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SLG - Q4 2016 SL Green Realty Corp Earnings Call

EVENT DATE/TIME: JANUARY 26, 2017 / 7:00PM GMT

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PRESENTATION

Operator

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

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

Also during today's conference call the Company may discuss non-GAAP financial measures as defined by the SEC Regulation G. The GAAP financial measures most directly compared to each non-GAAP financial measures discussed on the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measures can be found on the Company's website at www.SLGreen.com by selecting the press release regarding the Company's fourth-quarter 2016 earnings.

Before turning the call over to Marc Holliday, Chief Executive Officer of SL Green Realty Corp., I ask that those of you participating in the Q&A portion of the call (Operator Instructions). Thank you. I will now turn the call over to Marc Holliday. Please go ahead, Marc.

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

Okay, thank you. Good afternoon, everyone. Let me begin by thanking all of you who attended our investor presentation on December 5. By all accounts it was an enormously successful any proud day for our Company where we got to showcase our achievements for the year. We provided a strategic framework for 2017, goals, objectives and market expectations.

I think we had a record crowd of investors and analysts who attended. And that for us is always sort of the crowning event for the Company for the year. And we covered a lot of ground, so I will keep my comments relatively brief at the outset here so as not to duplicate a lot of our thoughts on where we are headed for the year. But I will try to go into some updates about what has transpired since then.

It has only been about seven weeks that have elapsed since the investor conference, but in that time we have begun to implement our plans. And I think it is evident that even at this very early stage we are making great progress towards another year of sector leading operating and financial performance.

We actually wound up exceeding the high-end of our guidance range by $0.04 thanks in part to lower interest expense, operating expense cost controls in the real estate portfolio, and higher net interest margin in the debt and preferred equity structured finance portfolio.

Also during those seven weeks we leased an additional 205,000 square feet of Manhattan office space, exceeding our already elevated goal for 2016 and chipping away at 2017 Manhattan office lease expirations which, as we stand today, those remaining expirations are at less than 900,000 square feet throughout the entire portfolio.

Given that we are executing at such a very high level on the leasing front the available inventory of what we have to lease is obviously reduced. And it should come as no surprise that SLG's quarterly leasing volumes will be below previous amounts when we had much more growth portfolio space and lease rollovers to attend to.

This should not be mistaken by what I sometimes hear and read about as a slowdown. In fact, as we sit today we have a pipeline of over 630,000 square feet, which is actually increased from our last Q3 earnings call by about 5% or more, even though we have less space to lease as we sit today. And therefore we remain very confident that we will meet or exceed our stated leasing goals for the year.

At this point, given the high degree of occupancy in the portfolio, our focus shifts away from sheer volume of leasing and towards maintaining market-leading occupancy of 97% or greater while achieving midteens or higher mark-to-market on expiring leases. This of course will be an enhanced as we acquire or develop new inventory to drive future growth.

This best-of-class operational performance reinforces the fact that high-quality, well located and reasonably priced office space is still in high demand. And we will utilize our enviable portfolio and market positioning to drive the best lease economics possible.

Before opening up the call for questions I want to take a few moments to discuss a milestone achievement for the Company that we announced this morning regarding the recapitalization of the One Vanderbilt Avenue development project.

This morning's announcement of the completion of a joint venture with NPS and Hines brings to a successful conclusion our capitalization goals for the project that we set forth on this call one year ago. I can't tell you how excited we are to partner with NPS and Hines on this extraordinary development of what will become the single best commercial building in Manhattan.

After a global exploratory process conducted jointly by SL Green and Hines, we were fortunate enough to find a partner who shares our commitment and vision for developing, owning and operating this iconic property. Through its $525 million minimum commitment into the project, NPS and Hines will be providing the majority of the development equity capital left to fund over the next 3.5 years.

I want to take this opportunity to congratulate all of the men and women at NPS, Hines and Green who have worked diligently and of course tirelessly on this project for the better part of the last four months in order to bring it to fruition this morning.

In particular, the effort was led internally by Isaac Zion, Robert Schiffer and Andy Levine who made it their priority to close this transaction within the stated time frames we laid out to everyone on this call 12 months ago. I can't be happier with the outcome which strikes the right balance between reducing SL Green's overall capital commitment to the project while still maintaining 71% ownership for the future.

We thank our shareholders for having the confidence in us to put together this best-of-class package of construction financing, which we announced I think on the last call, $1.5 billion of construction financing, along with this new venture ownership structure. You will all be substantially rewarded for this that the project moves forward towards its next phase of construction and lease up which will unfold over the next several years. So with that I would like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Kim, BMO Capital Markets.

John Kim - *BMO Capital Markets - Analyst*

Thank you. Since the presidential election there has been enormous optimism on the bank stocks. And I'm wondering if you are seeing any of that optimism reflected in the leasing market from financial institutions?

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

Well, let's -- I think I can speak to seeing it reflected in a vibe and a confidence with all of the different counterparties we meet with, whether it is bankers, potential partners, tenants, people in the financial community, brokers.

I would say clearly the vibe, the confidence, the psychology has become much more -- much more enthusiastic, much more positive, much more optimistic in terms of what everyone perceives to be the opportunities for growth and incentives and lower taxes and possibly reform and regulation and whatever else is driving that enthusiasm, we definitely see it.

In terms of translating that into signed lease deals I guess over the past month or two, I don't know that you could point to it directly. Although maybe Steve can shed some light on the experience we are having at 280 Park, which is as good an example of a financial oriented commercial asset as we have in the portfolio as any. And I would say the experience there literally the last couple of months has actually been surprisingly robust. Steve?

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

I think that is spot on. The end of last year and most of last year financial services came back into the market in a material way relative to the other business sectors. And post election we certainly saw a bump in activity, tour activity, proposal activity and leases that are being negotiated. 280 Park Ave. in particular; we have a number of transactions that are pending over there.

Reminding ourselves that we don't have a lot of space left in the building at this point. But we are on track to basically knock off the rest of the square footage in that building. And every deal that we are negotiating right now is a financial services tenant.

We have also seen some increased activity at (inaudible) 53rd St. also dominated by financial services. So it feels like that sector is back in the market, they have got renewed enthusiasm and we are hopeful that we are going to see more activity throughout the year.

John Kim - *BMO Capital Markets - Analyst*

And then conversely as far as policy changes or potential changes, how concerned are you about a potential 1031 exchange repeal, especially being one of the most active REITs as far as recycled capital?

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

Well look, 1031 is something that we have utilized in the past as a mechanism for like-like exchanges. And we're first and foremost optimistic that the new administration will continue to recognize the benefits to the country as a whole in terms of allowing like for like without interim taxation.

If it does happen I don't see that being all that impactful to the way we operate. We have certainly demonstrated an ability to sell interest in assets, monetize assets in ways other than 1031, but still comply with all regulations for not triggering current gains but rather deferring gains (inaudible) disposition.

And there's always other elements that are available to us such as dividending out the cash or timing sales for when you have excess [yield] in depreciation so that we can time these events to minimize or eliminate the tax burden if any.

I think we have done that as good as anyone in the sector over the 20 years because we have been sort of the highest net disposer of assets or interest in assets. I think Matt and Maggie and Mike and the team have done an extraordinarily good, thorough and logical job at guiding us through all of the various requirements for maximizing retained cash for shareholders and minimizing tax impact.

We will keep our eye on 1031, but I would say it is not something that we look at as having as much of an effect on a company like us as it might have on other parts of the community, particularly individual owners who look to get out of projects with low bases into other projects that are more secure and have long-term cash flow nature. It is part of [estate] planning, it should remain that way into the future but we will just have to see what happens.

John Kim - *BMO Capital Markets - Analyst*

Okay. Thanks for the color.

Operator

Alexander Goldfarb, Sandler O'Neill.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Great. Thank you. So I guess, Steve, just following up on your commentary obviously seem pretty optimistic and have heard similar from one of the other REIT landlords. But when we speak to the brokers they seem a little bit more subdued, they talk about increase of concession, sort of flat market, why would anyone pay north of $100 rents?

So just is it a matter of it is a difference between landlords talk about specific buildings whereas when people are looking at the overall market, the overall market is still slow? Or is it that just -- I just trying to reconcile the two. If it is building specific stuff or if there are some trends in the market that are slowly building that haven't gone through the full city yet, but, given your commentary, you would expect that we would start to see that ripple through the rest of the market over the course of this year?

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

Well, with all due respect to the brokerage community, they frequently have a point of view that is either in their research reports that our trailing statistics -- the statistics trailed what is happening in the field. And the broker feedback is sort of just of the moment reflective of whatever their current activity level is.

The owners I think are a better source of insight because we have a good visibility as to the deals that are actually getting signed, the term sheets that we are considering versus other -- one deal versus another. And have a broader perspective as to the types of businesses that are coming through our door, whether they be tour activity proposal activity or actual leases that we are signing.

So, not surprised to hear you say that. But in my travels, I think most brokers are fairly optimistic right now. I don't get a lot of negativity back from them over the past 30 to 45 days. So we will see how the year unfolds but we are still feeling very strong.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

And then as far as the One Vanderbilt JV announcement, sort of a two-part. One, just curious the involvement of Hines, I thought you already had Tishman as a construction manager and you guys seemed to hire a dedicated team internally.

And then the other part of that is the equity commitment of not less than $525 million, does that mean that the JV partners haven't paid you guys cash yet? They are just committed to fund the rest of the equity component and therefore SL Green has no more equity that needs to be funded in One Vandy?

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

I think we diagrammed this out in December that our money was in -- I forget the number that we flashed up in December, I want to say it was -- $894 million was left to fund. And we will be funding that alongside of our JV partners over the balance of this deal in our respective ratios.

But that was the way we have always described it and the way we went out to the market. So maybe that is just a clarification, but we have always shown it as such in whatever we put up there publicly. What was the other question -- Hines? Well, Hines has been there with us from the outset, so they are not new to the table. They have been a --.

Unidentified Company Representative

(Multiple speakers) their involvement in the partnership.

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

They have been a co-development manager in this project I think since 2012. So the only thing that has changed now is the Hines principles have invested a significant amount of their own personal cash into the deal alongside NPS, which sometimes they do and I think sometimes they don't.

So we took it as an enormous vote of confidence from [Gerry] Hines and Tommy Craig and Chris Hughes and the whole team who sort of wanted as much as they could get, I don't think I am overstating it in saying that. But this is what we felt made sense.

We could have gone deeper, but I think what I said in my opening remarks is we tried to strike a balance between bringing in a sizable amount of equity capital to defray future funding obligations while not selling off too much upside too early. And maybe there is no exact number but this one felt to be just right and that is how we came to the 71/29 venture.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay. Thanks, Marc.

Operator

(Operator Instructions). Jamie Feldman, Bank of America Merrill Lynch

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Jamie Feldman - *BofA Merrill Lynch - Analyst*

Great, thank you. Can you provide some color on the transaction market and foreign flows and what you have seen since -- I know the Investor Day was shortly after the election, but just any changes on where capital is coming from and interest in assets in New York City?

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

Jamie, it is Andrew. I think it has been status quo which is to say an enormous amount of foreign interest. Obviously we announced the Korean deal this morning, so that is one data point. You still have a lot of the assets on the market that we spoke about at Investor Day. People are actively touring and getting ready to bid on those assets.

And we have also closed several financings in the interim between investor conference and now and some of those financings have come from notable foreign capital sources. So I think we haven't seen any change in terms of foreign demand since the election.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Is there any shift in underwriting or change in underwriting outlooks? And is there a shift in the -- like where money is coming from versus maybe where the interest has been the last couple years?

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

Not that I have seen. Isaac, any -- in terms of the brokers, guidance from their conversations, I think it is still the same pool of suspects (multiple speakers) targets and in terms of underwriting people haven't modified their view.

Isaac Zion - *SL Green Realty Corp. - Co-Chief Investment Officer*

You're seeing a little bit more activity from the newer players and we sort of mentioned that at the end of the year as well like the Japanese are a little more active. Clearly the Koreans are a little more active. But still the larger players from around the world are still actively engaged in trying to find opportunities here.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay. And then we are hearing there is just going to be fewer assets on the market this year than the last couple years, just there is more in the hands of long-term holders. How should we think about what that means for your debt and preferred equity business and the opportunity set if there is just less deals.

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

I don't want to take that as a presumption. I don't know that we agree there is going to be less deals than last year, I'm not quite sure who is saying that. We see a fairly significant pipeline of deals. Isaac, do you have (multiple speakers)?

Isaac Zion - *SL Green Realty Corp. - Co-Chief Investment Officer*

Right, well right now in terms of what we are tracking there is close to $20 billion of assets on the market, there has already been a $1 billion trade this year and there is another three or four that are actively being talked about now and they are actively being toured.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

And does that $1 billion include the NPS deal this morning?

Isaac Zion - *SL Green Realty Corp. - Co-Chief Investment Officer*

No.

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

So I guess I would start by saying I don't think we see necessarily a slowdown. Clearly from 2015, that was kind of a peak year; 2016 levels sort of reset themselves in the second half of the year. But I don't see why 2017 wouldn't be as on par with if not slightly ahead of second half of 2016. I would think -- I would actually say that is our expectation.

I would further say that on the heels of successfully concluding a major, major recap of 11 Madison -- I don't want to forget that one. That wasn't too long ago. I know the memory here is sometimes quite short, but that was certainly within the past six months, domestic partner on a $2.6 billion transaction for 40% of that deal.

Now we have One Vanderbilt recap behind us. You should expect we will contribute certainly probably another big sale or recap to the market as we are also simultaneously out there looking very actively for new deals.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay, that is great. Thank you.

Operator

Manny Korchman, Citi.

Manny Korchman - *Citigroup - Analyst*

Good afternoon, everyone. Marc or maybe Steve, can you talk more about the relationship between pushing rents and maintaining occupancy if those are sort of both your goal? And how do you think about retention in that context?

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

Well, I think our ability to push rents -- let's talk about the market overall. Our mark-to-market is going to stay healthy this year, so that is one measure of unlocking the embedded value in the portfolio. The overall ability to push rents is obviously a function of the health of the market.

And if leasing stays on pace the way it did last year then there should be pretty good absorption, less supply therefore there is a good opportunity that rents will continue to increase this year. And we have the portfolio that is sort of in the sweet spot of the market to take advantage of that.

The majority of our portfolio is in that value play price point, kind of the $60 to $80 price point. And that is where a lot of the activity has been most recently, reminding ourselves that last year was 2.5 million square feet of net absorption in the market. So as that supply comes off there should be some pricing pressure.

And as far as tenant retention and renewals, Marc started off by reminding you that there is less than 900,000 square feet of roll, and that is clearly a function of a lot of hard years in advance of attending to early renewals, which is always and has been and continues to be a top priority for the firm.

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

I think generally the better leased you are the more you can try to drive economics to the point at which you feel you have optimized them. And the difference between crossing the finish line or not, I mean we tend to cross the finish line more than anybody else. But clearly we have our goals set out for ourselves in our budget.

And if our net effectives don't land where we think they can or should then we will hold our rents and take a little more vacancy and wait to make our rents. But more often than not I think we have as good a barometer of anyone as that fine line of where supply and demand meet and where to make a deal and maximize our net effectives while keeping occupancy at 97%.

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

The other thing to add to that is with our high level of occupancy and low rollover, these are the times that we put a lot of emphasis on making sure that we are trying to uptick the quality of our credit within the portfolio. So as we have tenants that are rolling out that are a weaker credit, we use it as an opportunity to cull some of that out.

Manny Korchman - *Citigroup - Analyst*

Great. And then on the One Vanderbilt JV, could you just talk about how the partners would share in any cost savings or cost overruns? So for example, if cost came in $100 million less than you thought would the equity check be smaller? Would they get a larger share of the project? How would that pan out?

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

I would just look at it -- it is a pro rata JV. I mean there's no perhaps (multiple speakers).

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

For side-by-side overruns and (inaudible).

Manny Korchman - *Citigroup - Analyst*

Got it. Thank you.

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

Otherwise there is no opportunity for the partners to rise above 29%.

Manny Korchman - *Citigroup - Analyst*

Got it. Thanks.

Operator

Michael Lewis, SunTrust.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

Thank you. A couple of weeks back there was an article about the ground lease on 625 Madison. And I believe Andrew was even quoted in the article. So I don't need him to repeat everything that was said there. But I am wondering if -- what you think about potential for significant markups on ground leases.

And are there any that are close that maybe you have negotiations already? I know the 625 Madison one is not until 2021, so maybe that is a little further out. But is there anything that might be a surprise there?

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

It is Andrew. I don't think there is a -- there's a natural tension there obviously between fee holder and lease holder. That situation is a little unique because we do own a fee interest across the street from 625 and the leaseholder on that property is the fee owner on 625. So we have sort of the exact inverse position and we are going to do our best to try to affect a good outcome there.

We are very cautious in terms of the leasehold positions we take on and we have been through probably more revaluations than any other firm in the city, so we understand the way appraisers look at these calculations when they are set. I don't think across our portfolio there is any other situation which should get that high a level of concern.

625 is probably the biggest pending revaluation we have. We have successfully revalued leasehold positions at 420 Lexington, the Graybar building, at 711 Third Avenue and many of our other assets. So it is sort of part of ongoing business here in New York.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

Perfect, thanks. My second question, as we all kind of evaluate the new administration in Washington and what that means, obviously a lot of the financial stocks have run, people have asked about that already on this call.

How do you think about potential upside from your tenants, for example, if the fiduciary rule doesn't go through? Do you think that is a game changer in your space for demand or corporate tax rates get rolled back, does that dramatically kind of change your outlook? I'll leave it at that.

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

I don't know that we can quantify bank profits, bank demand to the rollback or modification of the fiduciary rule or not. Obviously it is sort of binary, it would appear to be helpful if it was repealed or at least certain aspects of it were reformed. But I don't know if we can quantify it as to what it would mean.

We look at these things a little bit more generally in terms of the psychology of tenants who are making lease commitments into what they think are going to be a positive 3-5 years forward, always want to err on the side of making sure they allow for enough growth and opportunities, they don't get themselves boxed in by making a long-term 10 or 15 year deal and calling their growth and/or space needs incorrectly.

So I think that looking at that along with a whole host of other economic reforms that are likely to impact not just the finance sector but legal sector and otherwise, we think that on balance tenants will be a little bit more aggressive -- or I should say defensive.

They'll be a little more defensive when it comes to their own space and making sure, A, they are acting early to lock-in rents now as opposed to what they might be increasing to in the next few years; b, making sure they have some growth space to accommodate positive economic conditions; c, flexibility so that if things don't pan out the way they want it to they have the ability to sublease, assign or some small shedding right.

So that will just on balance we think tip tenants more towards an active market for this year and we are starting to see that sentiment take place now. I know there have been a couple of questions now on finance sector, which is important because it is over 30% of our market. But I wouldn't overlook the substantial amount of dollars that might come into New York as any part of major infrastructure spending bill.

Because there are a number of shovel ready projects throughout New York that are kind of well defined whether it be the Gateway project for tubes under the Hudson or Second Avenue subway line extension now that the first part of the Second Avenue subway is complete. Or continued funding to complete East side access, bringing LIRR into Grand Central. Or the major, major redevelopment projects that will be taking place at LaGuardia and JFK. So that is just to name a few. And that is probably $50 billion of projects plus or minus and that is not comprehensive.

So that kind of excess activity, that kind of financial inflow could affect a lot more than just the financial sector. Obviously we will just have to wait and see what of that comes to fruition, how much New York is able to allocate towards its projects relative to the rest of the country and how quickly it happens.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

Interesting times, thanks.

Operator

Vikram Malhotra, Morgan Stanley.

Vikram Malhotra - *Morgan Stanley - Analyst*

Thank you. Good afternoon. So just to get a little more clarity on the last point about the broader market just in terms of your pipeline. If I remember correctly, maybe 3-6 months ago you had mentioned that financials formed a very small part of the pipeline. Can you give us a bit more color on sort of what makes up the pipeline by price point and end market today?

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

It is a good statistic, to answer that. Of the leases that we have out right now, 45% of the square footage are leases with financial services businesses. And of the deals that are term sheet proposals, probably a smaller percentage, but still a very meaningful portion of the pipeline.

And I think if any of our percentage of deals done sort of trail away from financial services it is probably going to be more a function of the type of products that we are starting to lease up. And we are going to run out of that inventory and therefore it won't mean softening of financial services, it just means we won't have the right space for them. But for the inventory we have got right now it is a very meaningful part of the deal flow.

Vikram Malhotra - *Morgan Stanley - Analyst*

And it is still in that sort of $70 midpoint range?

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

Or higher, or higher -- or materially higher quite frankly.

Vikram Malhotra - *Morgan Stanley - Analyst*

And so just my second question, given that you have done so much forward leasing in the pipeline, I think you've taken down so much of the space, less to do this year. Does this sort of allow you to focus maybe even more, put more resources towards One Vanderbilt? And does this in any way change your timeline that you had shared with us at the Investor Day in terms of lease up?

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

I would say with the announcement of the JV today that probably is directionally devoting less resources to One Vanderbilt. Our resources into One Vanderbilt are fixed if we are talking about monetary resources. If you're talking about human resources, there is a completely up and running team that is kind of designated separate that is marketing this building every day. So that is not going up or down depending on what happens in the rest of the portfolio.

I think what it means is that what we do best, developing and redeveloping office buildings, we are going to take a hard look first at our internal portfolio and see what is the next great redevelopment project that we can execute over the next couple of years like we did at 100 Park and East 53rd, 3 Columbus, etc., etc., on and on and on. That is our bread and butter stock in trade. And try and lift those rents up, whatever they are, $10, $15, $20 a foot post redevelopment.

So we actually have one or two projects in our sights now for that purpose just lending themselves for consideration due to some lease roll in 2018 and 2019 that would make that favorable. And also as Isaac said earlier, there is $20 billion of --. So we hope to get our fair share of looks and opportunities within that portfolio.

Some of those are on market; some of those are off market within that that $20 billion is proprietary, that is not $20 billion total brokered. So that is our tracking list. And we would fully expect to convert some opportunities there to create more opportunity for leasing as we max out the portfolio. But that is just basically what we always do and have been doing. So that is where I would see the focus shift for 2017.

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

The other thing to add to that on One Vanderbilt, the lease up timeline there is not a function of resources or tenant demand, that is really a function of construction timeline. We are still roughly 4 years out before we deliver it.

And being realistic about when tenants are going to make decisions, that really needs to be more within the 20-24 month timeline before building deliver as to when tenants are going to pull the trigger on those decisions. So that is 2018 is really, is more the trial date for significant lease up.

Vikram Malhotra - *Morgan Stanley - Analyst*

Great. Thank you for the color.

Operator

Nick Yulico, UBS.

Nick Yulico - *UBS - Analyst*

Thanks. Just following up on one Vanderbilt, Steve, could you maybe talk about some of the latest types of lease discussions you are having there, types of tenants, size? And it sounds like you have some good activity there, yet you are saying 2018 is more likely to get some announced. But I am wondering what are the chances of actually getting a lease done at some point this year because the demand is good.

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

Steve will answer that, but again, Nick, it would be no different than us saying we are sitting here now working on our 2021 expirations, we are just not. It is too far out. Every year, and you know this as well as anybody, we work on expirations current year, a year out and then maybe we will knock off some 2019s for tenants that are anywhere between that 50,000 foot to 250,000 foot range.

That is not just what I will call customary; it is almost exclusive that the leasing activity we do in that size range sitting here at the beginning of 2017 won't really extend beyond 2019, certainly nothing in 2020 or 2021. So that is the same analogy as saying you're going to get One Vanderbilt leased up or leases cut this year.

We might, it is not unprecedented that we could do some early leasing in 2020 and 2021, but if you look back over our 20-year history, it is just not how the market moves. It is not a statement about the market; it is not a statement about the buildings. To the contrary, the receptivity of tenants has been I would term extraordinary and the same degree of confidence we had in getting it financed and finding our equity partner.

We have been getting it fully leased up at best of market rents. But I would just caution that everyone is realistic as to the time frames of when those five tenants will make commitments because typically you are looking 1 to 2 to maybe 2.5 years out for physical occupancy. So with that, Steve?

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

Yes, I think you really need to look at the lease up at One Vanderbilt as a marathon. This is not a sprint, it is a marathon, the efforts that are being invested today are really just to educate the brokerage community, get the word out so people understand what the product is. We are doing a good number of tenant presentations, but again, it is very early in those tenants' decision timelines.

And it is not a one presentation get a proposal make a deal kind of exercise. It is you make a presentation and you have to, if you are talking to one tenant to ultimately get to a term sheet, you are probably making five or six or seven presentations as you sort of work up the corporate hierarchy inside an organization to build consensus on a long-term decision like this. But it is a lot of hard work, a lot of time and we are at the very early stages.

Nick Yulico - *UBS - Analyst*

Okay, that is helpful. And then Marc, just going back to your comments before about looking for some more opportunity in the market or in your own portfolio. And I think about over the last year you have reduced your leverage, you have managed your expiration schedule; you are trying to keep occupancy high. And so now it sounds like you are maybe becoming a little bit more optimistic about doing projects or maybe the market. What has kind of shifted in that thinking?

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

I don't know that I would really clarify it as a shift. I would say in most years, 7 out of 10, 8 out of 10 we are the most acquisitive in the market. So I would say last year, if nothing else, One Vandy did take a lot of attention, I think appropriately so.

We settled litigation, we put construction financing in place, we got the JV equity in place. The project is now almost 80% bought which is extraordinary at numbers that we'll sort of be able to give you guys a better update on come our April call. But I feel very good about the numbers we presented in December and maybe there will be even a little savings to those numbers.

There was a moment of time we got the 11 Mad JV done; we did, how much -- 3 million square feet of leasing or something. So I would just say that that was the right thing at the moment and right now it is not that there is any shift I would say, it is what we traditionally do is go out there and hunt typically off market deals where we think we can go in, bring our value add brand and approach to anything in Midtown Manhattan or South of 23rd or downtown and create value.

I would say for us it is almost like a formula and it is a recipe. I am confident we can do it. We have an extraordinary amount of capacity right now to do it which will even be enhanced because, as I said earlier, I think we are also going to be looking to roll out one other big project let's say in 2017 on the heels of One Vanderbilt for sale or JV.

So, there will be -- hopefully this will be a year of opportunity, but consistent with other years. Think back to growth portfolio 1.0 and 2.0, those were laden with opportunities and I think we will have our fair share of that this year.

Nick Yulico - *UBS - Analyst*

Appreciate it.

Operator

John Guinee, Stifel.

John Guinee - *Stifel Nicolaus - Analyst*

Great, thank you. Mark, in an effort just to get to a current valuation of One Vanderbilt, is it possible to provide how much total cash needs to be spent so that someone can then plug in their expectation of gross value and subtract out of construction spend over the next three or four years to come out to a current value today?

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

Rather than do the -- we can do those calculations, I don't know if I have it here. I'm going to refer back to the numbers from December. We put the fulsome budget up there. Yes, so it is about call it at least the funded -- the sources and uses we put up in December amounted to about $3.2 billion, of which $1.5 billion was the construction financing, the balance is equity, either funded to date or remaining to fund.

I think at the time we said there was $895 million left to fund, so that is what is left to fund. So the project is about $3.2 billion of total cost. With I guess TIs, commissions and everything else it probably gets up to a number close to $3.3 billion and change.

That is the basis upon which NPS and Hines bought into the deal. It is obviously not reflective of our basis. We put those numbers up there in December, but that is the magnitude of the project, that is the amount of debt financing for the project, the balance is equity and of what is left to fund $525 million will be put up by our new partners.

John Guinee - *Stifel Nicolaus - Analyst*

So overly simplistic, if people think that the asset is worth $3.3 billion and that you have $2.4 billion remaining to be spent. A fair valuation as of today is roughly $900 million. If someone thinks that this asset is worth $2,500 a foot or $4 billion at stabilization you have $2.4 billion left to spend. The quick math is it is worth $1.6 billion. So I'm just trying to get to a very simple way to put it in people's NAV.

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

The what it is worth depends on what you think it is worth that residual. I think again I'm doing this a little bit by memory, so I want to have my proper [FD] disclaimer. I think we put up around $200 million or so of stabilized NOI or thereabouts. I don't if we have that number in here.

So I think, John, it will come to what cap rate you want to apply to that and then you can sort of back into on a present basis what the value is you want to put in (inaudible). By the way, the value is extraordinary. You can make an argument for a sub 4 cap because it will be I think the best building in Manhattan, you can argue for a 4 cap, you want to be highly conservative I guess 4.25, 4.5 I mean that is in the eye of the beholder.

But yes, so I am looking here $198 million of NOI base case rent at $155 a foot average in $2,028. So that's -- I don't want to put a number out there, because there is no singular number, it is how do you want to value $200 million of stabilized NOI for this kind of building which I would say will be the trophy of trophies in Manhattan upon completion. And therefore I think the number is very substantial.

John Guinee - *Stifel Nicolaus - Analyst*

All right, perfect. Then the next thing is I was looking I guess for Matt, if I look at page 1 which is -- I'm sorry, page 21 of your supp which looks like you are on about an $840 million cash NOI, $210 million in the fourth quarter times 4 gives you about $840 million. But then looking at your cash NOI assumptions in your Investor Day they add up to about $900 million. Is there a bridge between the fourth-quarter reported on page 21 and your Investor Day numbers?

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

Yes, that is in large part the 3.2 million square feet of leasing for what hasn't commenced yet rolling through the numbers. So we have in total 1 million square feet of leases that have signed and not yet been commenced, about 350,000 square feet of which is vacant space. So that will contribute the bulk of the growth in the portfolio over the course of 2017.

Of course offsetting that is a little bit of roll off. We said we have vacancy coming at 45 Lex and 220 E. 42nd. But it is that leasing that has a 6-12 month lag on it that Steve did in 2016 rolling through 2017 that are the bulk of that bridge, John.

John Guinee - *Stifel Nicolaus - Analyst*

Great. Thank you very much. Talk to you in a quarter.

Operator

Jed Reagan, Green Street Advisors.

Jed Reagan - *Green Street Advisors - Analyst*

Good afternoon, guys. It looks like leasing costs in your portfolio picked up quite a bit in the fourth quarter. And would you say those levels are representative of where the market concessions are now? And maybe just if you can comment generally on the trends you are seeing across the market in terms of leasing cost.

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

Just so we are clear, define picked up quite a bit? What are we talking about? I think the TIs were up modestly, I didn't see which large increase you were referring to.

Jed Reagan - *Green Street Advisors - Analyst*

Just in terms of concessions as a percent of first-year rents looked like they --.

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

I got it. I just want to get to the number; I have Matt looking at the numbers.

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

Jed, to be clear, you are looking at the $48 of TI as opposed as compared to $40 last quarter?

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

Is that what you are referring to or is there something more than that? (Technical difficulty). Hey, that wasn't us; we didn't cut you off, Jed.

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

Jed, we are not hearing you, but Steve is going to answer (multiple speakers).

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

So let me answer the question. I would first say if we are talking about TI I think there was sort of a modest increase, which I think that is just sort of fluctuation of specific leases month to month. But why don't you address that?

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

It is really driven by a number of deals where it was the higher rent price point deals and they carried higher TI allowances, either us doing a build to suit or giving a greater amount of cash contributions. Something that you have seen in the market before but I think there is this perception that it is up across the entire market, not really true. It is really the high price point of the market.

So in our case we had a number of deals that were signed in the fourth quarter that were rents in the [$85], [$95] plus kind of a range and not surprisingly those carried a bigger contribution. And if that was a bigger part of our leasing for that particular quarter it averaged up. So I think we expect to see more moderate level in the first quarter of this year.

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

Jed, don't if you are still with us, but if you are -- we looked at 2017 budgeted concessions, which we feel pretty good about, versus 2016 concessions, that is all new leases for 2016 versus all new leases for 2017. We actually have TIs and free rent as sort of a total concession package flat to down year-over-year from 2017 to 2016.

So again, I am not exactly sure where the increases are coming from, what you are referring to. But I think, A, we see them as relatively steady for the bulk of the market other than maybe the very high in that Steve Durels just referred to. And also more importantly from my perspective is I think we have budgeted properly for that in 2017 so that we still should be right on the numbers of what we showed everybody in December.

All right, I guess that is it. So it looks like there's no more questions in queue. Jed?

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

Jed, did you have a second question?

Jed Reagan - *Green Street Advisors - Analyst*

Thanks for that color. Just one more if I may. With respect to the planned observation deck, does the pro forma forecast you guys laid out last month, does that assume there will be a fifth observation deck at the Hudson yards and do you think that deck opens before One Vanderbilt?

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

We have had two or three different firms do studies. Those studies obviously look at existing but also look at future proposed and then they come up with expected market share for each. I think what --.

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

Both those outfits are well aware of the planned deck at the Hudson yards.

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

So the answer is yes, it incorporates it. Even with that I think the numbers they came up to, which we showed you in December, was I think 1.9 million visitors a year if I'm not wrong plus or minus. Capacity for the deck will be closer to 2.5 million to 2.6 million.

We think it will be much closer to capacity than it will be towards the kind of fair share projected because we do think it will be sort of an extraordinary best-of-class of deck. But if you look at them as all equal that is the kind of numbers we flashed up in December.

Okay, we are going to take one more question, operator, and then we are going to wrap up.

Operator

Craig Mailman, KeyBanc.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Thanks for taking the question. Just curious your thoughts here on direction of cap rates if long-term and short-term rates continue to migrate higher and net effect is going to remain under pressure?

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

I think interest rates obviously we can't predict, but we have seen debt providers continue to be very aggressive and we see spreads I would say steady to even compressing as rates rise, which often happens because bond buyers often target to an all in deal as opposed to a spread to treasury.

So the cost of financing I think has held fairly stable and we don't project any big movements in cap rates; that notwithstanding we are looking at the curve of interest rates like everybody else. And if something should dramatically exceed expectations in the curve we wouldn't rollout the impact that could have on cap rates.

But we think it is unlikely this year and, as we said, that demand, which is really a lot of factors underlying it, but a safe haven demand, a currency demand and an overall sort of growth expectation of New York we find to be fairly isolated from interest rates and we don't expect to see any big moves based on it.

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

Craig, thank you for the question and I want to make sure for everyone who is still listening we make sure not to let pass by the opportunity to celebrate the moment where just prior to this call there was a press release, as I understand, from S&P that hit the wires just before the call started upgrading the outlook for SL Green to positive from stable. So obviously a step towards a ratings upgrade we would certainly hope in the future.

This is the first important step, so we now have two different agencies, Fitch and S&P, that have come out with outlook increases I think in the past 45 to 60 days or so, which I think is just a testament to the extraordinary job we and in particular Matt and Maggie and the team have done shepherding the balance sheet to probably the lowest levels of leverage, highest levels of debt service coverage and capacity we have had as a company I think ever.

So A, congratulations; B, all this means is that we are now going to have to relook at our goals for the year, because we had talked about two upgrades. Maybe we will have to talk about three upgrades on the next call, I am not sure, we will look into that. But we are certainly very happy with S&P's affirmation today and Fitch's affirmation a month or two ago. So thank you, everyone, and we look forward to speaking to you on the next call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.
