Unidentified Participant

Ladies and gentlemen, please welcome Chief Executive Officer and Chairman, Marc Holliday.

Marc Holliday SL Green Realty Corp. - CEO & Director

All right, good morning, everyone, and welcome to SL Green's 2018 investor conference. We have been working hard all year long with an emphasis on the past few weeks to make sure that we had a presentation that is worthy of your time today, and we look forward to keeping you informed and entertained over the next few hours. We've gathered today to end on an extraordinary year for New York City, and especially for East Midtown, where so much of our portfolio is concentrated.

The New York City market is our exclusive home, and therefore, a key part of our success. Signs of New York's underlying strength were everywhere this year. JPMorgan made headlines with its commitment to demolish its Park Avenue headquarters, and in its place, develop a 2.5 million square foot skyscraper following in the footsteps of One Vanderbilt. Grand Central led all Midtown subdistricts and leasing volume increases, reaffirming our belief that Greater East Midtown remains the most sought-after address in New York.

And the city's tech sector is having its moment. With Google dramatically expanding its footprint and Amazon's huge decision to locate its second headquarters in New York City, right in Long Island City. Amazon, Google and so many other companies want to be here. They need to be here because New York continues to attract the best talent from around the country and around the world. And that's great news for our business.

In this period of intense activity, no one was busier than SL Green. You can see behind me the virtual avalanche of new stories from this year. We signed over 220 office leases, representing 2.2 million square feet of space in just 11 months, vastly exceeding our targets for the year and setting stage for next year. We disposed of noncore and mature assets like 3 Columbus Circle, 635 Madison Avenue, 1745 Broadway and development property in Brooklyn.

We moved on great opportunities like 2 Herald Square and 245 Park, where we could add value and drive earnings for you, our investors. We succeeded in closing some key retail leases in our High Street portfolio, and our DPE business dominated the scene once again this year. And the incredible advancement in leasing and construction at One Vanderbilt were followed in the press and in the city on social media.

Most of all, we focused on implementing an aggressive share buyback program that takes advantage of the unprecedented discount in our stock, which continues today and will be a big topic of discussion later on.

Look at all this news. This isn't a decade achievement, it's less than one year. What a testament to the platform we've built.

And we've made sure to end 2018 with a bang. Since Thursday evening, we dropped 9 additional announcements on the market, as summarized on the screen behind me. A new record for us, and an indication that we continue to work as hard as ever on your behalf.

Today, we'll talk about each of these announcements, from major milestones of One Vanderbilt to fantastic new plans for One Madison, from the remarkable turnaround of 2 Herald Square to our expanded role at 245 Park, from the acquisition of a real deal in Hudson Yards to construction in Lower Manhattan, and of course, the continued expansion of our share buyback program. It would have been a great
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year without any of these latest announcements, it was a monumental year with them.

This level of activity shouldn't surprise anyone who has followed SL Green over the past 2 decades. There is hardly a block of prime commercial office space in Midtown Manhattan that we haven't played a meaningful role in. Everything we currently own, combined with what we previously owned, equals an astonishing 50 million square feet, evidenced by all of the buildings on this map. And our DPE and servicing platforms have participated in deals, representing another 65 million square feet of collateral interest. You're not looking at a map of every building in Manhattan. Believe it or not, this is just the buildings that SLG has invested in over the years.

All told, over the course of our history, SL Green's footprint covers a remarkable 150 million square feet. So let that number sink in. It's -- roughly 30% of the Manhattan office inventory has passed through our shop in a meaningful way through investment. And whether you have been with us from the very beginning or joined us along the way, you have benefited from our commitment to excellence and our experienced leadership team that has delivered growth, stability and solid fundamentals that have always characterized this company.

But this year, like every other year, the story of our success begins with the fundamentals of the New York City job market, and they were very strong in 2018. Even before Amazon's big announcement last month, we were feeling quite good about the forecast for continued strength of New York City employment in 2019. All the stats are pointing in the right direction, albeit at a slightly slower rate than we've seen in previous years, but still among the highest rates of growth in the company.

On the slide, you see 68,000 private sector jobs expected to be generated in 2018. We're very close to that number as we sit now through November. And more importantly, the office and management budget has increased its forecast for next year's job creation from 54,000 feet to 61,000 square feet. So upward momentum in the job forecast.

Office-using jobs, same trend. 20,000 office-using jobs is what's currently forecasted by OMB for 2018. And next year, they're actually forecasting a higher level of jobs. They've upped the amount from 21,000 to 25,000 new office jobs in New York City in '19. That represents somewhere between 4 million to 5 million square feet of new absorption.

So where are all these new jobs going? The answer is increasingly East Midtown. The good news is that the city and our industry are moving quickly to accommodate all of this growth. For the past few years, the new supply conversation has been driven by the West side, but now East Midtown is joining the party in a very big way.

Businesses continue to be attractive to the transit-rich nature of what East Midtown has to offer. There's more Fortune 500 companies in East Midtown than any subdistrict in the country, and quite possibly the world. Investment in East Midtown continues to pace, and Andrew is going to talk about that momentarily. And most importantly, there's significant investment being made in the transit system and in the public realm system to kind of reinvigorate East Midtown with new office stock and new infrastructure to set the stage for decades to come.

This map, what I referred to earlier as our footprint, we're going to rotate it and look at just East Midtown, which is about a 75 or 80 square block area that houses some of the most important businesses and buildings in New York City. The average age of the stock in this section of Manhattan is about 65 years of age or older. So in the past, in order to be competitive with new construction and to keep up with the demands of new tenants, developers or owners like us would have to go through extensive renovations, redevelopments and remassing in order to deliver space to the market that was continually being renewed and continually competitive. Here, you see some select ones, recent examples of ambitious redevelopment projects that were undertaken usually at a time where the East Midtown rezoning was unavailable for new construction. Our project, the 280 Park, Boston Properties retrofits of 399 Park and 601 Lex, David Levinson's remassings of 390 Madison Avenue and 425 Park, both done as of right. And Olayan is now considering a major reimagination of 550 Madison once they've worked through their landmark issues.

So this was how we did it in the past. But then along comes East Midtown rezoning, (inaudible) corridor rezoning. And all of a sudden, we have the economic ability, the feasibility to capture space, scrape and build, and that's what we did with One Vanderbilt. It was a -- it will be a 20-year project from inception to the cutting of the ribbon. These are not easy projects. These are not tax-subsidized projects, okay? These are full market projects. You got to do this in a way that is exactly right in terms of the products you're building, the construction,
the delivery schedule. Not a lot of margin for error. But when you do it right, it's very, very profitable.

And following in the heels of One Vanderbilt is JPMorgan, who is going to demolish their headquarters buildings at 270 Park and replace it with a 2.5 million square foot iconic new headquarters building, really flattering One Vanderbilt and further establishing the trend in this area where tenants and businesses are showing their desire to be in East Midtown.

So the future, what does it look like for East Midtown? Well, there's a handful of sites that we sort of monitor, if you will, or that we believe are probably the next generation development sites in East Midtown. Could be others, but these are the ones we focus on. Everything from Pfizer, which is probably most-immediately deliverable, an MTA headquarters on Madison. Two longer-term projects along Park Avenue, 250 Park, 300 Park, and an assemblage of buildings that could produce a large building at 40 East 52nd and 350 Park.

Now these sites, if taken in total, would use about 2 million square feet of air rights out of the 3.5 million square feet of air rights that are landmark transferable development rights under East Midtown. 600,000 of those have already been used by JP Morgan commerce. So 2.9 million remains, 2 million is here. That will leave just 900,000 for the future. So out of this rezoning, I think we'll get a handful of new buildings, but importantly, they will come over time. They will not be put on the market. There will be no glut. I think this will take decades to build out at best. So it'll be measured, it will be an evolving trend for Midtown, for East Midtown in particular, and it'll be done in the right fashion. So we're very optimistic. And all of this planned growth will accommodate continued strength in the New York City leasing market.

Tenant demand right now is very strong, with real migration to higher-quality buildings. We see it and we read about it all the time. Concessions in '18 leveled off as leasing activity in Manhattan and Midtown in particular is up 6%, with Midtown South up a whopping 34%. That's leasing volumes. And the leases we announced today, along with Deutsche Bank's 1.4 million square foot lease in the complex we're currently sitting in, will only further serve to increase these Midtown statistics for 2018 when the story is finally told.

Along with the migration to higher-quality building and a tightening market comes an increase in the number of tenants that have the ability and willingness to sign triple-digit rental rates, and this year should eclipse 2017 when all is said and done. We have about $5,100 and up rents through 2018 third quarter. I think we'll be somewhere in the low to mid-60s when all is said and done. A lot of that's coming out of One Vanderbilt today.

And your also see another important trend that size of the tenants that are signing these leases, the average has grown to about 40,000 square foot of tenant for a $100 rent and up. So there's, I think, much more acceptance and much more convention now that good space and a state-of-the-art space in the market is routinely $100, $150 a foot and up for the best-located properties in the best part of town.

An important dynamic we see in the current market is also the relatively limited supply of big block space. Big blocks, we've defined as roughly 300,000 feet and over. There's 9 such blocks in Midtown that total 4.7 million square feet that are immediately available. I view that as a fairly limited number of options, given the number of tenants that are in the market looking for big block space. You see that there, 44 tenants looking for 12 million square feet in total.

By contrast, in SL Green's portfolio, we don't have a single block today of 300,000 feet or up that we could deliver in 2019. So I think that's a fairly big statement about the tightness in this market and our portfolio. You have to look to the under construction projects, of which there are 7 million square feet, but that's not delivered until '22, maybe end of '22. So you're talking about 4 years to absorb that 7 million feet. And given the current demand in the market and the job growth we expect to occur over those 4 years, we think it's more than enough to keep that vacancy rate where it is and start to make real gains in net effective rents going forward.

Drilling in on that 7 million feet, this is where the future big blocks of space will arise for the most part. You know this -- you know these buildings. You've seen this map. It's the Hudson Yards. There's about 15 million square feet of space when this phase is completed in 2022. That dates back from 2016 to 2022, 15 million feet. The good news is, all but 4.5 million square feet of that space has been leased or presold. So there's really a diminishing amount of new supply. I'm not sure people appreciate the fact -- really, 2 things. One, there's not a lot of space left in that part of town; and two, the rents that are being asked for and what remains in those buildings is about $110 a
foot to start on up to $140 a foot. And even $170 a foot in the top of the building, I believe, at Spiral, at 66 Hudson or maybe 50 Hudson, I'm not sure which. But one of them is at $170 a foot. So no longer are these buildings being absorbed at the $80s and $90 a foot range. They're now looking for rents that would have to push up against Midtown. And as a result, we think that impact only puts a real spotlight, if you will, back on Midtown, which has always remained, in our opinion, the market of choice for businesses.

Looking out beyond '22, there's 2 other buildings that will contribute in total 3.8 million square feet of space. That may sound like a lot, but on a 400 million square-foot inventory, it's a very small amount of space that'll be delivered in '23 and beyond, in our opinion. It really is just enough to accommodate a city that's growing the way New York is.

We're seeing what we've been saying for years that Midtown remains the location of preference for businesses who desire Class-A real estate and transit-friendly locations. If you look at this graph, you'll see that Midtown generated leasing volume gains year-over-year of 38%, and leading the way was Grand Central submarket, which we happen to have the majority of our portfolio located within. I think it's a 67% increase in the Grand Central market, 38% for the year-to-date. I think those numbers are going to be higher once the year is over because this is only -- I think there was an acceleration in the fourth quarter.

If you contrast that with the West side, because of what I said, the diminishing amount of supply and the higher rents attached to that supply, you saw a drop in the West markets of 20% year-over-year through the end of the quarter. So a very interesting trend that confirms Midtown is the center of gravity. But the question still remains, with all of that leasing and job growth outpacing new supply, why are we not seeing big gains in vacancy? The answer is densification. Since 2010, job growth has advanced at a record pace in New York City while densification much more so than new supply has held the vacancy rate relatively in check. So it's not bad. I mean, it hasn't backed up on us, but it hasn't advanced the way we wanted it to. But don't take it from me, hear what Dwight and Jim have to say about it.

Marc Holliday SL Green Realty Corp. - CEO & Director

So last year, we identified this trend nearing a plateau as we began to see officer users reaching the limits of how much space efficiency is truly feasible and tolerable. I still believe the end is in sight. I see that in our portfolio where the trend is reduced. I hear it anecdotally from people who've moved into these more dense layouts and they're not happy with them, and we see it with the architects and designers who are telling us the pendulum is starting to swing back in the other direction.

And over the past year, we've seen these new stories, but now we are beginning to see some of the hard data that backs up what we've been feeling and thinking and saying anecdotally. Study after study shows that we've reached a point where we have become less productive and less happy, for that matter, due to the over densification of office space. These are 4 or 5 studies, all done recently, sort of bringing home that point. But we're already beginning to see that shift. Small, but it's little seeds of shift in density in a study that Gensler did where sanity appears to be prevailing is workspace become less dense and companies attempt to restore a level of privacy and actually force a better communication by being less condensed with one another.

Interestingly, the firms that you think about as being the most efficient, large finance, media and tech, their rentable square feet occupied per employee is by 200 to 250 a foot, the numbers we've been telling you. I hear from the market, analysts, shareholders, well, I hear 150 a foot, 175 a foot rentable. It doesn't exist. What maybe talked about is usable versus rentable, or it's the workspace without amortizing in fully all the amenity space and the social space and the lounge space and the latte bars and whatever it is. That has to be factored in when you're talking about the totality of rentable square feet. And that at its most efficient is about 200 a foot to 250 a foot, and that's probably a pretty healthy level for the market. Although, we may have reached the limits based on this -- the information from Gensler. It's probably one of the leading interior design and layout firms in the city.

So as we anticipate a slowing in densification, near-term job growth will have much more of an immediate and strong impact on occupancy gains. So much of the job growth that we've seen as well as the dominant market trends like densification are being driven by the tech sector and New York's emergence as a true tech hub. When the City of New York first announced plans in 2010 to bring an applied sciences graduate school to New York, no one could've argued that New York was in the same league as Silicon Valley or even
Boston as a tech center. But by the time Cornell Tech opened last year, the landscape had changed dramatically. This heat map shows that many of the biggest names in tech have chosen to establish sizable presences in Manhattan, clustered mainly around Midtown South and Downtown. This has helped to transform these submarkets that were previously looked upon as secondary location and have established these markets now as being amongst the hottest in the country.

New York now boasts the most tech workers of any market in the country, pretty amazing. 330,000 tech workers in New York, enjoying proximity to the global financial center and leveraging off of New York's diverse base of employees and businesses.

New York City has also joined the elite ranks of San Francisco and Seattle in terms of being recognized for a deep and talented pool of employees in the technical field. So it's no coincidence that these businesses want to establish an East Coast presence in New York in the space we have, which is fully amnestied, 24-hour cities, and access to this sort of almost limitless pool of talent coming out of the schools and coming out of these other jobs that provide a depth that doesn't exist in many other markets. And when there is talent and innovation, there's also venture capital.

And you could see here, in 2014, New York City lagged quite a bit behind Silicon Valley and New England, Cambridge, in terms of venture capital investment. But in the years that ensued for the past 3 years, New York City has either led the way or been right on top of Silicon Valley in attracting those dollars to fund start-up companies, which is contributing to the vibrancy of the city and the job growth.

This deep talent pool and significant investment capital has appealed to some of the technology's biggest names and positioned New York as ripe for expansion. And at the forefront of this growth is Google. You can see here, they started in 2002 with just 60,000 feet, and in a relatively short period of time, have now grown to 5 million square feet owned or leased on the Lower West side of Manhattan, Downtown West, where they've put a campus together for 7,000 staff, 50% of which are in the technical field, pretty amazing stat. And they're not done. Rumors are, they're going to be signing a lease and they're acquiring a portion of St. John's terminal, 1.3 million feet. So anything they do, they do big. There's no small expansions you can see up on the table -- up on the graph.

And now comes Amazon.

Marc Holliday - CEO & Director

And we're just as happy about it as the governor and the mayor. Every single major city in the U.S. was desperate to attract Amazon. Over 200 cities put their hat in the ring. It was narrowed down to these 19, mostly clustered along the East Coast. And Amazon ultimately ended up splitting the fight between New York City and the D.C. area. Major, major boom to this market. It will bolster our position as the East Coast #1 location for tech firms. Rapidly expanding technology companies, not only Google, Amazon, but all of those who follow these companies, they co-locate and they kind of thrive off of these companies, will proliferate in our opinion as -- and I think in everyone's opinion in the city, as they become bigger and more established, with the good news being that the 4 million square feet that has been committed to is -- will ultimately grow to 6 million or 8 million feet. Over 25,000 employees, possibly up to 40,000 employees, with enormously incremental tax revenues for the city and some benefits that are more derivative, like an increased investment in housing and infrastructure that will follow.

Here is a map. You can sort of see the location of the campus, which is comprised of both governmental and private sites, that will be built out over a decade or longer. In the interim, they will use space at One Court and other locations to accommodate their needs until these facilities are built. You can see why this site was attractive. It's 1 stop away on the E train from 53rd and Third, East Midtown, one stop. So for our dense portfolio on Third and Lex and Park, it's, we think, an enormous benefit because we can deliver affordable space 1 subway stop, 10 minutes away, from Amazon's new campus. So a big win for East Midtown. Also, great proximity to the area airports. And it will take years for Amazon to develop this headquarters and to fill it. So in the interim, they will take space, as I mentioned, at One Court, other facilities. And I expect they'll rely on flexible office space like they already do at 2 Herald, which we own, where they are an enterprise tenant of WeWork in a building we own. And many other tech companies have this insatiable need for coworking.

So coworking looks like it's here to stay. It's become an undeniable force in our market and it's helped incubate start-ups and newer
firms, which didn't have a fit in the traditional leasing market. The new age of coworking space is dynamic, purpose-built and designed highly amenitized in ways that really appeal to today's worker, and it caters more to the entrepreneurial firms and the creative firms than the established companies. Although, that's changing as these established companies want to leverage off of that vibe and that level of flexibility.

These are the names that have existed for many years in this space. Regis New York City office with an HQ, tenants within our portfolio. But now you've got Knotel, Spaces, Convene, Hana, other names that have come become household names, but WeWork is sort of the gorilla in the room with 5 million square feet of space leased and sort of no end in sight to that sort of insatiable appetite.

We think that's a good thing. It's grown to just 3% of the market portfolio for all coworking. So relatively small amount of the inventory. But that's a little misleading because when you look at the piece of the pie, they have 18% market share of all new leases, over 10,000 feet, done in 2018, almost 2.5x what it did last year and right on par with financial services and TAMI sector.

Now this may come as a surprise to some of you, but we believe not only that coworking is here to stay but that it's actually a good thing for our industry. When you look, I feel there's many benefits to landlords like us, boosting of rents, significant space absorption. And believe it or not, tenants that want to do direct deals with us and locate in buildings that have some element of flexible working space to accommodate their growth needs in buildings that otherwise are pretty much full up in our portfolio. Brokers could get bypassed in the process by going directly to these providers, so that will have to sort itself out as to the relationship between these providers and the brokers. But at the moment, it looks like there's a little bit of risk and jeopardy there. Tenants on the other hand, it's a mixed bag. They get shorter-term lease obligations, flexibility, capital savings and very well-serviced space. But it comes at a cost. There's a high cost of occupancy to deliver those benefits, and there is a loss of that privity with the landlord, which could come back to be a negative when it comes time to expand or contract to do anything with the lease that you have to otherwise go through to coworking provider.

So that's sort of a look at the major trends in this market. Let's bring it all together now and see how these various factors are impacting the underlying value of SL Green.

NAV, we talk about it a lot. It's sort of is the foundation of how we look at this portfolio. What is the spot value of this company at any given point of time, and are -- is what we're doing accretive that value, which is really predominantly one of our major focuses. A key factor in this NAV analysis is the expectation that values are very strong in Manhattan, and Andrew is going to talk about that. We have enterprise value right now at a $96 closing price on Friday of about $18 billion, okay? Down from last year, mostly because of shrinkage of the company as a result of the share buyback program. When we go through the components that are nonstabilized Manhattan, these other components. We have leased fees and leased interest. We value those property-by-property, taking into account the lease terms and the lease provisions and fair market revaluations, and we get to about a $2 billion value. Then High Street retail portfolio works out to around 4.25% cap, higher than what we've shown in previous years because a lot of that mark-to-market that kept that cap rate in the 3s we've realized on through our extraordinary leasing efforts.

Residential, we have about 2,000 units. Very high-performing real estate that we value at around a 4% cap. It would be -- that's actually a relatively high cap rate, given the fact that 20% of the portfolio is encumbered either with affordable housing requirements, rent control and rent stabilization.

Suburban asset value, we have estimated at net liquidation value. So sort of spot market values. I think we have very good handle on that, $384 million. Development properties are typically at cost, with a modest landmark up that is reflective of the marks where we either have or believe we can get ventures done to the extent we wanted to venture those assets. Basically cost, that's $2 billion plus, $2.5 billion of NAV.

Debt and preferred equity, we value at book onetime, and the portfolio has performed extraordinarily well. And then there's other assets, mostly balance sheet items, receivables, cash, other items that Matt can sort of explain. We also put promotes and some air rights in there, but not the One Madison air rights, leaving a total implied Manhattan value of $8 billion, which is $610 a foot and 6.5% cap rate.

Now it is -- there's no debate in my mind, 0 debate, that those are metrics that are anywhere close to the reality of the market we
Looking here, only at private closed-end funds, which are typically core, core plus value and opportunistic, they carry financing levels of anywhere between 50% and 75%. They're looking for rates of return as low as 6% unlevered to 10% or levered returns of, call it, 7.5% to 20%. That's where the market is for value, that's where these funds operate, and that's how they capitalize themselves. REITs on the other hand are geared at around 30% to 35% weighted average debt rates for the office sector, and we have all forms of those assets within the portfolio. We're not a fund that just has one category of assets, we have everything. We've got core, we've got value-add, we've got development, we've got transitional. It's what we do. We're expert at all of it, and we're trying to operate that business and grow and grow profitably with the constraints that have been applied to the sector. Very low stock price, big discount to value, so an inability to raise external equity publicly. And debt levels that are below our competitors, it's not a commentary of right or wrong, it's just fact. And therefore, we have to be that much better in order to compete, which we are. So we do it, but there are companies out there that are raising hundreds of billions of dollars of capital.

In this market today, Blackstone and Brookfield are raising $15 billion to $20 billion a year for investment in the kind of product we invest in. So investors vote with their wallets. It's not a debate, in my opinion. It's not opinion, it's where is the investment dollars going. And decidedly, the investment dollars are pouring into the private market. Good for us because it forms a stability of value for our portfolio.

So why do these repurchases make sense? Why are we so dialed into doing it? Why did we announce another $500 million on Friday? Well, it's because the pillars of our strategy is value creation, earnings accretion and quality enhancing, reengineering the portfolio. And when we buy, we're buying more of a better portfolio every time we sell an asset or recap. We're reducing complexity and hedging ourselves naturally because through aggressive selling to buy, we take advantage of today's market rates, and that forms a hedge. And we have a strong conviction about it. I believe you got to have an opinion. I don't believe in neutrality. Somebody on this board once said to me, you got to have an opinion, and we do. And our opinion right now is that this makes sense for our company.

So the way we fund that program, I'll go through this quickly. Joint venture assets back in 2016 provided $550 million of net proceeds. We ramped up in 2017 with JVs and sales another $600 million of proceeds. Look at 2018. Wow, that's a lot of deals. So I guess we really ramped up. $1.45 billion of net proceeds generated through all those activities, and we still got a month left.

So that gives you total sources of $2.6 billion. How did we use it? Well, $1.8 billion went to share repurchases since we started this program. Another $770 million went to corporate and other debt repayment in unencumbering, and that's in addition to eliminating $1.4 billion of underlying debt as part of those sales. So it's a pay downs and the elimination of the property-level debt. So we've executed in a very balanced, debt-neutral way. $2.6 billion raised, $2.6 billion deployed and a lot of debt eliminated so that we've come down at a leverage point to something that is well below our private market peers.

In 2019, you're going to see more of the same. Dispositions, additional asset sales, joint ventures, additional sales of One Vanderbilt and a JV of One Madison is our goal in '19. Suburban dispositions in Stanford and Westchester at the levels that we showed on the NAV slide. Debt and preferred equity is kind of self-funding. We get money, we put the money back out, doesn't require any new equity funding. Financings, if close the JV, we'll get a construction loan for One Madison. And how about common equity issuances? I don't think so. Probably not in '19, but I hope so. I hope there's big rally in the stock.

Uses. 460 West 31st, exciting new development -- redevelopment candidate that we just went hard in the contract, Andrew is going to talk about that. Development projects like One Madison and 185 Broadway. Seeds for the future. We're growing our FFO, as we said, we're growing our same-store NOI, but this is for the future. Redevelopment of 609 Fifth, way ahead of schedule. Debt reduction, line of credit cleaned up to 0. And share repurchases overwriting it all.

So where does it sort of come home? Year-to-date, we are at total return levels as of Friday that we're not happy with by any regard, you
know our single-minded focus and trying to gain absolute level of returns, but on a relative basis, we've outperformed most of our peers and the index for the year. And yet, that outperformance comes even while our multiple is so cheap, 13.6x FFO multiple, relative to a peer set that averages 15x and reach as highs of 18x to 19x. So as long as that continues to exist, I guess, we'll probably continue to buy stock. But our goal is not that. Our goal is to create a portfolio that we believe warrants the highest multiple, premium multiple, in this market for the talent base we have, this sort of intense focus we put into executing year-after-year and the value we create in New York's most extraordinary portfolio of assets.

So I hope you can see from the presentation so far that our portfolio is in excellent shape and that we are tremendously optimistic about moving forward.

Over the next couple of hours, we will be presenting a number of exciting new projects that will produce incremental cash flow and allow us to continue delivering the growth that you've come to trust and expect from SL Green. And of course, Matthew DiLiberto will be batting clean-up, talking about our investment-grade balance sheet and our preview for guidance in the coming year.

For 20 years, we have delivered enormous value in this market. With this world-class team, I think you will find that we have delivered in '18, and are -- we're on track to do it again in '19.

Now it is my pleasure to turn the presentation over to my partner and colleague of 25 years, the ice man himself, Andrew Mathias.

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

Good work. Thank you, Mark, and -- is that for me? Good morning, everybody. Thank you for coming. I'd like to start today by giving my traditional overview of the investment market and then get into some steel-specific case studies based on our announcements this morning, which I think everybody will find very informative.

We sit today in a balanced, competitive and efficient market with some very positive trends. That balance means strong demand across all 3 property categories that Marc described, core, core plus, value-add and opportunistic. And the market volumes we're going to look at show no sign of abating as worldwide capital keeps focusing on the New York City market, debt markets continue to be extremely efficient, even in the face of rising indexes, and sellers keep an ample supply of properties on the market. You can see institutional capital popping up in deals anywhere in the 5 borrows today as investors (inaudible) the landscape in search of compelling returns.

In a telling measure of the market's strength, volume is up this year, and by the end of the third quarter, we have eclipsed all of last year's volume total. The side screens show that in each of -- each quarter of this year's totals, sales volume is exceeded that of 2017. The $9.2 billion remaining you see here we view as highly likely, particularly given the deals SL Green has already closed in Q4 and some of which we announced this morning, account for almost 15% of that total.

While volume is up this year, cap rates have trended up a bit in reaction to increasing treasury rates and modest rent growth. We believe this is partially a function of traditional core investors shifting their risk tolerance in search of higher returns. Class-A pricing in north of $1,000 per foot is still a very healthy market, and the composition of buildings that are sold in any given year can influence this per foot average. The changing yield trends have ushered in some new players in the constantly changing buyer landscape.

You can see this core market demonstrated here as U.S. capital steps in to replace Chinese capital as the dominant players. SLG's own 3 Columbus and 1745 Broadway show up among the larger trades of the year.

The value-add segment saw a notable pick up this year, and this volume is not reflected in the market cap rate statistics I showed you earlier as each of these deals have slated for a heavy capital investment and complete repositioning. So often times, these deals are bought at 1 and 2 caps.

The value-add sector was highlighted this year by Brookfield's very aggressive purchase of 666 Fifth Avenue, where they're going to completely reskin that building and try to reset rental levels in that segment of Fifth Avenue. The terminal stores, which is the second deal here, earned an SLG First United Nation's flag as the equity source, as a large syndicate of U.S. pensions, a Korean pension fund and
German insurance capital teamed up to fund this bold purchase of a landmarked asset on the far west side. Historically, you would find these players in core deals or in ground up development in the core -- very core areas of Manhattan. But in these players quest for yields, they've broadened their risk and asset tolerance, funding an aggressive business plan in a developing area of the city.

Ground up development also saw an active year as Disney sold its upper west side campus for residential development and promptly redeployed that capital into land in Hudson Square for a new office and studio building they'll be constructing there. Pfizer's campus traded as well as they announced their relocation to The Spiral Hudson Yards, and they sold their site to a group that they've become one of the sites Marc highlighted in the Grand Central developments as Midtown's next wave of development may take place.

And anchoring some of that $9 billion I showed you to common core in Q4, you see transactions that are on the market. Even though some of these deals will slip into 2019, you can see the market is robust with investment opportunities in every corner of the city, from core Downtown on the left to SoHo, up the West side into the Hudson Yards and on into core Midtown. There are several other large deals we're tracking that are likely to hit the market in January as 2019 is shaping up to be a very active year in the capital markets.

Fueling all this transition activity, and Marc spoke of -- to this as well, is $143 billion of dry powder available for North American real estate investment. And as if that's not enough, there's another $134 billion of funds in the market folks. While the public real estate markets pause and struggle to find their bearings, private capital is racing ahead in all geographies.

You can see on the side screens, digging a little deeper into the geographic focus of the funds, the shift in European and Asian opportunities that we often hear about doesn't really bear out in the numbers when you look at North America's dominance versus the rest of the world in fund-raising.

Real estate as an asset class has benefited greatly from an almost 20% increase in allocation of global AUM over the last 6 years, implying more than $170 billion of increased real estate investment by worldwide investors.

Switching to debt and preferred equity. All this transactional activity translates into a very healthy DPE business for SL Green. This morning, we ran our traditional tombstone ad on the Wall Street Journal, memorializing some of our notable transactions this year, led by our announcement Friday of the completion of phase 2 of our 245 Park Avenue preferred equity investment, an extraordinary and highly complex deal that features double-digit returns to SL Green and our assumption of operational control of this flagship asset. You can see other household names on the screen as our borrowers as our shift of mortgages, which I'll get into in the slide presentation, broadens our borrower universe. So you can see folks like Normandy and Invesco, CPP and Oxford and others broadening our borrower base, moving at a little bit more institutional.

The team has had to work harder than ever to keep the pipeline robust this year and continue to maintain a rigorous credit and underwriting process. Most deals continue to be pretty heavily equitized on the purchase versus prior cycles, so that leaves borrowers to lower leverage levels on acquisitions. And the market is extremely competitive as new entrants continues to emerge in the sector. All this is against the backdrop of increased fixed and floating rate indexes and spreads that continue to tighten as lenders compete for asset. The reemergence of the CRE CLO market has helped some of these players hit their target returns in this market context. So as they lower spreads, their cost of financing lowers due to cheap CRE CLO money that allows people to compress their spreads. We definitely see some risk getting mispriced out there in deals which we studiously tried to avoid.

CMBS volumes should finish the year around last year's levels as this slide you see here is through November 30, 2018. But the real story this year is in the explosive growth of the CRE CLO issuances. Recall, these are loan pools that allow nonbank lenders to aggregate both bridge and mezzanine loan collateral that doesn't fit the traditional metrics of CMBS. Some have revolving features and allow these lenders to better match financing term with their underlying assets. And similar to the dynamics I showed you in equity funds and Marc spoke about earlier, record levels of capital are being raised for debt investment funds as well. So much so that 2018 is looking like it'll be a record year for debt investment, really we have 20 years up here, but probably ever. It seems like everyone, including a lot of our borrowers, which you see on the side screens, are jumping into the debt game these days.

Turning to our own portfolio of debt. You can see that some of the metrics that prove out our risk mitigation strategy show up in these pie
charts. We were predominantly a mortgage lender this year, preferring superior collateral and control over the whole capital structure as we saw mezzanine paper overbid in many situations and avoided those deals. We stuck mostly to floating rate deals, giving Matt a nice balance sheet hedge to our floating rate liabilities. And sticking more to transitional business plans, borrowers were buying, fixing and either selling or permanently financing assets because assets that were stabilized that went out for fixed-rate financing typically drew with that very aggressive capital, and those yield compressed quite a bit. And the deals were primarily refinancings that we participated in as those high equity levels and acquisitions I discussed often made that paper too cheap, and we refinanced many of our existing customers.

You can see these trends further illuminated in our retained originations for the year where we have our highest level ever of mortgages as a composition of the paper that we retained. Very healthy levels of over $1.2 billion of retained originations this year. And yields that you see trending down a bit as we move -- shift up the risk -- higher in the risk spectrum -- higher in the capital structure, lower in the risk spectrum, and trade off a little bit less yield for more secure positions, keeping our studious eye on credit at all times.

It's worth taking a step back and recapping the program and sort of going through quickly our track record. We are the lender of choice in the Manhattan market. We are the first call for subordinate financing, an increasingly bridge financing. The more complex the deal, the quicker the deal has to execute, the better and more competitive we are. We've originated more than $10 billion of retained originations in the last 21 years. So our track record and sort of the breadth of our experience is unmatched, and we maximize risk-adjusted returns. We generated returns in excess of 10% with realized losses of less than 1% over the life of the program. So less than $100 million. That comes as a result of both on origination, being very rigorous in terms of the deals we select. And then also we have a very active risk management process where we use our market intelligence on sort of what we're seeing going on with different borrowers in different areas of the city. And have quarterly asset management meetings, established watch lists and aggressively shed risk where we don't feel comfortable, we don't think the position is performing to underwriting.

But another critical feature of the program is really the equity opportunities that it leads to, as we are the first call when we're in a capital structure as borrowers look to either sell, or in some cases, joint venture assets. And with some of the announcements this morning, I'd like to take you through 3 case studies of the assets where they're long lead time-type deals, it takes a long time to put these deals together. But we've started to see in some of our announcements this morning, the extraordinary returns we can generate from some of those deals.

So let me start with 460 West 34th Street. This building sets kind of an unbelievable location between the new Hudson Yards developments and Manhattan West. It's a very large building, it's a big scale deal, and it was completely off market the way in which we acquired the deals, so a very unique opportunity for us on a big asset, 634,000 feet.

Going through kind of the time line of our acquisition. In October of 2014, 4-plus years ago, through 3 separate transactions we financed a 34% interest in the deal through a convertible loan that we originated out of our DPE program. After closing that deal, we had a little tussle over who operationally controlled the asset. And 2 years later, we prevailed in an arbitration which determined who was in control of the asset and what our rights were vis-à-vis the other 66% of the deal.

In July of 2017, we executed a letter of intent to acquire a controlling interest in the building, and we turned that letter of intent into a contract in December of 2017. In May of 2019, so as we clear sort of the hurdles of that contract and put together our plan for the asset, we had an extraordinary amount of time, almost 18 months before we had to close on the building. We'll close on the controlling interest in May of 2019. And the plan here, we have a great upgrade plan for the property, new lobby, new double height retail space at street level, modernizing the office space upstairs, which I'll show you some renderings of shortly, and completely new environment inside the building with upgraded mechanical systems, new building amenities, making the building competitive with some of the new construction in the surrounding areas.

That program, we expect, will take about 2 years. So in March of 2021, we'll deliver new upgraded and tenanted space to the building, and the asset should stabilize. This takes a long time to put together, there's a lot of complexity, it brings in a lot of disciplines of the firm. But as you look into sort of what it takes to get a deal below blistering market price these days, you can see that our blended basis in this building is going to be around $528 a foot in May when we close. Our base building capital program, we have outlined around
Now turning to 609 Fifth Avenue, where we got to go way back to 2003 to go our first mezzanine loan on the asset to Jeff Sutton through the DPE program. And we converted that mezzanine loan into equity ownership of the asset. We own this building for quite some time with American Girl on the flagship retail at the base of the building. And when it became clear, that American Girl was going to vacate and move to Rock Center, we set about on looking at various development schemes for that asset. So we looked at everything from a full residential ground up development, utilizing air rights from Rock Center, which would have acquired -- required a approval, an 18-month process, similar to what we did for One Vanderbilt. We talked to people about ground up hotel schemes and an office overbuild, where we utilize some existing air rights of the building and some FAR that existed on the block and add on top of the building.

All these schemes proved to be very expensive. And when we evaluated the rents and sort of the alternative, which was just a retail repositioning and a retenanting of the office upstairs, it didn't seem like the best use of our capital. So we went forward with kind of the modest version, if you will. But I think the result was terrific and gave us a higher return on our capital. We took 21 feet of lobby space on Fifth Avenue and converted it to retail and moved the building's main lobby to the service entrance on the side street.

This gave us 53 feet of frontage on Fifth Avenue for a primary retail box, which had not previously existed at this building. The biggest challenge was there was not enough Fifth Avenue frontage. The retail team did an amazing job this year of signing a flagship 15-year lease with Puma for the retail space on Fifth Avenue. And I'm happy to announce today we've leased the balance of the retail space of the building to Vince, who is a clothing company, moving out of the floor of Fifth Avenue to street level for the first time, and they'll be operating a clothing store out of 2,900 feet behind the Puma store.

And then also this year, we announced we worked -- leased a -- did a net lease for the entire office portion of the building. They'll be investing significant capital upstairs in floors 3 through 13. They'll use the lobby that I described.

Looking at kind of the value creation here for a relatively modest $91 million capital investment versus some of the schemes I showed you earlier, we'll wind up with a fully redeveloped building with Puma, Vince and WeWork. And we'll stabilize this NOI at around $15 million, which is a 61% increase from NOI before redevelopment of the building. So a very attractive incremental yield on our capital. Successful repositioning here, the lease way ahead of schedule. And Matt is happy because it'll be an earning asset a lot faster than we had projected with some of the other alternatives.

And then moving on to the third sort of DPE case study, if you will, 2 Herald Square, which brought in our special servicing group and used a lot of our experience for the air. The history of this deal again starts in April 2007. When this asset traded, we structured a very innovative fee and leasehold financing. We ended up retaining the fee interest in this property, the leasehold traded to an entrepreneurial ownership group. We sold that for your interest in the asset in November of 2014 for a very healthy gain, a great return on a fee position in Manhattan, and we continue to monitor the asset. In May of 2017 when the 10-year leasehold acquisition financing that the ownership group had put on was maturing, it became clear to us they didn't have the means to refinance the debt and the debt was likely to default. So we jumped into action over the course of a week. We were able to use our proprietary knowledge of the asset, we bought the first mortgage loan on the building and maturity came. They didn't make the payment, so we were back in court running a foreclosure in Manhattan. This was a first for Marc and I. We foreclosed on a lot of buildings all over the area. We've never actually completed a mortgage foreclosure in Manhattan. Usually it’s always a negotiated deal in lieu. This one we actually closed on the courthouse steps. So in 12 months' time, which was a remarkably short period of time, May 2018, the gavel dropped. And we got control of the asset.
The SLG SWAT team moved in, Ed and his team took over, an asset that had been heavily neglected, sorely in need of capital, you had a lot of very angry tenants. There was a lot of problems at this property that had to be taken control of, but the amazing thing was the foreclosure was quick. And in today's kind of short new cycle, we wanted to keep up with that and make it a short investment cycle here. So in the words of the great Marvin Gaye.

(presentation)

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

This morning, we announced a complete sort of transformation of the asset, not even just recapitalization but a complete shift in the tenancy and a recapitalization of the capital structure. So it started with bringing in a JV partner at a big mark up to our basis for 49% of the asset. We announced the closing of a very attractively priced acquisition loan on a building at the same time contemporaneously with that partner coming in.

Mercy College, we expanded and extended and leased them some former retail space for a new lobby for their school campus. We extended their lease out to 30 years, taking advantage of their tax exempt status, selling them a leasehold condominium interest on the building.

WeWork, we announced an expansion of their lease at the building they've had a lot of success with Amazon through their enterprise business, so much so that they were looking for more space in the building.

And then on the retail side, we signed the modification and extension with Victoria's Secret, which settled the rent arbitration that has been ongoing and festering with prior ownership. We changed the signage profile at the building. And most importantly, we captured some elevators, which we needed to make the Mercy deal. And then we converted some lobby space that had gone fallow on Sixth Avenue into retail space, income-generating space. Signed a lease with Happy Socks for that space. And what's left today is a retail opportunity, which you see kind of the monopoly space on the side screens. A prime sort of retail flagship store is all we have left to lease at the asset, and we got a lot of exciting conversations are ongoing about that space.

So if you look at foreclosure, kind of the numbers of this deal are pretty remarkable. Almost less than $4 million of NOI of foreclosure in May, 80% occupancy, weighted average lease term of 9.2 years. With all the leasing action I just took you through, we're up to $9.6 million of -- as leased NOI. 93% occupancy, so 14 points of occupancy increase. And we stretched out that lease term by 8 years.

And then with the lease up of that retail flagship, we expect to stabilize this asset in a very short period of time at $18 million to $20 million of stabilized NOI at 100% occupancy. So hopefully, we'll take out the crystal ball, the short new cycle continues. Brett and the retail team can work some magic this year. In 2019, we could see some crazy headlines of flagship lease signed and who knows what else.

So transitioning to the development/redevelopment segment of the presentation. We have some very interesting case studies presented in interesting, innovative way. I think you'll see, we're going to start with 185 Broadway, which is our affordable New York project Downtown, go right into an update for -- on One Vanderbilt and then break for intermission, come back, look at One Madison and some of the unbelievable redevelopment and development that's going on there. And then Matt will do his thing.

So first, 185 Broadway. This is an assemblage we've been telling you guys about for quite some time. Another long time line here, but in August 2015, we bought the first properties directly across from our 185 Broadway development where we had enormous success leasing that building up to Pace University and Urban Outfitters and TD Bank on the retail. So we immediately started scouring the area for other investment opportunities. We managed to assemble another building on the site, 183 Broadway, almost a year later. And it takes a long time. Through the last 18 months or so, we've vacated almost 53 tenants at the site, significantly under the budget we'd laid out in order to vacate the buildings. That allowed us to demolish the site over the course of this year. So today, we sit with a site that's fully demolished, and we announced this morning, I think, that -- either Friday or this morning that we did a deal with MTA. We bought some air rights and a lighten air easement from the Fulton Street Transit entrance that's at the corner, our site Ls around it, which you'll see in the presentation. We did a deal with MTA, which was kind of critical to building the footprint building we were looking to build here and
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bringing very competitive residential apartments to market. We also closed construction financing for this assets. So this deal is fully capitalized. Very compelling terms on the construction financing that will require very modest equity investment to get it to stabilization. And that's how long it took and sort of the process of getting a fully assembled as of right and capitalized deal.

So now you're going to hear from Dan Kaplan from FXCollaborative and then Brett Herschenfeld, Managing Director in our retail group, who really spearheaded the development of the site in an unbelievable way.

So this is 185 Broadway, folks.

[Presentation]

Hi I'm Brett Herschenfeld, managing director at SL Green. I've been working on 185 Broadway for the past 6 or 7 years and I'm proud to share with you today the next steps.

Our original attraction to this assemblage was its retail potential. The Fulton Transit Center is the epicenter of all Lower Manhattan access. 185 Broadway is caddy corner and it's the first physical presence when emerging from the Transit Hall to the Street. Its visibility goes three for three on retail consumer segments: tourists, office users, and residents. Additionally, our project delivery timeframe marries up with first generation lease expirations at the Oculus and Brookfield Place, providing a natural tenant demand pool of retailers that might now want to go back to a traditional high street presence in Lower Manhattan.

Our retail design capitalizes on our signage and leasing expertise derived from our many Times Square projects. We had great success leasing the corner at 180 Broadway and feel that the design of 185 on the opposite corner at street-level, positions us well against competition from other less visible Lower Manhattan retail locations.

Shifting to the residential component, we are excited to add another 209 residential units to the SLG residential portfolio. Upon completion of 185, our total portfolio will contain 3,267 units in a residential market that continues to have solid core fundamentals including a 1.5% vacancy rate in all of Manhattan. In Lower Manhattan specifically, the vacancy rate has declined year over year from 3.0% to 1.6%, demonstrating the population growth impact from infrastructure and World Trade Center projects continuing to come online.

With SL Green leading the charge, the development and marketing team at 185 Broadway is best-in-class and consists of among others, Dan Kaplan at FX Collaborative, Douglas Elliman on residential lease-up, Newmark will be sourcing an office tenant for the commercial space, and SLG Retail on the base.

Now, I would like to take you through the timeline for the project development. Demolition of the Site is fully complete and we are eager to break ground in March of 2019. We anticipate completing foundations by next year's investor conference. With the design and schedule locked in, we look forward to cutting the ribbon and welcoming the first tenants to the building in April of 2021.

Total sources and uses for the project comes in at $311 million. SL Green currently has $25mm of equity invested in the deal, and the construction loan which we announced this morning allows us to fully fund the project with only $60mm of additional equity on a pari-basis with future loan advances.

Here is the NOI breakdown. Douglas Elliman provided the comp set of rental properties which you see here on the slide. Every unit at 185 Broadway on a per month rental rate relative to this competition. The 30% affordable component is priced according to the City's Guidelines and a combination of those two brings you to aggregate revenues on our first year of stabilization from the residential envelope of $11.1mm. Newmark projects $65psf for the commercial component of the building. At midpoint of our retail rental range, we expect to generate $5.6mm for the entire retail flagship and another $500,000 from the signage envelope. On the expense side of the equation, in exchange for us setting aside 30% of the residential units as affordable, we received a 35 year tax abatement which makes the Affordable New York program feasible for both the City and Developers. Our unlevered and levered cash on cash yields come in at 6.1% and 14.2% respectively, both incredibly strong in a very tight residential rental development market.
I want to close by saying how proud I am by what we created here. First because it represents the true SL Green mantra of off-market acquisitions, agnostically navigating to the highest and best use for a deal whatever that might be, and delivering market leading returns. Secondly, I've lived in Lower Manhattan for the last ten years. I witness every day its vibrant growth and 185 Broadway will mark a new milestone in its extraordinary future. We are proud to deliver the first Affordable New York Project in Lower Manhattan.

(OVA Stack Chart)

Hi, I'm Steve Durels, executive vice president and director of leasing.

Well, the numbers are in and they speak for themselves. Three new leases and one lease expansion signed within the past two weeks covering 228,778 sq. ft. on top of three other leases signed earlier this year covering 335,451 sq. ft. raises One Vanderbilt's pre-construction completion lease-up to 52%. We're way ahead on business plan and excited by all of the tenant enthusiasm for the building.

Additionally, we're actively trading proposals with five tenants covering over 164,000 sq. ft. and, before the end of this month, we're expecting to receive three more proposals covering 167,000 sq. ft. Although it's unlikely we'll convert all of these proposals into leases, since several of the tenants are vying for the same floors, this flood of activity confirms the strength of tenant demand for best-in-class, well located, new construction.

New tenant leases signed this year include the law firms Greenberg Traurig for 134,000 sq. ft. and McDermott, Will & Emery for 116,000 sq. ft. Each of these two firms where seeking a building where they could make a big statement in order to enhance their employee recruitment and retention.

TD Securities inked a lease last week for 119,000 sq. ft. for 2 ½ podium floors where they'll operate their trading business. One Vanderbilt’s 18’, column free floors with state-of-the-art infrastructure provides TD Securities with a platform that could not be replicated elsewhere in midtown.

We signed the Carlyle Group to 95,000 sq. ft. on three floors. As one of the financial industries premier private equity firms, it was a tremendous endorsement of One Vanderbilt and has led to a slew of other high-end financial firms to consider the building.

MFA Financial just leased 30,000 sq. ft. on the 48th floor. This residential REIT is relocating off Park Avenue onto a floor with jaw dropping views.

Additionally, SL Green has signed a lease to relocate our corporate headquarters into 70,000 sq. ft. on the 27th and 28th floors. Now, this one was a personal relief, given that with all of the leasing activity we had twice been boxed out by other tenants and I was rapidly running out of space on right sized floors. The last thing I needed was to tell Marc and Andrew that after 15 years of work on the building they wouldn't be able to move our headquarters into the company's signature property. We literally grabbed the last two remaining floors in the bottom half of the tower.

Lastly, we signed a lease to partner with Daniel Boloud to build and operate a 15,000 sq. ft. new restaurant. This will be Daniel's second signature restaurant in New York City and we're wildly enthusiastic about the restaurant design which will provide an unexpected dining experience in a soaring room while also maintaining a warm and intimate feel.

It's important to note that TD, Greenberg and McDermott are all expected to lease significant amounts of additional space within the surrounding SL Green portfolio for support personnel. In the case of TD, the amount will likely be 100,000 sq. ft. or more.

Pending leases and active proposals are all with tenants within the financial industry. With each passing day as the building rises higher into the sky we see more and more tenant demand for what is a one-of-a-kind building at the most commuter convenient location in Manhattan.
Good morning. I’m Rob Schiffer, Managing Director in the Investments Group and Project Executive for One Vanderbilt. Steve walked you through the leasing progress we have made at OVA and Ed summarized the heroic efforts of his team to bring the project ahead of schedule and under budget.

Let me bring it all together by rolling forward our underwriting from 2016 and let me say the numbers look good. The anticipated cost to complete the project is lower, stabilized NOI is on target, and the upsize and modification we announced this morning has increased our and our partners returns.

Let’s start with the modification and upsize. This unanticipated opportunity arose out of our structured finance platform where we saw senior loan spreads compress and senior lenders stretch loan to cost and loan to value metrics. We approached the co-leads and found broad support for the modification. In fact, we're oversold on the upsize and not one of the existing lenders has chosen to exit.

The 75 basis point spread reduction results in savings of approximately $22 million over the projected term of the construction loan.

The upsize reduces SL Green’s equity committed to the project by $177mm. And therefore we only have 98 million dollars left to fund and no further equity commitment to the project beyond March 2019. These achievements have increased our unwritten IRR by 30 BSP, from 11.8 percent to 12.1 percent which enable us as Mark mentioned earlier to seek addition third party equity partners and further reduce our equity stack to approximately 800 million dollars while generating additional fees and promote dollars and all while retaining a majority of 51 percent interest.

Rolling the pro-forma forward, I’ll bring up this slide we presented at cities 2017 CEO conference. On the left is our 2016 based case underwriting, one the right is the same underwriting but with a conservative view of office reps. The resulting net operating income range was from 198 million in the base case to 175 million in the conservative case. With cash on cost yields at 7.1 and 6.3 percent respectfully.

As we roll forward to today, we're happy to report that unlike Scott Norwood wide right super bowl kick against my NY Football Giants, we've split the uprights. Sorry Andrew.

Executed leases blend to $123 per square foot. And we're underwriting 70 per square foot for the remaining vacancy in the tower our best space resulting in a weighted average rental rate of $147 per square foot. 5 percent off of 2016's estimated 155. While we can't yet unveil what we have instore for the observation experience, we have increased unwriting net rank to 42 million to 46 million as a result of restructuring the base and percentage rent to optimize for tax efficiency.

Operating expenses and real estate taxes are basically flat, resulting in re-underwritten stabilized net operating income of $191 million. Deducting our projected project cost savings of $50 million, our development budget net of JV fees and discretionary owner contingencies is now $3.122 billion, and our new target Stabilized Cash on Cost is 7.0%.

A project of this scale is hard to estimate and underwrite. Hitting the left goal post would be heroic but we're aiming for wide left.

[End of Presentation]

Unidentified Company Representative

We will now break for intermission. The program will resume in 15 minutes.

(Break)
Unidentified Company Representative

Ladies and gentlemen, please make your way back to your seats. Thank you.

Ladies and gentlemen, please make your way back to your seats. The program is going to continue.

Unidentified Company Representative

Ladies and gentlemen, please welcome back Marc Holliday.

Marc Holliday  SL Green Realty Corp. - CEO & Director

Okay. So I wish it were that easy. I'm going to have to go find that time traveler with that magic crank and see if we can get it done in about 90 seconds, which otherwise might take us about 4 years to accomplish. But in the end, the result would be the same. That project is going to be magnificent.

So our next presentation is one of the most exciting parts of today's show, an extraordinary new development of One Madison Avenue, what will become the premier office building in Midtown South. We've been waiting for this moment for nearly 15 years, ever since we acquired this perfectly located asset. Over the years, we've developed many plans for this site, and now with Crédit Suisse's lease coming due in about 24 months, we have the ability to execute on an extraordinary vision for the property that will be truly amazing and perfect for today's markets and today's tenancy.

Timing couldn't be better for us as we prepared to put One Vanderbilt into service in 2020, and we'll be able to roll into One Madison, focus that team's efforts on this new project that are future seeds of growth that will come on the heels of One Vanderbilt. The timing couldn't be more perfect, and we brought that team back together. KPF has prepared a designed that is really truly spectacular. You've got a little glimpse of it. There is some harmony between the sort of historic podium that's gone through many transitions over the time as you can see on the screen. The building was, at one point in time, the tallest building in Manhattan, I think, for a day or a week. But now we'll have the opportunity to reimagine that portfolio with a 0.5 million square foot new tower, a kind of perfect space that will sit on top and be one-of-a-kind in Midtown South area.

So with that, let me introduce New York's #1 leasing talent, Steve Durels.

Steven M. Durels  SL Green Realty Corp. - Executive VP & Director of Leasing & Real Property

All right. Well, as the cranker showed us, we've got a big plan for One Madison Avenue. And what I'm going to share with you today is the presentation that we have shown 7 or 8 tenants to date. We're only in early days of beginning to market the project, and already we've got several expressions of interest. One Madison sits at the single best block in the single best submarket in Manhattan. Bound by 23rd and 24th Streets, Park Avenue South and Madison Avenue directly across the street from Madison Square Park, it is the single best location. We sit on top of a subway. We're directly across the street from SL Green's Eleven Madison Avenue. We're 1.2 million square feet today and a 12-story building. And as Marc mentioned, we bought the building almost 15 years ago knowing at that point in time it's a true diamond in the rough. And we couldn't wait to get to the point where we'd be redeveloping it.

Since the original acquisition, we've put together a campus of almost 4 million square feet, combining Eleven Madison Avenue and 304 Park Avenue South all within 1 block radius of one another. And as good as these buildings are, they still have an opportunity for further improvement. One of our big advantages though, when you really think about One Madison relative to other buildings in the Midtown South submarket, is its size. Midtown South suffers from a lack of large buildings. Most of the buildings have poor infrastructure. Most of them haven't been heavily renovated. One Madison, on the other hand, has true, great attributes of transportation, large floorplates, good slab heights.

The neighborhood that immediately surround us, we're across the street from Madison Square Park. Eataly, the world-famous Eataly, is directly on the other side of the park. Shake Shack is in the middle of the park. Eleven Madison Park is the #1 -- #3 restaurant in the world right across the street from us. And we share the block with the Edition Hotel, Ian Schrager's high-design hotel. And our corporate members are some of the best in the world. Sony and Crédit Suisse are in Eleven Madison Avenue. Luxury goods retailer Tiffany is across
the block, and international advertising firm Grey Advertising, also 1 block away. And you see some of the other great names on this map that surround the site.

There are 5 key goals as part of the redevelopment: one, starting with the engagement of Madison Square Park; generating value through adaptive reuse; building efficient column-free floors; and delivering 21st century infrastructure; together with some great indoor/outdoor spaces, that I'm going to show you momentarily.

And as Marc mentioned, we're going to keep the band together. We've got the same development team from One Vanderbilt that will be assigned to One Madison Avenue. So as the construction at One Vanderbilt is wrapping up at the end of 2020, the new construction at One Madison will begin in 2021. The same players inside SL Green are leading a design a team of KPF, Gensler and our design -- our development consultant, Hines, and a best-in-class team of professionals beneath them and cranker, of course, being the newest member of the team. Design features over the reimagined One Madison Avenue include: multiple rooftop terraces; 16 new tower floors comprised of 2 garden floors with massive outdoor areas; new glazed infill curtain wall replacing the existing punched windows; new storefronts; demoing the upper 4 floors of about 170,000 square feet; and then constructing a new glass tower of 470,000 square feet. The result is an extraordinary blend of new and old. It's -- we're design sensitive to the landmark of the clock tower, yet we fit within the context of the neighborhood. And we bring 21st century excitement to the work place. When you look at this rendering on the Park Avenue side of the building, you see 23rd Street to the bottom of the image, Park Avenue South on the right-hand side, Grand Central Terminal at the northern portion of the roadway and then the park, Madison Square Park, off to the left-hand side. But you really start to see how the 2 sides -- 2 portions of the building come together, the limestone base of the building and the new glass tower above and, in between, 2 very special floors. At the corner of the building of 23rd and Park Avenue South is No. 6 Subway. We're one stop away from Grand Central Terminal. And when you look at the redeveloped building up close in the podium, you start to understand when I talked about the glass infill, no longer do you see any punched windows. It's floor-to-ceiling glass, so it's a vertical infill of new glazing top to bottom, in the limestone base. Part of that is also a new glass facade above the Madison Avenue entrance. So you see that glass area right above the building's new front door. That glass facade creates the architectural thread connecting the limestone part of the building to the new glass tower.

And then on the lobby side of the building, you see 23rd Street retail of almost 26,000 square feet, the area on this plan in pink, the building's new lobby, which stretches from Madison Avenue to Park Avenue South. We're double widening the Madison Avenue side to really emphasize that being the front door of One Madison Avenue. You see the new core that's been designed, including 22 new elevators.

Important to understand that in order to redevelop this building, we're literally demolishing the entire core of building. All of the elevators, all of the infrastructure, all of the shafts come out. There'll be a 20,000-foot hole in the middle of the building when we're done. And what goes back in that is this brand-new core with 22 elevators and all new infrastructure, retaining a couple of key components though. One is the VIP entrance off to the 24th Street side of the building, which is the perfect place for black car dropoff for our tenants, and in the area in orange is an 800-person auditorium.

We learned from One Vanderbilt that tenants starving for large-format office -- meeting space. If you recall on our amenity floor at One Vanderbilt, we have some very large meeting rooms. That's been an important part of our leasing efforts to draw the tenants into the building. So in this case, we have an 800-person auditorium, double-height space, column-free, that we think tenants will use it for their holiday parties, for their town hall meetings, for the large-format presentations and maybe even TED Talks as you see off on the side screen.

Probably the most unique feature of the building though are the multiple roof terraces. In fact, we have over an acre of outdoor space, creating a virtual park in the sky overlooking Madison Square Park. The tenth floor is our first garden floor. Now this is a double-height space with 28,000 square feet of indoor area complemented by a 31,000 square feet of outdoor space. The 11th floor, equally special, 24,000-square foot floor with almost 3,000 square feet of wraparound terrace. And at the top of the building, we have an 8,000-square foot roof deck served by 4 new elevators accessing all of the floors in the building. The architectural drama really starts at the connectivity between the limestone podium of the building and the 10th and 11th floors, which are essentially tremendous, unique -- specialty floors with a massive amount of outdoor area.
In this image, you see the new glazing in the base of the building. You see the new facade above the Madison Avenue entrance, as I mentioned earlier, connects that thread to the upper and lower portions. And then the 10th and 11th floors, which are essentially a sculpted connection between the old building and the new building. And when you get a little bit closer to the -- those specialty floors, there is nothing like this anywhere in New York City. These are each 22-foot slab height floors, column-free with the big outdoor spaces that you see in the imagery. And when you're standing on one of those floors, in this case the 10th floor, you can imagine what it's like to be in this lushly landscaped outdoor area, big, high-ceiling space on the interior, great gathering space for employees during the day or in the evening, used by clients for their -- for entertaining. And when you step inside, equally special. Soaring ceilings, column-free, perimeter trusses, which create architectural interest. These floors, no doubt, will be the amenity spaces for a large anchor tenant, conference centers, cafeterias, town hall spaces, the true heart beat for a large footprint tenant.

On stack plan, we're 92,000 square feet on average for the bottom 8 floors, the 2 specialty floors that are 24,000 to 27,000 square feet and the new construction above that are approximately 35,000 square feet with 14-foot slabs and 10-foot finished ceilings. The base floors of the building, the original building that will be able retained, this is the product that does not exist in Midtown South, large floors, 12-foot slabs, an opportunity for high-density occupancy. In this case, you'd see laid out for a TAMI type of a tenant. And it's the creative vibe that all these tenants are looking for. Whether they are media firms or technology firms or even technology -- or even financial firms, everybody in this part of town is looking for that cool, creative space, open plan, likely no finished ceilings, everything will be exposed and taking advantage of the new large windows that are being installed. And take out a couple of floors of slab, and you create a real steepened space on these big floors as you see on this imagery.

The tower floors, equally a one-of-a-kind. These are the single best side core design floors I've seen in the market, 35,000 square feet each, 60-foot dimension from the core to the perimeter, 5-foot mullions around the side with an occupancy capability of 1 person to 175 square feet, ideal for open plan but also works well for an office-intensive layout as well. I think these tenants go to financial firms, large-scale technology firms, international headquarters businesses. Again, this is a product that you cannot find south of 34th Street, new construction married with interesting architecture at the base and a neighborhood that has all of the elements of the work-live-play the tenants are looking for.

When you stand on these floors, you start to appreciate what that, like One Vanderbilt, brings to the modern workplace, high ceilings, continuous ribbon of glass around the perimeter, great amount of natural daylight flooding the space. And on these floors, maybe the most unique view in the whole building is looking directly across to the clock tower, where you feel you can almost touch the clock. So cranker's work is done. Ours is just beginning. And when One Madison Avenue is complete, it will change Midtown South truly the way One Vanderbilt has already changed Grand Central Terminal in the Midtown market.

And with that, I'd like to turn it over to Matt DiLiberto here to give you his annual entertainment.

Matthew J. DiLiberto | SL Green Realty Corp. - CFO

Thank you, Steve. Thanks, everybody, for attending and get me live. I was asked at the break whether I want to be taped but no face. Face is made for radio. Voice is made for newsprint, and I have to present live.

Before we get into the financial portion, we actually wanted to spend a little bit of time on our ESG initiatives. It's an area that's gotten a lot of focus. You have materials on our actual -- our sustainability reports on your table in front of you. We're hearing about it in the investor community a lot, almost in all of our meetings. It's an area where we've been focused for a very, very long time. Actually before, it was in vogue to do this, so we thought it was the perfect opportunity to show off a little bit. We have one of the most impressive records in this sector when it comes to ESG. So who should present this? Well, saw him earlier. He was on a mere 40-block detour on his morning jog to One Vanderbilt. 40 blocks is 2 miles, by the way. He is our tireless COO, needs no introduction. If you want it, want to hear it, he would have somebody script it. Then he would review it, then he would edit it. Then he review it again, then he give it to me. But I didn't allow him to do that. I came up with my own. He defies all medical research that said sleep is required, tireless part human, part cyborg, Ed Piccinich.
I'm Ed Piccinich. I'm the Chief Operating Officer at SL Green. I also oversee our ESG program and treat it with the same level of rigor and innovation that I put into every area I'm responsible for.

Over the past 20 years, we've developed a management strategy that addresses ESG indicators that measure our nonfinancial performance in environmental sustainability and social responsibility.

Environmental sustainability has been at the forefront of our building operations for years. In an area brimming with new technology, we've capitalized on energy saving opportunities by investing over $60 million in efficiency projects over the past decade. We're applying these years of experience to our premier development at One Vanderbilt.

There are many features that make One Vanderbilt unique, but one of the most innovative is our 1.2-megawatt cogeneration plant. Picture a building that can independently produce its own electricity rather than further straining the New York City grid. But we're taking it a step further. We're trapping waste heat to power up a 250-ton absorption chiller to generate cold water in the summer and to preheat domestic water in the winter.

The best industry measurement of sustainability performance is LEED. Back in 2009, we were among the first owners in New York City to adopt the U.S. Green Building Council's LEED standard at 100 Park. Our current portfolio includes 20 LEED-certified buildings. We consider this to be a huge accomplishment because LEED is becoming increasingly difficult to achieve.

As the workplace evolve with new technology, tenants are consuming more energy, so we need to respond with operational resourcefulness to offset the growing demand. We strongly encourage a partnership with our tenants on environmental initiatives to help them achieve their sustainability goals. At 420 Lexington, we provided CohnReznick with a comprehensive energy analysis and helped them to identify savings opportunities. At 220 East 42nd Street, we helped UN Women achieve LEED commercial interior certification in their office space during their renovation.

This type of collaboration with our tenants is the cornerstone of SL Green's sustainability program and is essential in helping us achieve the mayor's citywide carbon reduction goal known as 80 x 50.

We're the biggest commercial office owner in the city, so we've got a lot of skin in the game. When 80 x 50 was introduced, we partnered with the Mayor's Office of Sustainability and continue to sit on the technical working group as the legislation is being crafted. I personally sat on the board of Urban Green Council, the organization that was responsible for aiding City Council in developing new legislation. I was there to represent the interest of owners and reinforce our position on balancing environmental goals with financial performance.

Our focus on environmental sustainability is only part of the picture. We have an equally important social responsibility. At SL Green, our employees are our greatest assets. Our ESG team led by Laura Vulaj and Evin Epstein and Lynne-Courtney Hodges is representative of the entire firm with diverse culture, background and areas of expertise to ensure we're capturing the priorities of all of our employees. We value the feedback of our employees, and our goal is to introduce meaningful improvements to their work experience.

We may not offer [beer or cakes] at breakfast, and we may never, but we recognize that this innovative approach to the workplace is the way of the future. And we're adapting. Give us a chance. The real estate world may never be akin to Silicon Valley, and I don't know when napping pods will ever reach our offices. But Marc, Andrew and I, we're changing. We're changing with the times. We're bringing a focus on total wellness to our employees and to our tenants.

This year, we proudly introduce Living Green. It's a fully amenitized tenant space within our building. We coordinate premier experiences including yoga, meditation, massages, professional development seminars and even ping-pong tournaments. We developed a custom app which lets users book rooms, sign up for classes and even control the music and lighting in the Living Green space. We're confident that this will be a great retention tool for our portfolio. Living Green is creating a workplace culture that promotes community, productivity and health.
But bigger than our employees and bigger than our tenants is our community. Philanthropy is at the heart of SL Green's ESG efforts. So we coordinate volunteer opportunities for our employees and our tenants. Together, we participated in over 150 community events that touched and inspired over 150,000 New Yorkers. In addition to our community engagement, SL Green made charitable contributions to over 100 different organizations in 2018.

We are focused on SL Green's commitment to corporate citizenship now more than ever. Our reputation for integrity is the backbone of the public's faith and trust in our company.

As a thought leader in ESG, we continue to devote more time, effort, focus and resources because we understand its importance. We want all stakeholders to feel not only is SL Green the highest-performing real estate company in New York City, but it's also keeping ESG at the forefront of its business strategy.

Matthew J. DiLiberto  
SL Green Realty Corp.- CFO

Thank you, Ed. Certainly an impressive group, impressive record, second to none really. And look, I mess with Ed pretty much every year. He's a fellow firefighter, so we have a little bit of a bond. I don't know if people are aware of that, among his thousands other responsibilities. But we have a little bit of a bond there, so if we're in the firehouse, it'd be probably not as clean.

But in any case, kicking off the financial portion of the day, looking backwards, then a little look forward on our credit profile.

Starting with some highlights from 2018. We maintained a fortress balance sheet again this past year while executing on a business plan that if not done responsibly could impair a balance sheet of even one of our size. Focused every day on leverage. We again met our leverage target, keeping consolidated debt-to-EBITDA at or below 7x on Fitch's math for the entirety of the year. We increased our unencumbered asset base by over $1 billion in just 2 assets, including the recently announced repayment of the mortgage on One Madison, while keeping a substantial amount of liquidity on hand well north of our $1 billion target.

On the financing side, we returned to the bond market with a rather unique offering and executed a very attractive refinancing of a construction facility at One Vanderbilt. And as Marc highlighted, we've sold an enormous amount of assets, generating $1.5 billion of proceeds, not only used for share repurchases but also for debt reduction and investment in our real estate assets.

Looking ahead to some of the things we're working on in the coming year, for those of you that read the Reckson Operating Partnership SEC filings at Christmas time, bless you to do that. We're going to deregister this entity. We've had it in place since 2007. We're going to simplify the overall organizational structure. Sorry to disappoint you. We're going to sell $1 billion of assets minimally, generating hundreds of millions of dollars proceeds and allowing us to increase our liquidity this coming year by at least $500 million. Separate from those sales, we're going to look to bring in additional joint venture partners in properties like One Vanderbilt and One Madison that will help build liquidity for redeployment and enhance the returns on our retained positions. And in line with the last several years, we'll look to unencumber additional assets to replenish the pool. And ideally, we'll grow that. I certainly do see the potential for us to get back into the bond markets again. It's a market we like, and we've certainly set ourselves up to return.

So diving a bit deeper in some of these areas and bringing back one of the most impactful analyses of leverage that I think we ever put out. Professor Holliday came up with this a few years ago. It's the great debate as to whether debt-to-EBITDA is the best measure of leverage. Certainly the easy math for everybody in the room, but is it the most appropriate measure of leverage for companies operating in a low cap rate environment? These are 2 companies here, 1 with debt-to-EBITDA of 7x, 1 with debt-to-EBITDA of 5x. Very different markets, very different asset values as indicated by the cap rates. And in New York City market that has a 4.5 cap, the same $1 billion of EBITDA is worth substantially more than a lesser-quality market that has a 7 cap. As such, a company with seemingly higher leverage on the simple math debt-to-EBITDA in reality is more highly levered on an LTV basis and therefore, at greater risk if asset values go lower. And this is only looking at assets that generate EBITDA. There are plenty of assets that don't generate EBITDA like development properties. Do those assets have no value? No, that's what debt-to-EBITDA would tell you.

So we look at LTV, a far more appropriate measure for real estate, in addition to debt-to-EBITDA. This is how we stack up on both.
measures over the last 5 years. While the reduction in debt-to-EBITDA is dramatic since 2015, I want to focus on the fact that our consolidated debt-to-EBITDA is actually lower since our stock buyback program was announced in middle of 2016. Maintaining debt-to-EBITDA at or below 7x is very challenging when you're selling EBITDA and triggering the equity base because that calculation doesn't capture the NAV accretion you get from selling your assets at market and buying the equity cheap.

While debt-to-EBITDA is trending up slightly in 2019, that's not driven by the share repurchase program at all. It's exclusively the result of funding projects that don't generate EBITDA, like One Vanderbilt and the redevelopment project at 460 West 34th Street, which for accounting purposes, will be a consolidated joint venture. Focusing on LTV, using the NAV of a certain West Coast research firm, probably here, that has a sell rating on the stock, so conservative, we continue to be virtually dead flat to where we were 5 years ago at 43% to 44%. That's in an LTV basis, while the rest of the New York City REIT peer set, particularly the 2 largest, have actually been materially increasing their leverage, their LTV over that same period of time. I'm confident in saying, obviously, if you use our NAV, our LTV would be even lower. An LTV in the low 40s provides an extraordinary amount of equity cushion particularly for a company that is operating in a market that has some of the most resilient asset values in the world.

Now given the negative impact of debt-to-EBITDA on debt-to-EBITDA of projects like One Vanderbilt or 460 that don't generate EBITDA, we think it's relevant to look at what that metric would be excluding just those 2 projects. Not surprisingly, it drops dramatically lower and indicates that leverage on the rest of the portfolio is actually coming down on a consolidated basis. It is up only slightly on a combined basis. Does this mean we shouldn't do One Vanderbilt or 460? I don't think everybody here would say that. It just means that the view of SL Green being highly levered based on a leverage metric that clearly has flaws is completely inappropriate.

We continue to believe that we are prudently levered, both on a stand-alone basis and relative to our peers, and we're going to remain vigilant in managing our leverage at these levels, as we move ahead with our business plan.

With regard to our unencumbered asset base, because we hold most of our wholly owned assets unlevered, looking for efficient debt to repay in order to replenish or increase our unencumbered asset base can be challenging. This past year, we elected to repay $727 million of debt and unencumbered 2 assets with value of about $1.25 billion. Now that's just book value. Obviously, real asset value is much higher than that.

The mortgage at 220 East 42nd Street was freely prepayable, and we targeted repaying that in our original guidance. In the case of One Madison, we had excess liquidity from asset sales and felt strongly that incurring a $14 million charge to relieve the company and the property of this debt was extremely beneficial. That charge is going to run through the fourth quarter FFO and was the cause of our FFO guidance revision this morning to 2018. Moving into 2019, we'll continue to look for more debt to repay to manage the unencumbered asset base.

We stated in the past that we believe the company of our size should have at least $1 billion of liquidity on hand at all times, both for the safety and security it provides and to allow us to be opportunistic. Over the last 4 years, that trend has actually been closer to $2 billion, even while investing very accretively into our stock and our real estate portfolio. Having excess liquidity also allows us to execute on things like the strategic debt repayment at One Madison, which drove our near term liquidity lower, but you actually see it building back up in 2019 by almost $700 million.

How we're building it back up, and Marc touched on some of these earlier. On the sources side, operating cash flow and potential asset dispositions combined to generate over $1.4 billion alone. Supplementing those sources is the use of targeted secured debt and construction facilities to fund the major projects like One Vanderbilt and One Madison, And finally, we expect an overall reduction in the size of our debt book by just over $100 million.

On the uses side, our operating cash flow will fund our new dividend of $3.40 a share as well as second cycle capital and debt amortization. Then we use the proceeds from our construction facilities to fund development and redevelopment, leaving all of the proceeds from asset dispositions for new investments, including share repurchases as well as to replenish our stockpile of liquidity.

With regard to the bond market, we continue to see bonds, public bonds, as an attractive source of capital and the support that we're
getting in the fixed income community is continuing to grow. See a return to the bond market with a rather unique offering, particularly for a REIT, driven by our desire to maintain maximum flexibility in the capital structure as well as the significant reverse inquiry resulting from a real lack of short-duration paper in the markets. Deal was very well received and gives us another opportunity to return to the bond markets again in 2019, as we ultimately look forward to achieving our serial issuer status.

In concluding the discussion of our credit -- of our credit profile with our debt maturities, heading into 2019, we have virtually nothing to attend to. Obviously, very proud of that. As always, we'll strive to extend this maturity profile out where we can. We need to do it efficiently of course. Another bond deal in 2019 can do that, or we can start knocking off some 2020 and 2021 maturities, attending to those maturities early like we do with our lease expirations.

Looking more specifically at some of the most significant maturities over the next 3 years, the first one in the list could very easily be attended to if we elect to sell 521 Fifth. If not, we'll simply refinance it. Looking further out, all you really see are the 7 3/4% bonds in 2020 and the full duration of our recently issued notes in 2021. I wouldn't be surprised if we took care of the one or both of those early, and after that, we have a handful of things that we can address, likely refinance.

Now moving into guidance. And I have to -- the one thing we should have viewed ahead of time, I have to make a statement from the attorneys. As I go through this, I maybe using some non-GAAP financial measures, so you should look to our SEC filings, including the 8-K filed this morning for any comparable GAAP financial measures and required reconciliations.

Okay. First, we're going to take a quick look back at 2018. Recall we started the year at a guidance midpoint of $6.70. Then increased that to a midpoint of $6.75 in January and notwithstanding an incredible amount of activity that we executed during the year, we expect to be right on top of that $6.75, before we take that elective noncash charge that I'm going to layer on in a second. An NOI shortfall, primarily driven by asset sales, is more than offset by accretive share repurchases as well as outperformance in the debt book and incremental other income. On the expense side, certainly worth noting that we expect to outperform on the G&A side by almost $7 million. Now we layer in the $0.15 prepayment penalty for One Madison, and you get to the new midpoint of our guidance range of $6.60 for 2018.

Now let's move ahead to 2019 and set the stage for our projected weighted-average diluted share count. As you've heard, if current market conditions persist, you should expect to see us complete what's left of our $2 billion previous share repurchase authorization and utilize a portion of the additional $500 million of authorization this coming year. How much, when, at what price, depending on the timing of our asset sales as well as the share price, of course. But based on our current assumptions, I would expect to see our diluted share count decrease by about 6 million shares next year, contributing to a reduction in our equity base of over 17% in just 2 years. In the real estate portfolio, GAAP NOI is projected to be just short of $860 million. In the retained portfolio, there are meaningful pickups in NOI of properties that have been in lease-up or are coming out of redevelopment, partially offset by a couple of properties where we have known lease expirations.

Extraordinary amount of credit to Ed, his Head of Operations, Meghann Gill, entire team on the expense side. Operating expense is projected to increase by only 1% again in 2019. Truly remarkable cost containment, and that small increase is primarily due to labor laws that increased the minimum wage as well as other adjustments related to collective bargaining agreements, which are outside of our team's control.

While in real estate taxes unfortunately, it's another here-we-go again year, going up 5.1%, unfortunately consistent with gross -- growth rates in recent years.

Turning to the components of that real estate NOI. $753 million of GAAP NOI Manhattan reflects the impact of selling all or a portion of 5 assets, while obtaining just 1, 2 Herald, at the recently unencumbered 220 East 42nd Street VNS is in the old omnicomp space for the full year, and the property ended the the year at 99.2% occupancy, driving an increase of about $12 million in NOI. At 45 Lex, re-leasing of the vacated city space has taken a bit longer than we expected, but we plan to be done in 2019. So NOI is up over $8 million this coming year, with more runway in 2020. And finally, the redevelopment of 10 East 53rd was a spectacular success and 2019 sees that asset fully stabilized.
On the other side of the coin, as every year, we have ordinary-course expirations, some of which have already been attended to. At 1185 Avenue of the Americas, 83,000 of the 165,000 square feet that RSM McGladrey vacated this past July has already been preleased. While at the 100 Park, JW settlement expires in January of about 100,00 feet, as we move them to another property in the portfolio.

In the suburbs, after selling more Suburban assets this year, only a handful have remained for some portion of 2019, as they are either -- the remainders are either all out to market or will be in short order. All told, we enjoyed a great deal of success with this portfolio since we acquired in 2007. It always wildly outperformed the markets, some will say, they operated, generated a lot of free cash flow and recently, served the repurchase program very well by generating cash proceeds and tax protection. Portfolio that currently runs that team is truly second to none.

In the high street retail portfolio, GAAP NOI of $55 million is up by $13 million or a whopping 32% and that portfolio is now 99% occupied, credit to Brett and his retail team. This is driven in part by the recently leasing of 1552 Broadway. That was really only vacancy we had left, as we held that space off of the market. Of particular note, both Nike at 650 Fifth and Condé at 719 Seventh, both of which just opened, will be an occupancy for all of 2019. And for those of you who hadn't had the opportunity to go yet to 650 Fifth to the Nike store, I highly encourage you to do it. It's a standout global flagship among flagsips on Fifth Avenue.

And in the residential portfolio, we expect GAAP NOI to increase by over $2 million. This is inclusive of the fantastic success we've seen at Sky at 605 West 42nd Street. In 2019, that's a fully stabilized project in joint Olivia as our trophy residential holdings.

Just a little housekeeping, these are the properties that are being added to the same-store pool in 2019. That happens on January 1. Notable, 1515 Broadway, back in the same-store pool, as it's been an unconsolidated JV property for the entire year. That doesn't seem significant, but I'm going to show you in a second how significant it is. Along with 1515 Worldwide Plaza and Tower 46 come onboard. So what does this all mean for the same-store NOI growth, and I'm going to do this in 2 ways. What you see here is how we expect to report same-store GAAP and cash NOI during 2019. I know jumping off the page is the big red down arrow on the cash side. This is specifically driven by $65 million of free rent that Viacom is entitled to receive in 2019, $37 million of which is our share. That was part of their long-term lease done back in 2012. Obviously, that's a matter of timing, not an indication of the performance of the rest of the portfolio. So I'm going to adjust for that, and excluding 1515's free rent, we expect 2% to 3% same-store cash NOI growth and roughly the same on the GAAP side. That's consistent with, if not slightly ahead, of our expectations and consistent with historical trends, coming off of a year, where we saw a 5% same-store NOI growth and sold several same-some properties like 3 Columbus. On the positive side, as I highlighted earlier, the lease-up of 220 East 42nd Street and 45 Lex are big contributors, while the burn-off of free rent at 10 East 53rd increases cash NOI there by about $3 million. Offsetting these pickups are lease expirations at 1185 and 100 Park that I touched on.

In our debt and preferred equity portfolio, I said earlier, expect the balance to decrease in 2019 by over $100 million, and that's after giving consideration to $145 million of future funding on our existing investments. Repayments, we expect -- or sales, for that matter, will offset our expected new originations. Recognize, this reduction is not a statement on the market or the attractiveness of the business. We're simply acknowledging that we have to think about the size of this portfolio relative to the overall size of the company, and we are a smaller company.

Consistent with past years, we have projected an 8.375% yield. On the speculative originations, that has proven to be a pretty conservative assumption.

All right, moving to other income, and I'm going to apologize in advance to those -- I think there's one analyst in particular who don't like to see us generate these incremental fees. We do expect other income to go up in 2019, driven in large part by increased fees from new and existing joint ventures, including the additional joint venture interest in One Vanderbilt and a JV partner in One Madison. JV fees totaling $34 million net of costs across all of our ventures reward us for our best-in-class operating and leasing platforms and provides us a much higher yield on our smaller equity investment in these projects. In addition to the fees, we have layered in an expectation of promote income of $5 million to $10 million. It's certainly nice to see that income stream come back in. And lease termination income is $12 million, a little higher than our average of $8 million over time, but that's reflective of ongoing discussions with 1 tenant for a significant portion of that amount.
In interest expense, while rates are rising, our overall debt load is lower, and we have either repaid or refinanced some pretty expensive debt over the last several years, thus mitigating the increase to just $12 million. The cause of this increase is really LIBOR, inclusive of the 50 basis point cushion that we use on top of the forward curve for forecasting purposes, average LIBOR of 3.39% is a 125 basis points higher than it was this past year. That said, we have a very measured approach to our use of floating rate debt. We managed the fixed floating composition to a very specific level based on our business and have a proven track record of targeted use of swaps and caps. Those are outlined in our SEC filings as well as the natural hedge that Andrew highlighted, provided by our debt and preferred equity portfolio. Just one recent example of our use of derivatives. We've executed a cap on LIBOR for the entire new OVA facility. Exclusively using fixed-rate debt in our business, we believe, is not only inefficient, we can also impair our ability to recap or sell some of these assets.

Netted against interest expense at $67 million of capitalized interest across these development or redevelopment properties, on the right-hand side, you see 460 West 34th Street, the redevelopment kicks off after we close on the acquisition in the second quarter, and that's going to be capitalized for a partial year. What you don't see here is One Madison. That will clearly be a large redevelopment but the redevelopment does not commence until CS vacates, which will not be in 2019.

And finally, on to G&A. And I've done this very specifically to exclude the new lease accounting for internal leasing costs because otherwise, it's going to mask a very important trend in our G&A. The plans we're executing to drive shareholder value are very time-consuming and complicated, involving all disciplines of the firm, but we continue to do more with less. So after reductions in G&A, both 2017 and 2018, we're going to reduce G&A again in 2019 by about $1.2 million or 1.3%. In part, this reduction comes via restructured executive employment agreements, the decrease to guaranteed amounts and increase components that require specific performance to receive awards. This provides greater alignment with the shareholder base as well as reduced overall expense for the company.

Now I'm going to bring the side screens to center, showing a summary of our 2019 FFO guidance. $13 a share of income, offset by just under $6 a share of expenses. In any other year, we'd be more than $7 of FFO. But of course, the accounting for internal leasing costs are changing for no real good reason and Chrysler has precisely 0 impact on the business, but it knocks $0.11 off our FFO, bringing us to our midpoint of $6.90 a share.

Do want to hold, while you guys finish your pictures or are you just -- all right.

So formally announcing our 2019 FFO guidance range, $6.85 to $6.95 a share, published in the SEC filing this morning. An increase over this past year, even while executing on a super tax-efficient business plan that incorporates a credible amount of activity to create shareholder value and drive earnings per share.

Moving on to Fed, some highlights. Reduced G&A expense continues to be primarily noncash at risk to stock-based comp. I have to call out again, the Viacom free rent, $37 million roughly at our share, which actually rivals the impact of the noncash adjustment to rest of the company and second cycle capital of $160 million is down by $40 million over this past year because the core portfolio was well leased.

Now you can take out your binoculars or your phone, whatever, just to take a quick picture of this. It's a summary of some of the more significant assumptions in our 2019 guidance. We're not going to go through this. I put this here for for reference after the conference is over, and I'll just move on to our dividend. As we always conclude with, increased last week to $3.40 a share. The highest per share dividend in our history, bringing the CAGR of our dividend over the last 22 years since IPO to 4.1%. On today's share price -- actually, Friday's share price, $3.40 dividend is a 3.5% dividend yield on a low-leverage, investment-grade, New York City real estate company, almost doesn't seem possible Again, credit to our tax team, the rocket scientists that are back there. This increase takes into consideration all of the activity, investment and dispositions that we have planned for 2019. This keeps up our extraordinary record of executing on billions of dollars of asset dispositions without the need for a special dividend, instead retaining that cash flow for reinvestment.

With that, I conclude the financial portion. I'd like to ask Andrew to put his dress shoes back on and join Marc back up at the podiums here, so we can go through our scorecard for 2018.
Okay. So we're going to try and make up just a little bit of time. We're almost on time, but I'd like to finish up with the scorecard and goals and objectives for next year. I guess we'll start first with how we did in '18.

Remember, we set these goals a year ago. A lot's taken place during the year, starting with leasing. Signed leases turned out to be well in excess of the $1.6 million we had projected, in part due to One Vanderbilt excess leasing, in part due to some of that advanced leasing we talked about for 2019 and '20. So let's see if we can disclose that. So that's a thumbs up with 2.2 million square feet leased as of today, more expected in December because that's only through November. Same-store occupancy nosed out, right at 96%, so we met -- or we have met now and expect to meet by month's end that goal, and office mark-to-market, a little shy at the low end of the guidance range but still, a 6% number. We were happy to end there, just given all the dynamics in the market and hoping for some more growth next year. And, Andrew, you want to take the next couple?

Sure. On the investment side, we had a goal to participate half of the 2 Herald Square equity, as we announced this morning. We closed 49% JV of that asset. Share repurchases of greater than $500 million. This given all the asset sales we were able to achieve, that's a big thumbs up with over $900 million of share repurchases. And then, acquisition and disposition goal specifically, are acquisitions, greater than $250 million with 460 West 34 Street and some of the other development assemblage deals we made. We met that goal. Dispositions of $500 million. Marc showed you, we shot at that goal at $1.3 billion of dispositions. And Suburban dispositions of greater than $100 million, we met that goal almost double in fact, with $193 million of dispositions.

Marc Holliday SL Green Realty Corp. - CEO & Director

All right. Debt and preferred equity is kind of a funny one in terms of how we grade it. How the goal was to keep it flat. We reduced it, I think, by $50 million or so, whereabouts? I don't know if that's a positive or negative because half the people want to see it go up, half want it go down. But the reality is, it's down about $50 million, so we gave this sideways.

Income, we just hurdled the $200 million of income at around $203 million for the year on One Vanderbilt. Steel to the 39th floor, that is tracking well ahead of goal. As you saw, we accelerated the building's projected opening to August 4, 2020. That's partially a function of progress on construction. We're at the 46th construction floor today, which you'll see on the tour today, raised $200 million EB-5 financing. EB-5 market crapped out, so there's -- look like a downward thumb. But then, we closed the debt restructuring that we announced this morning with the bank group and raised proceeds incrementally and got this money a lot cheaper, on a lot better terms than EB-5 would have provided it from our existing bank group, so we'll give ourselves an upward thumb on that one with the $250 million loan upsize.

Leasing, 37% leased by year-end has turned out to be a conservative goal with the announcement of TD Securities, MFA and SL Green lease and an expansion by McDermott Will & Emery, we were able to hit 52%, which we announced this morning. And then, we also laid out there to obtain construction financing for 185 Broadway, we closed that loan, and we can give ourselves thumbs up there with the $225 million loan that'll fund the building that you saw in the presentation.

On financial performance, same-store cash NOI, may recall on prior calls, Matt talked about the fact that there maybe some risk to the downside here, mostly because we were selling mature assets that were contributing to same-store cash NOI, I think 3 Columbus probably being the biggest contributor. So we missed it, and it's 4.7%. But on a same-store basis, I think we would have been closer or in excess, but we missed it. Unencumbered, $300 million of assets. We unencumbered more than that $1.25 billion, I'd say we hurdled that by just a little bit. I guess, that's The News Building -- and...
Andrew W. Mathias  
SL Green Realty Corp. - President & Director

And One Madison, which we did at the end of the year. That was a big boost to the unencumbered asset pool. 7.0 debt to EBITDA or better on a consolidated basis and that's exactly where we will end the year, is at 7.0x. So it's a little bit of a symphony to try and equal all this, ensuring that list of transactions we did, and the press releases and the news items, get it all there and still nail that debt to EBITDA. Kudos to the finance group and Matt for making that happen. S&P Rating upgrade to BBB, didn't quite get there. I guess their time period has been extended beyond this year for consideration. I think they want to see, mostly how One Vanderbilt turns out. I think it's turning out well, but I can understand, from a rating agency perspective, a little more leasing and whatever else, they are going to look at as part of a potential ratings upgrade in the future. Index eligible bonds, Matt already spoke about the fact that we got a $300 million deal of -- $300 million or $350 million, Matt?

Marc Holliday  
SL Green Realty Corp. - CEO & Director

$350 million.

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

$350 million. $350 million deal off, thumbs down, but we're going to turn that up as well because while it wasn't index eligible, it was a $350 million issuance at great terms, and we felt that, that was the sweet spot of the market in which to issue. And lastly, total return. I guess this is a mixed bag this year, so we made some progress on our absolute basis, I showed you the absolute returns earlier, and we were down 2% or something as of Friday. So we clearly didn't meet the first hurdle. But as it relates to the MSCI index, we were a fair bit ahead of that for the office index by 370 basis points. So a mixed bag on a relative basis, we did relatively okay.

All right. And then turning to 2019 goals and objectives. Going through, will populate the categories. So leasing, Manhattan signed office leases. We have about 1.2 million budgeted for 2019. But for good measure, we put another 0.25 million square feet on for 1.5 million square feet of leasing, which would be all of what what we expect to do for the ’19 rolls. And then, a 0.25 million more into ’20 and beyond. Manhattan same-store occupancy, we’re going to try and raise that 20 basis points to 96.2%, very hard to move this needle between 96% and 97% on 30 million feet, but we think we have a path to getting there. And Manhattan offers mark-to-market. We're going to put that at 2% to 4%. There are a couple of big deals out there that, on a relatively small mark-to-market pool, if we make 1 or 2 of them, we could be in excess of that, maybe well in excess of that. But based on our budget right now, it’s 2% to 4%.

Marc Holliday  
SL Green Realty Corp. - CEO & Director

All right. DPE balance for the year, we’re projecting that to decrease about another $75 million based on our current budgets. So a sequential year-over-year, slightly downward trend in the balance, which is consistent with the overall balance sheet of the company. And therefore, investment income on that smaller amount will be about $190 million as compared to a little over $200 million this year. On a relative basis, the income not quite down as much as the portfolio balance, reflecting hopefully, the ability to generate some excess yields in 2019.

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

All right. On the investment side, One Madison, we just like to put in a One Madison-specific goal. We want to close the joint venture for the redevelopment of One Madison, help us fund that project, take some of the funding burden off the REIT’s balance sheet. On share repurchases, $400 million of additional repurchases as well, as Matt said, finish out the existing $2 billion authorization and start moving into the new $500 million that we announced Thursday, now the Friday morning. And then, acquisitions of greater than $250 million. Again, we still want to remain active in this market, and as I showed you earlier, it takes 5 to 10 years in some cases to pull these deals together. So when they ripen, when they come in off market, they're good, we want to take advantage of them. Dispositions greater than $750 million, we're going to continue funding the share buyback program through dispositions in a very receptive capital market. And the suburbs, we hope to sell the remainder of that portfolio, complete the wind-down of the Suburban portfolio.

Marc Holliday  
SL Green Realty Corp. - CEO & Director

All right. On One Vanderbilt, bring in an additional JV partner. So we sit today at -- we have a 27% partner and then a 2% partner, so 29% total JV to the outside world. We're going to take that up to between 44% and 49% this year, as we've sort of proven out the leasing,
Marc Holliday  SL Green Realty Corp. - CEO & Director

we've proven out the construction, and we did this amazing refinancing, recapitalization. So we want to try and bring in an additional partner, try to recognize some of the value we've created there. Topping out steel in December. We're trending ahead, we want to keep the team focused on meeting the August 4, 2020, date. So we're looking to top out the steel superstructure by December. And 65% leased by year-end, we expect Steve to capitalize on some of the great momentum we've had at the end of this year, continue that into next year and start chipping away at those higher floors, those higher rent floors. Smaller 1-floor deals, you likely won't see the 100,000 plus foot deals we've been announced to date, as we get higher up in the building.

Marc Holliday  SL Green Realty Corp. - CEO & Director

Take the next one.

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

And then development, 185 Broadway also. Here, we're going to pour the foundation this year, the site's clear. As Brett and I showed you earlier, the financing is done at sort of capitalized, it's ready to go. We're going to put a shovel on the ground starting January, complete that foundation next year.

Marc Holliday  SL Green Realty Corp. - CEO & Director

So financial performance. Same-store cash NOI. We have 2% or greater than 2%, I should say, so 2 plus. That's excluding the Viacom, I guess, free rent that deferred from when we cut that lease several years ago, 4, 5 years ago. Unsecured bonds, greater than $300 million. So as Matt said, to be a goal of being a serial issuer in the market would have us returning to the market this year for, kind of, a similarly sized on offering. Debt to EBITDA, maybe up just a touch, 7.3x or better. That's really just the impact of more fundings under One Vanderbilt and 460. I think primarily 460, I guess, even to a larger extent. But also, the equity that we're putting into One Vanderbilt, without a commensurate return until those projects are put in service. That makes that makes a drift up a touch. And TRS and MSCI, same goal as last year. Hopefully this time, we can hit both.

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

All right, on the ESG side, we asked the team to come up with some goals for the year. Kind of, included this for the first time as part of the company's broader goals. GRESB, which is a green index basically. We're going to try to get the GRESB Green Star award. And then, MSCI, ESG index, which is really an overall measure of a company's ESG policies, we hope to, this year, get a BBB rating on that index. So 2 interesting lofty goals on the ESG side as well.

Marc Holliday  SL Green Realty Corp. - CEO & Director

All right. So there's '19 in a nutshell. There's a lot of stuff not up here that goes into making all that happen. But clearly, on the heels of all the announcements from Thursday, Friday and today, we'll take maybe a day to catch our breath and get right to work on '19 and start chipping away meaningfully at these goals. So with that, I think we're going to move to Q&A section. We're, like I said, maybe 15 minutes behind.

Marc Holliday  SL Green Realty Corp. - CEO & Director

So we'll take questions this year from the audience, which either has been pre-sent, but we'll also have live mics for whoever just wants to ask on the spot. We're going to bring up chairs for our executive team to come on up, so you guys ready to do that. So we'll, sort of, sort it out as applicable. I've got the questions in front of me. So we'll start with the ones that were sent in and then we'll go to live mic as soon as everybody gets up.

Marc Holliday  SL Green Realty Corp. - CEO & Director

Well, I mean there are I think, a number of privatization of REITs, so I think it's a question of in what area? I think in that $2 billion to $4 billion of market cap, those deals are sort of more readily capitalizable, if you will. And there have been a number of deals done, and I
DECEMBER 03, 2018 / 2:00PM GMT, SL Green Realty Corp 2018 Annual Institutional Investor Conference

think if the dislocation continues and the debt markets remain solid and private investors have an abundance of equity capital, I think you'll see more of the same in '19. But I think when you get to the larger companies with equity market caps of, I guess, $8 billion and above, those deals become very challenging because typically, for single deals, those are large equity checks. I mean, when we go out to capitalize deals like One Vanderbilt, soon be One Madison, those equity checks are $500 million to $1 billion. Those are big deals. If you try to single source it and even if you want to club it. Raising more than $2 billion to $4 billion is quite a feat. So I think part of it is, there is just a limited universe of people out there who have the wherewithal to do M&A on some of the larger cap REITs. And second, you have these frictional costs, which depending on how much they are and what markets you operate in, that make it sometimes more challenging to get done on a basis where shareholders still feel like they're being rewarded as part of a privatization process with a significant premium on top of whatever the frictional costs are. So where that happens, you see the big deals get done. Where that doesn't happen, I can think of one case in particular, where a process was started and kind of pulled back from for those 2 reasons.

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

All right, next question. I -- we've got a bunch of questions about coworking and WeWork. I'll start and then, we can try to have Steve follow on.

But please further discuss your thoughts on the sustainability and rapid growth of WeWork/the coworking sector.

So I think, we're -- we've obviously, become a little more active this year in leasing to WeWork at 609 Fifth Avenue and 2 Herald Square. Knotel is in our portfolio in Soho. And I think we're watching this sector closely, both the company's capacities to raise capital but also, really a shift in their business plans. As you see, we see really, these companies becoming more sales-oriented in terms of relationships with big tenants who are their customers and a little bit less catering to, sort of, the entrepreneurial guy who wants to buy a seat on a desk and try to start a business and sort of see what happens. So as they become more sales-oriented organizations, we work employees thousands of people who are calling on big corporate customers, trying to drum up their enterprise business. It becomes more of an interesting model for us, even maybe a little more competitive with our prebuilt program. But also, these are companies that'll invest their own capital into our space, and they have a customer base that's more of a credit customer base, more akin to what we are seeing in our own portfolios. And they're drifting a little bit to be more competitive really, with kind of a traditional brokerage industry in Manhattan, who we're normally paying to source tenants into our portfolio. It's starting to feel a little bit more like that business model on the enterprise side. So where they have enterprise customers, where they have good relationships and they can bring in good credit quality tenants like Amazon at 2 Harold and invest their own capital into the space, we see it as a positive overall, and we've done a couple of those deals. It's still a very small portion of our portfolio, and we're -- on the corporate side, we have our own Emerge business line, which is more of a traditional, fractional office provider. That business continues to do well within our portfolio as well. So, Steve, I don't know if you have...

Steven M. Durels SL Green Realty Corp. - Executive VP & Director of Leasing & Real Property

Well, I'll add a little bit to that. It's interesting, if you want to take back a little bit on coworking, which most of us remember coworking in its infancy, as [Johnny] was talking about, which started off with these individual members, customers, where a couple of people rented a desk or seat at the table and where it's more [favored] to now more in the enterprise model, which is really roughly defined as companies with 1,000 employees or more. That's where a lot of the emphasis is currently being placed or larger businesses to handle their entire headquarters operation. The next iteration that we'll be getting to is the attempt by the coworking tenants out there to joint venture with landlords, to partner up to manage the space. So you really have to ask yourself, at the end of the day, given the meteoric growth of these businesses and the capital-intensive nature of them, at the end of the day, aren't they really just going to become a service provider? And I think that will be very interesting to see at the -- as the years go forward, are they competitors of ours? Are they tenants of ours? Are they service providers to the tenant community at large? And their ever-changing role in the real estate business. So it's an industry to watch, it's not going away. And as Marc spoke to earlier, we're starting to see a little bit of frequency, tenants actually inquiring whether or not there's a coworking facility in some of our buildings as an opportunity to provide a little bit of that amenity, that release valve for short-term growth space. So we're looking at it closely, and where the opportunity is right, we'll take advantage of it.

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

All right. Any of you was $141 a share at a 4.5% cap last year now showing $139 a share. Given share repurchases, why did any of you not grow?
Marc Holliday SL Green Realty Corp. - CEO & Director

Well, I think some of the Suburban sales that we've been accelerating were done at prices below the valuation we had last year. I think that probably accounts for the entire spread, if not more than that. So I will be -- off hand, I would say, the combination of a more rapid disposition of the Suburban portfolio at numbers that are not material but somewhat off of what we had posted last year, combined with some markdowns in the retail portfolio. So every year, where a lot of the office portfolio was up, the share count was down. The retail sector has definitely gone through a period of repricing, not only of rents but of values. And so, there's a period of time until it kind of feels like we've reached that stabilization point now. But certainly since 2015, sequentially, '16, '17, '18, we saw down, down, down. And while we were adjusting our NAVs down, I don't think we or anybody in the sector were adjusting fast enough to keep up with rental declines that were probably 35%-plus. And if you get rental declines at 35%-plus, well, your values are tracking that, maybe even more than that, if you're levered. So I would say, it's sort of amazing that we're right at about the same NAV we were a year ago, notwithstanding the declines in the retail portfolio and some of the value adjustments we took on sale in the Suburban portfolio to offset against, in many cases, the office portfolio that's risen.

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

All right. Current cost of capital spread between JV equity versus issuing $96 common stock. Well, Matt? Is he here?

Matthew J. DiLiberto SL Green Realty Corp. - CFO

Yes, there's a lot in that. But I guess, I mean look, the illustration that we do, our NAV illustration, we call that an illustration, right, shows you right there the simplest way to look at 200, 300 basis points, if you look at simply what we're selling our assets for, that's JV, and what the -- is implied in our New York City assets and our share price, 6.5% cap. So 4.5%, 6.5% is 200. But you're also missing in that the intangibles of -- well, some tangible and intangible in bringing in JV partners, right? On the tangible side, we've said how much incremental return we get off of bringing in a JV partner to not just selling an asset at market, or part of an asset at market, we are getting incremental fees like at One Vanderbilt, One Madison, for our leasing and management acumen with those even-edge group. That is enhancing the returns, which are, in those projects, were already very good, to be even better through the JV partner. You're not getting any of that enhancement by issuing the equity. So the baseline, 200 and 300 basis points better. And then, you get even more better, even more better -- terrible grammar. You get better with more fees.

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

All right. Have you considered building additional floors on 11 Madison? The building was built for 100 floors. Rob?

Robert Schiffer

It's a great question. And if you've seen the illustration of the building as it was originally designed in the 11 Madison Park restaurant. It's really a beautiful building. We would love to, but unfortunately, there are restrictions on doing so. The city imposes through a cap on floor area ratio on the site, so the building is actually overbuilt.

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

How do you think about the opportunities to grow your presence in Long Island City or the Lower West Side, where larger tech and media tenants have planted their flags for the long-term -- for long-term growth? Isaac?

Isaac Zion SL Green Realty Corp. - Co-CIO

Well, I think you saw earlier, obviously, we've already planted a flag at 460 West 34th Street, so we're very excited about that. We look at -- throughout the entire city, there's no area of the city that we don't try to target. And if there are opportunities to buy at the right basis and the appropriate risk-adjusted returns, then we're clearly going to look for opportunities on the West Side, Long Island City downtown, wherever it may be. I think you'll see -- now though, you'll see a little bit of pricing growth in Long Island City for sure, given what's happened recently with Amazon.

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

How should we think about total expected cost and ultimate return on the company's existing and future investment in One Mad? Are there any regulatory hurdles to build what you want? Rob?
Sure. Well, to answer the second question first, there are no specific regulatory hurdles that we need to clear. We need to go through the regular department buildings program for a building alteration of this size and scale. But that is a very custom process.

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

No (inaudible). As of right. No (inaudible), as of right. In terms of the total expected cost basis, it's a little early to say. I think we're probably looking at an approximately $2.3 billion total project budget, and we are targeting returns in the low 6% cash-on-cost basis.

Marc Holliday SL Green Realty Corp. - CEO & Director

Just a little further clarity on that $2.3 billion budget, that includes land, obviously, our cost in the deal, which is approaching $1 billion of that $2.3 billion. So incrementally, $1.3 million, thereabout.

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

Correct.

Marc Holliday SL Green Realty Corp. - CEO & Director

But that's, again, so a lot of people just "construction costs, hard costs, and (inaudible)" That's everything, deficit ops, financing, TI leasing, all of it. Just like we set it forth at One Vanderbilt, I think the returns will be probably similar to what we've mailed, (inaudible) One Vanderbilt. I mean, maybe a touch inside only because I think the location is even more of a 100% location, and the podium exists. You don't have -- there's no governmental process, there's no excavation that needs to be done. We're renovating, substantially, a building and place to doing the overbuild. So that's One Madison.

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

What is the plan for 625 Madison? I'll take a shot at this. I think there was an article in Cranes last week, which was wrong, and which inaccurately characterized the situation there. The reporter knew it was wrong but still ran the article. But Polo has announced they're going to consolidate at Starrett-Lehigh, so we'll go about re-tenanting that space, the way we would re-tenant any other space in the portfolio. The building, if you'd been -- Polo has been in the building since 20 -- almost 20 years, and the building hasn't had serious capital investment other than the retail, where we redid a lot of the retail space and successfully leased that up. So the vacancy will give us an opportunity to make some cosmetic improvements to the building and re-tenant it. We do not think we'll have an issue with leasing the building to third-party tenants, given the rental situation there, where we have a rent revaluation like we've had in many, many other leasehold situations in the past. And the fee owner can kind of, speculate, I guess, whatever they want in terms of the amount of rent, but I would -- we'll be re-tenanting that building and are not overly concerned about the rent revaluation.

Marc Holliday SL Green Realty Corp. - CEO & Director

So the next question deals with our investment in 245 Park. As it relates to HNA's purchase price and stabilized basis. Isaac, you can just sort of give a brief synopsis of the highlights of the investment because it's not exactly a parry pursuit purchase, so the 2 measures aren't exactly comparable, we've made a preferred equity investment.

Isaac Zion SL Green Realty Corp. - Co-CIO

Right. So as Marc mentioned, we've made a preferred equity investment. I think, Andrew touched on this earlier. We're targeting total returns in the low double digits. HNA's purchase price, as I'm sure you all know, is in the $2.2 billion-plus range. And Marc alluded to this earlier, right, the East Midtown is back and better than ever, and this building sits in the heart of that. So you have 270 Park across the street. You have 425 Park to the north, one Vanderbilt to the south, and we're excited about working with HNA going forward. And I'm sure Steve and Ed are both excited about us operating and leasing another Park Avenue asset.
Marc Holliday SL Green Realty Corp. - CEO & Director

Yes, it's a true hybrid investment which is kind of unique, where it is a preferred position, but we do manage, we do lease, and we have joint decision rights on major decisions. So we are truly equity, but we're also in a preferred position. So from our standpoint, that was kind of like the best place for us to be in that investment at a relatively high rate of return with fees on top. But most importantly, it's us working together with HNA to untap a lot of opportunity in that building. I think it's 1.8 million square feet. It's going to be located right across the street from JPMorgan's headquarters. We have a major seat at that table with limited downside and potentially big upside. So we're very happy to have gotten that second phase of the investment done with HNA, and we'll spend the next, probably, 6 to 12 months coming up with some interesting plans for the building, probably not as aggressive as other -- those other buildings I showed you in the East Midtown area that went through, what I call, ambitious redevelopment, but nonetheless, something that will really position that building well to benefit from the demand.

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

Okay. Can you talk about the competition you're seeing in the DPE business types of financing and loan terms? How are peers underwriting? And do they have similar ability to take back the assets or more financial players looking for spread. David?

David Schonbraun SL Green Realty Corp. - Co-CIO

Sure. I think we have 2 general business lines from the lending. One is the transitional mortgage and the other is the subordinate. On a transitional mortgage, the competition is really from the funds in the Blackstones, the Apollos and the Starwoods. And as Andrew said, you can see that they're raising a lot of capital to finance. So a lot of the reason the spreads are compressing is not their overall yields are going down that much, they're using very cheap leverage in kind of solving for a retained yield. So we really don't lever the debt business. We run it with maybe 10% to 15% leverage. A lot of times, at mortgages, you're going to see these guys running with 3x to 4x, maybe even higher times of leverage, which allows them to lend it low 20s over and kind of get retained yields that are high single digits. We won't to that, so we're really looking to compete in these spaces where we understand the real estate better, or we have a relationship we can get in early and get a deal done before these guys can compete because we can tie deals up quicker. We do on a couple of deals, use repo, but it's very sparingly because at the end of the day, it just goes into overall corporate leverage. On the subordinate side, there's a lot of competition from Japanese investors, but they can't compete on a timing basis with us. And then also, on the pensions like Oxford and CPP. I would say, a lot of the guys in the debt space, though, are more traditional yield lenders, and I'm not sure they're fully set up to take that property, and there's a lot of stuff we've seen in the last year that we've actually passed on because we're being much more conservative on underwriting then they are, kind of, keeping to monitor of risk adjusted return that we've always focused on.

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

All right. What could new rents potentially be for One Madison versus Credit Suisse's rent in the low 60s? Steve?

Steven M. Durels SL Green Realty Corp. - Executive VP & Director of Leasing & Real Property

Well, let's put it into gross rent basis. The -- because I'm sure that question was framed on a net rent, which is what we're currently getting from Crédit Suisse. I think rents in One Madison are north of $100 a square foot in those large podium floors. And I think for the new construction above that, we're in the $135 to $175 range. And I think those are maybe conservative. Their rents, those are 2020, late 2023, early '24 rents. And as we sit here in 2018, they are in line with -- they're in line with rents that we're usually obtaining at One Vanderbilt. And this is a product that is a one-of-a-kind product in the best sub-market in the country.

Marc Holliday SL Green Realty Corp. - CEO & Director

Yes. The point I wanted to make earlier, it just escaped me. On one Madison, it was a question for you, (inaudible), One Madison cost, I think. The cost per foot of One Madison, fully stabilized and loaded, is a couple of hundred dollars a foot below that at One Vanderbilt, which is reflective of our pretty decent basis in that project, along with the fact that we're unlocking air rights, and that was kind of mentioned. We actually have 400-and-some-odd thousands of air rights, some as of right, some that would have to go through (inaudible) process -- we elected to utilize about 200-and-some-odd thousand, 240,000, 250,000 of those as of right air rights, which are, for us, free, helps average down that basis, and sort of leave (inaudible) right now, the balance of those air rights, which we never put in the NAV to begin with because that was really part of the process we never envisioned undertaking. So our cost basis in the asset is...
very good. The rents, we think, are completely achievable, maybe we will exceed them. Yes, we’ll put up more specific numbers next year like we do with One Vanderbilt about costs and returns and capitalization and all that. Once we have a final design, plan, and we go out and get some numbers back on present.

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

All right. What is your outlook for rent growth? Does the 2% to 4% mark-to-market in 2019 imply 0 or negative growth? Steve, you want to talk about the...

Steven M. Durels SL Green Realty Corp. - Executive VP & Director of Leasing & Real Property

Well, let's start by the premise of trying to under -- compare mark-to-market against market rent growth is a little bit of apples and oranges. It's always been a frustration for me. I think that when people look at our mark-to-market, which is influenced by the new rent that releases the space up compared to the escalated rent that may be burning off. And that escalated rent could be a component of base rent, real estate taxes, operating expenses, and frequently, annual base rent increases. So if you think about, we signed a lease today, we haven't escalated that contractually grows at 3% a year, plus a pass-through in taxes, that escalated rent gets to a very high number. Then you come back and say, well, if market growth is growing at 2% or 3%, why isn't your new mark-to-market rent on the relets in line with that? Well, because, obviously, the leases that we're signing are growing faster than market, even though market rents have been growing at a 3% to 4% rate. I think that we expect to see more of that next year, that it'll be modest growth in the overall market rents of 3% to 4%, and I think you'll see other pockets, where we did better than that, particularly on the lower price point buildings, where I think there's an opportunity to push up rents higher.

Marc Holliday SL Green Realty Corp. - CEO & Director

Just for the sake of time now, let's try and knock these questions out. It's getting a higher volume than usual, which I think is good. But OVA, the question is, how does incremental leasing at OVA next year factor into your leasing goal of 1.5 million square feet? Just quantitatively, I mean, there's a way...

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

Yes, it's 13% up. So it's 52% leased now. It's going to 65% leased. That's 13% on 1.7 million.

Marc Holliday SL Green Realty Corp. - CEO & Director

Which is like 186,000 square feet or something like that?

Steven M. Durels SL Green Realty Corp. - Executive VP & Director of Leasing & Real Property

That sounds very close, yes.

Marc Holliday SL Green Realty Corp. - CEO & Director

So in the 1.5 million, for the year it's close to 175,000 to 185,000 square feet of leasing at One Vanderbilt, and that puts us ahead of our timeline still and it's incorporated in the 1.5 million.

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

What percentage of One Madison would you JV? I think this would likely follow form with One Vanderbilt, which should be 49%, I think, likely, it kind of depends on the offers, the amount of structure we're able to impose on bidders for that equity interest. But I think, initially, our plan is 49%.

Marc Holliday SL Green Realty Corp. - CEO & Director

Yes, I think the preliminary conversations Andrew and I have had with capital sources lead us to believe this is a very achievable goal for next year. This is the reaction to this -- I mean, did you guys like the images you saw? I mean, pretty cool development. That is years of work to figure out the massing and how to fit within the envelope as of right and come up with that design, which is mixed together quite well with the podium and also has some special features that celebrate the Park, and I think we've done it. And obviously, that will still continue to evolve, over time, but it'll just get sharper and sharper, and we are really proud of that design and looking forward to that
development and the tenants and capital sources we've shown this project to on a preliminary basis, I would say, the reception has been excellent. So this is something that's very exciting. Up to half the equity, I guess, is something we would consider joint venture. So that's all of the submitted questions. Does that anybody have...

Andrew W. Mathias  
**SL Green Realty Corp. - President & Director**

We have live mics, if anybody has live questions? Michael?

Unidentified Analyst

So as you think about the conviction and having an opinion, Marc, you talked about buying back the stock given this vast difference between where you think it's worth and where the stock is trading been. You've been very aggressive at selling assets, repositioning the portfolio and buying back stock. If the stock doesn't reflect that value, what are the next steps that you can take? What's up your sleeve to try to narrow that disconnect?

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

Well, I just -- everything we're doing is with the goal of making it the best company possible and creating most value. And to that -- and we're doing it. I'm very happy with where we are on that program. Stock price may not reflect it, and that's something that we hope will correct itself in '19. We think there's every reason that it should, but so far, it hasn't. But everything we're looking to achieve, we're doing, and then some. I think we're kind of ahead of plan. So we'll keep doing that. But to your point, at the end of the day, we -- the shareholders have to realize that benefit and the store has the value we're creating. And I guess, one step further, which I think would be on the table, would be to consider sales and special dividends. I mean, at the end of the day, we own the value, right? That's the beauty of owning real estate. The stock may go up, stock may go down, and maybe mispriced but the value we own, like those assets are ours, and we can eliminate value via sales and JVs and reinvest in real estate stocks that pay down or just distribute it back to shareholders, which I think would be very much on the table if we can't otherwise figure out a way to return value to shareholders because the value is there. We touch it every time we sell an asset, we're meeting or exceeding. I mentioned earlier, a little bit down on retail in suburbs, but the office product, which more and more is the largest percentage of the portfolio, we're spot on or conservative. So -- and the market is deep with demand, Andrew went through that. So we'll just keep at it and, like I said, that value doesn't go away. We can come up with ways to monetize it and put it to work or return it.

Okay, we got -- we'd take one last one, only because we've got a lot of questions, and we do have a great tour set up at One Vanderbilt, where I hope everyone is going.

Unidentified Analyst

A lot of pressure on the last question. But on the DPE portfolio, could you talk about the shift into doing more mortgages. It seems there's lower risk, but also you could be less opportunistic going forward. So why not swing the DPE book more than $50 million or $70 million?

Andrew W. Mathias  
**SL Green Realty Corp. - President & Director**

David?

David Schonbraun  
**SL Green Realty Corp. - Co-CIO**

I think we're really just looking at kind of where we're seeing the most value and, obviously, everything's just return on capital. So it's immensely scalable. So if we saw a better opportunity, all the step is completely liquid. We could sell it kind of in a day or week, 2 weeks. So we're not really restricting our flexibility and do things with the capital. By putting the money out we have the optionality because you can see billions and billions of money being raised in the space. We could sell down the portfolio whenever we wanted. So I'd say, we're keeping the balances where they are, it's almost they were giving us the optionality than kind of letting them run off. In terms of doing mortgages, it just seems to be a better business, than we think, from a risk-adjusted basis, or people really stretching for yield, and we don't think, on the lower end of the spectrum, getting paid the right returns and all these mezzanine loans, and we want to kind of price things right and put out money where we think the best return is.
Okay. Well, I think we're going to do a very quick wrap up. I won't do a very sentimental wrap up other than to thank you all for being here today. It's an understatement to say it takes a village. I think this took a city to put together. We put a lot of pride and effort, thanks to the team that's here, the team that's up there, not just in preparing this but in doing everything necessary throughout the year to enable us, to come up here and present to you what we've presented today. And the people in the background, Image Media, Atlantic Productions, Gillette, consulting industries and the folks of (inaudible) and thank you for a lot of late hours, long days and I hope everyone found it entertaining and informative, that's what I set forth at the outset. It was our promise to you and enjoy the tour at One Vanderbilt. Thanks.

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

Thank you.

Operator

For those attending the property tour, please gather by registration.