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SL Green Realty Corp. (SLG)

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody for joining us and welcome to SL Green Realty Corp.'s First Quarter 2022 Earnings Results Conference Call. This conference call is being recorded. At this time, the company would like to remind listeners that during the call management may make forward-looking statements. You should not rely on forward-looking statements as predictions of future events as actual results and events may differ from any forward-looking statements that management may make today.

All forward-looking statements made by management on this call are based on their assumptions and beliefs as of today. Additional information regarding the risks, uncertainties and other factors that could cause such differences to appear are set forth in the risk factors and MD&A sections of the company's latest Form 10-K and other subsequent reports filed by the company with the Securities and Exchange Commission.

Also during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and a reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's first quarter 2022 earnings and in our supplemental information filed with our current report on Form 8-K relating to our first quarter 2022 earnings.

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

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

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Thank you. Good afternoon, everyone, and I appreciate you joining us all today for SL Green's first quarter conference call. We very much appreciate the opportunity to discuss with you the company's results and activities and provide some of our thoughts on the overall state of the commercial market in New York City. I'm happy to say notwithstanding the challenging operating environment of the recent past, SL Green's portfolio is dramatically outperforming the overall Manhattan office market, reaffirming its place as New York's leading commercial real estate company and demonstrating its ability to adapt to an ever changing market.

We've done over 4 million square feet of leasing in our office portfolio since the beginning of 2020, keeping our occupancy at approximately 93%, which is more than 10 full percentage points higher than the overall Manhattan office market. And it's expected to rise above 94% by the end of 2022.

Focusing on current results, SL Green signed nearly 900,000 square feet of leases in the first 3.5 months of 2022 alone, including the blockbuster announcement of IBM's 328,000 square foot long-term anchor lease at our transformative One Madison Avenue Development, a new lease to a global information services company encompassing 236,000 square feet for their new headquarters at 100 Park Avenue, and the signed lease with UN Women for an 85,000 square foot renewal at 220 East 42nd Street, more commonly known as the News Building.

Even after all that activity, we still have an impressive pipeline of leases totaling another 900,000 square feet, which we hope and expect to execute upon throughout the remainder of the year in addition to building new pipeline throughout. With One Vanderbilt Avenue now 97% leased, the demand we are experiencing and leases we are signing is not just for new space, but rather for highly improved amenities and well-located space which comprises the entirety of our portfolio. The success of our portfolio through the pandemic is the direct result of a multi-year strategy to narrow our focus on the best buildings in the best locations, and as a result, our portfolio is without a question, the strongest it's ever been and getting even better with the announcement yesterday of the addition of 450 Park Avenue to our roster of premier buildings.

We have worked incredibly hard over the past five years to transform our portfolio into the force that is today, concentrated within resurgent East Midtown, with all the attributes that tenants have come to demand, health and wellness, exceptional amenities, great location, easy commutability and high design.

Looking at our portfolio today, we are lean, strong and highly concentrated in our core prime assets. Over the past several years, we've dramatically reduced or entirely eliminated ancillary business lines, selling off our suburban portfolio, minimizing our retail and residential portfolios, and having our debt and preferred equity book.

Our core office portfolio remains a similar size from when we embarked at the outset, but we've replaced many smaller non-core assets with fewer, bigger, higher quality properties, thus giving us an edge on efficiency. And new developments is now a much bigger component of our portfolio and will only grow as One Madison, 760 Madison, 7 Dey and 15 Beekman move towards completion and stabilization.

And at the center of it all is One Vanderbilt, a triumphant development in the most successful building of 2021, leading an East Midtown Renaissance and defining a new standard for office in New York and around the world. The response has been overwhelming, with more than 375,000 square feet of leases signed in 2021 at record breaking rents. The success of OVA has sparked a broader East Midtown revival, with massive investment taking place across the district now, as the city's strongest leasing, which is occurring in core East Midtown. The building itself has become the locus of activity in Midtown, helping to draw people back. Last year, as you know, we opened Daniel Boulud's Le Pavilion at One Vanderbilt, signaling the return of the New York restaurant scene in Midtown. We knew the demand was there, but we've been completely blown away with the reaction as every dinner table has been taken since opening with long waitlists to boot.

In October, we upped the ante, celebrating the launch of Summit One Vanderbilt, an immersive experience unlike anything else in New York. This was another major milestone for New York, signaling to domestic and global tourists alike that the city is open for entertainment and new and exciting things can come out of even most trying of circumstances. In just 149 days of Operation SUMMIT One Vanderbilt generated over 550,000 total visitors from 57 countries around the globe, quickly becoming the hottest new attraction in New York City within a competitive landscape for entertainment attractions.

Looking ahead when Madison is poised to transform Midtown South, just as One Vanderbilt sparked the resurgence of East Midtown. IBM's decision to sign on as an anchor tenant is massive for New York City, signaling the long-term health of the city and the ongoing attraction of Midtown South. When Madison follows the One Vanderbilt playbook by leveraging its retail space to bring an amenity to the building tenants that adds value with Chelsea Piers delivering a 56,000 square foot fitness facility.

One Madison responds in every way to the ongoing rapid transformation in work culture that has brought a heightened desire for healthy, productive, hospitality-focused work environments. We're bringing this same approach to a series of new development projects, including 760 Madison, 7 Dey, 15 Beekman, all centered around modern and luxurious design, curated amenities and outdoor space offerings. And looking to the future, there is reason for optimism based on the continuing job growth in New York City. 84% of office jobs have already been recovered and full recovery is projected by OMB to occur by middle of 2023, with 24,000 office using jobs expected to be created in 2022 alone. Every day we see and feel New York City coming alive, we are proud to be a part of New York City's comeback and we'll continue to look for ways to capitalize on the current market environment to deliver value to our shareholders.

Thank you. And we are happy now to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Alexander Goldfarb with Piper Sandler. Your line is open.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey, good afternoon. Good afternoon [ph] to everyone (00:09:33). Two questions. The first question is for Steve. Certainly, headline One Vanderbilt been great for midtown. As you look at the buildings in the Grand Central Market, are tenants still saying brand new construction that's where we want to be so the bias is whether it's the far west side or downtown to new buildings? Or are you seeing tenants increasingly look at older vintage assets in the Grand Central Market? So I'm trying to figure out, is older vintage and Grand Central becoming more competitive? And basically, how this relates to 450 Park?

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

A

Well, I think all you have to do is look at the 235,000 foot lease that we did at 100 Park Avenue to answer that question, right. It's a vintage building, but it's been heavily renovated over the years and amenitized. And we're seeing a similar sort of activity throughout our portfolio where we have well-located recently upgraded amenitized products. So it's clearly not biased simply to new construction, but better a biased to good quality, well-positioned product.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And then, second...

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

A

And I think 450 Park with our business plan in mind for that product is spot on, well located, high designed building, we're going to amenitize it and it's the sweet spot for financial firms, which is one of the biggest drivers for tenant demand right now.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And then, Andrew, on the DPE book, rates are obviously up big, I think about a third of your DPE book or so is floating. Are your spreads on the overall book fixed, so as rates go up and down, you're making the same spread? Or is there I won't say mismatch, but is there – are the funding costs different than the interest rates that you're receiving such that the spreads going to vary as interest rates are rising?

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

No, we're hedged, if you will. I mean, the floating rate assets have fixed spreads over the floating index, which resets every 30, 60 or 90 days, depending on the documents. The new loans that we're looking at originating are also primarily floating to increase that sort of floating rate hedge that the debt book provides us versus our floating rate liabilities.

Alexander Goldfarb
Analyst, Piper Sandler & Co.
Q

Okay. Thanks.

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

And we don't have any leverage, any specific leverage on the book today. So it's only funded off the corporate line of credit basically.

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

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

Great. Thank you. I guess, I just was hoping to maybe just take the [ph] pulse of (00:12:39) where you think tenants are in terms of how they're going to use the space going forward. I know a lot of companies, offices are back open, maybe people aren't back fully. They're giving flexibility on how many days a week. Just as you talking to your tenants, I mean what do you think the future looks like in terms of, how many days a week people be in the office, are they going to be hoteling? Just any color you can provide on kind of just the latest thoughts?

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

I don't know that, companies yet know definitively how they'll be using their offices within the near-term. I think to me the best takeaway is evidence of what tenants' long-term expectations are for office space being the center of business activity. And that sort of relates back to the 4 million square feet of long-term leases or mostly long-term leases we signed all during pandemic, where tenants have gone through and thoughtfully considered how they want to use their space clearly de-densifying from the plans we saw three years and four years ago to loosen up the footprints as it were, and also to incorporate significantly more non-work office space or non-workstation space for all the different things we've talked about over the past few calls in terms of collaboration space, food and beverage, lounges, conference facilities, breakout rooms, mothering rooms, wellness rooms, et cetera.

And I think, the plans are exciting, they're more thoughtful, I think by and large, all the new space being built today are – is more productive space for employees, more appreciated by employees, more appreciated by clients. And there seems to be less mono focus on density and efficiency and it's more on sustainability, healthfulness and productivity. I think that's been the big shift we see and whether tenants, employee base are coming back three days a week, four or five days a week, which seems pretty clear is that every one of those employees are still landing at a unique work station. And I think the days of hot-desking or sharing is reduced now from what it was, as people tend to want their own space, their own environment. And the commitments of space being made by tenants are generally for the same or more space footprint than previously, at least in our portfolio of 27 million feet, that's what we're seeing.

35% of the tenants in our portfolio are expanding, for those that have signed leases for renewal in the portfolio. So, clearly we're not seeing a trend like existed before. The densification trend was one of the toughest we faced over close to a 10 year to 15 year period predating COVID. That really seems to be somewhat halted, if you will. And instead these kind of new and inventive floor plans which create hospitality like environments that anywhere between incentivize employees back to the office or help on recruitment and retention, we see that as the trend of the future. And you can speak to the businesses, we have 900 tenants in the portfolio, speak to any grouping subset of them. And I think they'll tell you how much focus space planning now gets. And it doesn't seem to be a trend towards smaller space. But if you ask them specifically how many people, what days, I don't know that they know that yet. I just know that our portfolio is experiencing physical occupancy levels between 40% and 50% between based on what day of the week it is. And those levels are starting to feel really good, and getting back to the utilization, we've seen in the past, we have a ways to go, but I think we're heading in the right direction.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

All right. Thank you. And I guess for my second question, turning to Matt. Matt, I know you maintain guidance. I assume there's a lot of moving pieces though. I mean, clearly, rates are probably higher than you expected to start the year. Can you just talk about kind of what's up and what's down based on what you originally expected as you think about the guidance?

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

Yeah. I mean, really the topic is rates. I mean, the operationally, everything we saw in the first quarter was right on top of our expectations on every metric. And for the balance of the year from an operating perspective, we're seeing exactly what we expected to see when we gave guidance in December. It's really a question of rates right now. And if you recall, back when we gave guidance, we do cushion the forward curve on our floating rate debt by 50 basis points, which gives us room for the curve to move. Traditionally it hasn't. This year it has. We put 50 basis points on it back in December and the forward curve has pushed through that 50 basis points and beyond. So it leaves us within the range, but certainly looks like you're trending towards the lower end of the range just as a function of the movement in rates.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

And would you say there's anything that's offsetting that or it's pretty much everything's as expected other than rate?

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

I mean, with the activity we're seeing in the portfolio, NOI was a tick better in the first quarter. I'm not spreading one quarter out over the remaining nine necessarly. But [ph] we've seen (00:19:09) some indications of better improved – better performance in the operating portfolio in the first three months. So that carries out. Yeah, that would offset it. But otherwise, pretty much in line across the board with what we expected.

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

Okay. Great. Thank you.

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

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Hey, it's Michael Bilerman here with Manny. Marc, I was wondering if you could maybe spend some time just elaborating a little bit on the growth in the investment management program? And maybe just talk about it from the perspective of obviously you've had venture partners for a long time and you've utilized those very successfully to refinance and recycle capital. But as you think about 450 Park Avenue going into that north of [ph] $39 (00:20:02) a foot, obviously you're buying your stock, well, south of that, over half of that discount. And so I'm just trying to understand how much do you want to sell existing assets to grow the platform versus making incremental. And I recognize you have – you're constantly doing things and the organization is constantly in motion. But just help sort of frame everything, as you progressed down this road of really creating this platform?

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

A

Well, I mean, as you point out, Michael, we've been doing deals with partners for decades. And we consider ourselves a very good partner for people who want to invest in New York City, specifically Manhattan. And we've had a very good track record with investors, both domestic and all over the world. And we want to continue that, because quite frankly for us it's been a bit of a more reliable source of equity through the years and through cycles than the public markets have been. There have been times in the past public markets have been favorable...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Completely closed.

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

A

...and then I'd say I can't really say that over the past four or five years. So it's we have to lean into on behalf of our shareholders heavily accessing what I would say, the most dependable, consistent and appropriately priced equity capital and that tends to be domestic and foreign private equity. So for that reason we are not only continuing along that payout, we are increasing it, and really what I think you are seeing there is a shift from a company that's been very transactional over the let's call prior two decades, recall that August is our 25th year as a public company on the NYSE, we will be celebrating that milestone day in August and September of this year. And we've – I think the evolution has been to one where we now want to – we've built a significant brand value. We have an excellent platform. We have excellent people. We have excellent systems, and controls and procedures and security and marketing and leasing and everything that goes into it.

So, now I think we move into a phase of transactional company into franchise and platform company where we can utilize our expertise in this very narrow slice of the market, albeit very sizable size – very sizable part of the market to become a provider and co-investor of best-of-class services for excellent real estate, which seems to always be in demand in New York City regardless of market cycle and regardless of interest rate environment.

And I think 450 Park Avenue will be an excellent litmus test of that thesis. A property that even at the per square foot price you referenced, we think represents extraordinary value given its location, what I would call maybe the bluest chip of locations arguably in New York City, [ph] 57th in Park (00:23:47). The building is in excellent boutique, Class A building that I think under our stewardship, we'll be able to bring a new vision to that property for amenity and service and improvement, such that we should be attaining rents at the very highest levels, just short maybe of what a One Vanderbilt commenced in new construction. And therefore on that basis there's real runway there for us. You mentioned [ph] $1,300 (00:24:27) foot. There's no reason buildings on Park Avenue couldn't routinely be approaching $2,000 a foot and certainly above for building – new buildings like One Vanderbilt.

So we see significant upside. We also see significant attraction because for people – there is a wealth of investors, a depth of investors out there who want to invest with the best sponsorship in the best properties in the best location in New York City. And 450 Park Avenue, I hope we like to [indiscernible] (00:25:01) checks all those boxes and the proof will be in the execution.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

So I guess, it doesn't sound like are you already in discussions with existing or future partners? And I mean, I guess stepping back from that and to me this is the first big deal – acquisition since 2018, right? So I think it's a pretty massive signal, especially at a time where you've been shrinking the base. How much equity capital is out there for office assets, because I think one of the other things, Marc, that you've been demonstrating, you bought back like two REITs already by buying back 35%, 40% of your shares, but you've shrunk so dramatically and protected NAV and grown NAV by selling assets and buying back your stock at a discount?

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

A

Got it. Got it.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

And I guess at what point is there enough? Like, I remember last summer when you and I had this conversation on the call about is there enough equity capital had taken office REIT private, right? You showed your equity cap on an NAV basis down to call it $8 billion – $7.5 billion to $8 billion. Is there enough equity if you lever up the entity so that you maintain the franchise, but you don't have to worry about the public markets, I guess?

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

A

That's not the question...

[indiscernible] (00:26:14)

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

A

...for 450 Park Avenue.

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

A

All right, I will take myself above the [ph] floor here (00:26:18).

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

A

There's lots of equity for 450 Park Avenue, that's for sure.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Okay.

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

A

Where you've spectacular success with pretty much all of our joint venture partners in the past. If you go down the list, we've delivered astonishing market leading returns to these investors. And therefore, given our track record and given the fact that we have the conviction to buy this building, the inbound calls have been great. The call volume has been very encouraging. And people are anxious to invest in New York, and invest with SL Green for sure, there's a deep pool for a single asset deal for corporate deal, I don't think we're commenting on that at this time.

[indiscernible] (00:27:08)

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

A

No, it's not, and I don't think it's relevant to 450 Park Avenue. I mean, we're talking about the investment management class platforms, an asset-by-asset platform. And I think Andrew has answered the question, the investor pool in today's market is...

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

A

Is world-wide and domestic and is deep.

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

Steve Sakwa
Analyst, Evercore ISI

Q

Yeah. Thanks. Good afternoon. I guess I wanted to maybe touch on capital allocation and just get a better sense for share buybacks versus acquisitions via the JV versus debt paydown. Just given kind of where the balance sheet is Marc and the fact that roughly 20% of the balance sheet's floating rate debt, how are you sort of prioritizing or thinking about capital allocation from here forward?

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

A

Well, look, the capital allocation decision is fluid and changes, quarter-by-quarter or day-by-day almost. So I think at a time of rising interest rates, we're going to put more emphasis, if you will, just on a relative basis on debt repayment, because debt repayment becomes more accretive relative to what it looked like when 3 to 4 months ago. So we've been I think as we've been buying back debt, we've also been – I'm sorry, buying back stock we've also been retiring debt. So we've been trying to maintain that neutrality.

But in a market like this, I think we'll probably overweight debt repayment or debt retirement over I would say now through year-end. We'll see where rates settle not in the next month or two, but in the next 12 months to 18 months where rates settle, whether they continue an upward trajectory, where they level off kind of as the yield curve would suggest or possibly retreat as they did in 2019 after a spike in 2018. So don't know, we try to maintain at all times a relative neutrality, view neutral approach to interest rates, meaning the yield curve itself is the best arbiter of future expectations.

And that's served us well over 25 years. And we also are building a cushion, which is why in the first quarter with our cushion, we still came out right on top of where we expected to be, notwithstanding the increase in the short end of the rate. So, I think, 450 Park, while I think it's indicative of where our heads are going forward, I wouldn't read too much into it. I mean, we used to do, I think like a couple of billion dollars a year of acquisitions, and that was kind of routine for us. This is a unique opportunity...

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

A

Corner of 57th in Park.

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

A

...Corner of 57th in Park. We got it at what we feel was a very attractive price relative to its prior history. And we think there's upside and we think it's highly syndicateable. So I put it in the category of almost a no brainer for somebody like us who specializes in this market and in this asset class to sort of seize the moment and take the opportunity to take the asset down. But there's still an overarching recognition that we want to be defensive in an inflationary environment. And with future asset sale proceeds, I would expect a lot of that disproportionately to be oriented towards debt reduction. There you go, Steve.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay, great. Thanks. And then I know this has kind of been a topic that's come up a few times and might be hard to really speak to. But the New York, the downstate gaming license, just trying to understand, sort of where your head is around that as it relates to SL Green, and is this something where you want to really try and be partners with a gaming company and go through the licensing process and be on the operator side? Or are you looking at this more of hey, we'd like the casino in one of our buildings, because we think it attracts people and we want to be more of a landlord to the casino? I'm just trying to sort of figure out how you're sort of thinking about that in there?

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

A

No. It's a good question. And it's not that we're not that we can't speak about it. I just want to hold off probably until the next call to speak about it. I think it's a little premature and I don't want to speak off the cuff other than to say we think it's a big opportunity for New York City. We think it's a big opportunity potentially for SL Green. I believe the city should end up with not one, but two of the three licenses. I think that's completely appropriate in terms of how best to allocate licenses over an area known, refer to [indiscernible] (00:32:31) as downstate and capture different segments of the market, because different locations will appeal to different customers and consumers.

And in that regard, we've studied it closely. And I feel New York City can handle not one, but two of the three licenses. And I think that the single best location for a license is Manhattan. And within Manhattan, I feel the absolute best, most obvious, least impactful and most globally accepted area will be Times Square. So we're on that opportunity. But in terms of how will participate, who will participate with and what shape that may take, I'd say that's a conversation that is not right for today, but maybe on the next call.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay. Thanks. That's it from me.

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

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, everyone. Thank you. We see a lot of focus on the competitive, but healthy New York City leasing backdrop at least in desirable submarkets. But elevated concessions, probably important to win deals and investors are going to focus on rent spreads. So how do you view spreads and concessions trending as we move through 2022? And I guess, what's changed since the investor event in December on those lines?

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

A

Well, I don't think the concessions have changed quite frankly. I think as we've said at Investor Day and I think probably certainly through the – starting through the second half of last year up until today, we think concessions leveled off as you could – statistically you could see in the broader market where there's evidence that there may have in certain cases already started to trend down a little bit. And I know that we posted some big numbers for this quarter, but you have to appreciate that of the 800,000 square feet of leases that we signed, 700,000 square feet of that were with new tenants.

So it just so happens that we had a quarter that was disproportionately weighted to new tenants as opposed to renewal tenants. Renewal tenants who typically have a lower concession package, so therefore the weighted average is a lower number than what we posted this quarter. But if you drill down on a deal-by-deal basis, I still think concessions are depending on the building and the size and the length of the lease are somewhere between that $110 and $130 a foot in TI on a 10-year term. I think concessions for free rent have been sort of in that 14-month free rent period roughly. And that's where it's been for the past year or so. So – and that's what we're experiencing throughout our portfolio. But when you do a tremendous amount of leasing to new tenants on long-term leases, then all of a sudden it paints a picture to suggest that maybe concessions have increased. And I don't think that's the fact at all.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. And then, look, IBM really big win at One Madison. We do know it's early on, but do you envision potentially another anchor tenant in place, maybe even later this year? And do you see the success at One

Vanderbilt potentially driving early pre-leasing interest and demand for One Madison, especially given what we see as an employer quest for newness?

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

We've got a lot of – we've got a number of tenants that we're speaking to at One Madison. We're in advanced discussions with some of them. And we're very hopeful that we're going to have some additional announcements before the end of the year.

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

Yeah, and the momentum is going to build on itself. I think if we do additional leasing this year and we can eclipse roughly the 50% mark, we'll probably be a little patient with the rest of the leasing, because we'd be dealing with parts of the building that we'd be excited to be showing and marketing once the building is topped off, because there's really no substitute for standing on these floors and taking in these incredible views and vistas of the park of downtown of some of the surrounding landmarks. And the amenities will be further along and I think as good as the amenities are in One Vanderbilt, we're going to try and equal or outdo ourselves at One Madison.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.
Q

Thanks, guys.

Operator: Our next question comes from Caitlin Burrows with Sachs. Your line is open.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Good afternoon everyone. Maybe back to the 450 Park acquisition. Could you give us some color on kind of how it came to be? Was it marketed? And then going forward, how much and over what time you think the joint venturing out of pieces could happen and what amount of amenity investment could be made?

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

Sure the property is marketed in sort of a targeted way. The sellers had some particular requirements that we were able to meet. We think uniquely or that put us in a smaller group and I would expect the syndication to at least start with by closing in June of the asset and be completed by the summer. And on the amenity front, I'd say we're still assessing exactly what level of investment we want to make in the building, but we do intend to market this at the very high end of the Park Avenue Plaza District offerings and the amenities will be commensurate with them.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Okay. And then maybe just on the lease that you guys did at 100 Park Ave that had the meaningfully negative impact on leasing spreads, I know it was only one lease, but it was a large one. So just wondering if you could go through the decision to release that space to that user at a lower rent rather than lease it to someone else? Or would meaningful investment have been needed in order to improve the rents? It does seem a little surprising giving the location right by Grand Central or anything else you can share there?

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

A

No, remember, the majority of that space, really all of that space of that large block was in the bottom half of the building. So, large floor plays the darker part of the building. The rents that we received for that lease I think are the same rents we would have received pre-COVID quite frankly. I don't think it's a function of an investments, the negative mark to market is simply a function of the fact that we had a tenant rolling off at a very high escalated rent. So, it is not – it is absolutely not an indicator of rental rates on the broader market. It's simply a function of a one-off lease where the tenant rolling off was [ph] escalated (00:40:21) way above the market.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. Thanks.

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

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thank you. I'll be the analyst on the call asking about 625 Madison and any update on the [indiscernible] (00:40:40) and if it's a possibility that the asset is just given up?

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

A

Well, no update on the ground rent revival, there still hasn't been a arbitrated decision, but that process is ongoing. And then we own two positions there, a leasehold position and a position in the debt recall. So, which position you're referring to?

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

The lease position?

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

A

It really depends on the arbitrated rent. We've sort of shared our returns on our position assuming we walk away, which we certainly have not made a decision to do, are still positive, it was a great investment for the company. But we're going to play out the arbitration process and sort of see where it goes. We still are huge fans of Madison between 58th and 59th and think the site and the location has enormous potential. But given today's market, we're going to take our optionality to evaluate everything.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. And then, Marc, a follow-up on the casino license commentary. You mentioned potentially speaking about it on the next call. So just wanted to ask, do you think a decision will be made by then? And then I'm assuming you're talking about 1515 Broadway. How does that feasibly work given the assets are 100% leased?

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

A

Yeah, I'm not at liberty to describe yet what building or buildings we've targeted for potential gaming use possibly in the next call we will be. But in terms of a decision being made by next call, I would say no, this is a process that is likely not to be fully and finally decided until, I think the end of the year or possibly first quarter of next year. So the process will get going. But this is going to be, I think, the way it's been set up, a very thoughtful, deliberate process. That is being conducted by the state, but being is going to also incorporate, home rule, if you will, and local support issues at – in our case, the city level, which I also think is appropriate. And this is kind of a watershed moment for downstate New York to be issued these licenses. So I would expect the process to be thoughtful, rigorous. And I believe, in this scale of time I look at it'll be done on a reasonable timeframe, but that doesn't mean three months from now. It probably is more like the end of year or first quarter next year.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from Ronald Kamdem with Morgan Stanley. Your line is open.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Hey, the first question is just on CapEx, the 10-K you had sort of $82 million for recurrent CapEx and $108 million for development and redevelopment. Now with sort of the leasing activity and the recent acquisitions and so forth, are those numbers changing at all or how should we think about further CapEx going forward?

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

A

No, none of the, I'll call it [ph] Fed (00:44:31) capital is changing. As I said earlier, we're right on our business plan for the year as the 450 Park Avenue I touched on, a fairly modest. Amenity addition, some of that spend will happen this year, but it will likely be a JV spend. And then the asset is under occupied right now. So, there will be leasing capital over time, but again, in a JV structure, so fairly modest overall for us.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then just sticking with 450 Park Avenue, you shared sort of the maybe a little bit more color on the economics, whether it's cap rates or [ph] target IRR (00:45:12) both for 450 Park Avenue and also just in general, what you're seeing in the markets overall? Thanks.

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

A

Well, I think it's roughly a 4% going in return. Recall, though, the asset has about 18% vacancy. So we'll be undertaking a lease up program there and we expect IRRs in the mid-teens type returns. Which for an asset of this quality level we're very excited about that.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Thanks.

Operator: Thank you. Our next question comes from Yulico with Scotiabank. Your line is open.

Nicholas Yulico
Analyst, Scotiabank GBM

Q

Thanks. My first question is just on the lease term income from the JV pool, can you just say what's that related to? And was that also like a surprise sort of termination that contributed to some of the quarter-over-quarter occupancy drops?

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

A

No. That was all actually projected, I won't talk about the tenants, but it was predominantly at 11 Madison. And then we had a little bit more at one of the other JV properties but nothing unexpected to 280 Park a little bit.

Nicholas Yulico
Analyst, Scotiabank GBM

Q

Okay. Thanks. And then, just a second question for you Matt is on the interest rate swaps that are in place that are expiring next year, I guess, what is the thinking on that? I mean, are you just going to kind of wait till next year to resolve it? Is there any chance that there's an earnings impact this year as you move to replace more expensive swaps?

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

A

Sure. So they do. We have a series of swaps that we put on a couple of years ago that mature in early in mid-2023. It goes back to the question we got earlier, and I think Marc addressed it on debt repayment as we look at incremental proceeds from asset sales or wherever they may come. We're going to be biased towards debt repayments and the debt underlying those swaps will be targets.

Nicholas Yulico
Analyst, Scotiabank GBM

Q

Okay. Thank you.

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

A

I'll just add on then as I talk about incremental proceeds, it's worth reminding everybody that in late 2023, when we [indiscernible] (00:47:48) One Madison, we get funds in from our JV partners substantial funds in excess of $500 million which can be used for debt repayment.

Nicholas Yulico
Analyst, Scotiabank GBM

Q

Thank you.

Operator: Thank you. And I am currently showing further questions at this time. I'd like to turn the call back over to Marc Holiday for closing remarks.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Great. Well, for anybody left on the lines, thank you for listening and for the questions. And we've got lot of exciting things ahead over the next few months until we speak again in July and we look forward to it. And everybody have a good spring and beginning the summer.

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