.

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

A

All third party. We didn't own any.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. Thanks. And then just on the second part, was there any piece of like a mezz or pref piece there that also affected the ability to get higher equity in the joint venture?

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

A

Is The Wall Street Journal asking?

Nicholas Yulico
Analyst, Scotiabank

Q

I'm just trying to clear up. It's not very clear in your press release here.

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

A

What's the answer, Matt?

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

A

No. The answer is no. None of that.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. Thank you.

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

A

No problem.

Operator: Thank you. And I would now like to turn the conference back over to Marc Holliday for closing remarks.

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

Okay. This was a good 2 Herald conference call, and I'm glad we got some other things in there as well that aren't in the ASP portfolio. And appreciate very much those that muscled through to the end. We thank you for the support, for listening in, getting to work on the fund, and we'll talk to you in three months. Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.