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SL Green Realty Corp. (SLG)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

Robert DeWitt
Senior Vice President-Construction, SL Green Realty Corp.

OTHER PARTICIPANTS

Nicholas Yulico
Analyst, Scotiabank

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Steve Sakwa
Analyst, Evercore ISI

Thomas Catherwood
Analyst, BTIG LLC

John P. Kim
Analyst, BMO Capital Markets Corp.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Peter Abramowitz
Analyst, Deutsche Bank Securities, Inc.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Brendan James Lynch
Analyst, Barclays Capital, Inc.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Michael Lewis
Analyst, Truist Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us and welcome to SL Green Realty's Corp. (sic) [SL Green Realty Corp.] (00:00:07) Second Quarter 2026 Earnings Results Conference Call. This conference call is being recorded.

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

Also, during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's second quarter 2026 earnings and in our supplemental information included in our current report on Form 8-K relating to our second quarter 2026 earnings.

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

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

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Thank you very much. Good afternoon, and thank you all for joining us. It may be the dead of summer, but our team is, of course, hard at work. This is truly when we shine the brightest, completely dialed in on our business plan and outworking the market. That hustle really showed up this quarter.

Much of what we predicted at our investor conference in December is now playing out in ways that directly drive earnings and improves cash flow. We forecasted that the leasing progress we've made over the past 2.5 extraordinary years would become apparent in our economic occupancy, and it certainly did this quarter, up a remarkable 300 basis points as concessions continue to burn off and overall vacancy dwindles. At the same time, we're putting the significant leasing costs associated with the lease-up behind us, and leverage and coverage ratios are improving, which we also saw in this second quarter.

On the leasing front, the story remains the same. A growing scarcity of premier space in desirable midtown districts has turned the tables in our favor. We now know that we'll exceed our leasing goals again this year, it's just a question of whether it will be by a wide margin or a really wide margin. We don't have that visibility yet, so it's too soon to reforecast, but the trend continues to move in the right direction.

We are also seeing very positive momentum at SUMMIT, both here at One Vanderbilt and on our projects around the world. Even with reduced overall tourism in the city this year, we enjoyed the highest attendance amongst all of our competitors, and introduced a number of new ticketed experiences that we expect will continue to drive revenue. We are on track to open Paris next summer in 2027 and in Tokyo in 2030 as we continue to see enormous growth potential for this business.

Most importantly, the backdrop to our performance this quarter and moving forward is the extraordinary and prolonged surge in business activity in New York City. Our economy is in a league of its own compared to any other CBD in the country, or indeed even the world, driven by financial services sector performing as well as I've ever seen it. Wall Street profits hit $21 billion in the first quarter alone, the second highest first quarter that has ever been recorded in approximately 40-plus years of tracking this metric. The Big 5 money center banks just reported, and second quarter profits are up a whopping 50% year-over-year, and that's coming off a very strong year.

Office-using jobs are up by 12,000 year to date, according to the city's OMB and a strong showing for only six months of the year, with further growth projected for the balance of the year. We've also seen tech growth driven by AI, and we're obviously getting more than our fair share of those leases, including the lease we announced last night for 100,000 square feet at 11 Madison.

It's not just the financial services and tech. It's truly a broad-based growth and demand momentum that we see here in the city. That's just one example. The health care sector continues to grow and added 20,000 jobs year-to-date, many of which do land an office space like MSK at 885 Third and the Hospital for Special Surgery at 15 21st. And NYU has a significant – NYU medical has a significant footprint at One Park.

New York City-based companies raised $10.8 billion in venture capital funding in Q2 alone and that brings it to $21.1 billion year-to-date. Both of those metrics are double the same respective amounts in the measurement periods in 2025. The city is, I think, experiencing one of the largest resurgences I've seen. The tax receipts are very good. The city just passed its budget in June. It's another balanced budget with rainy day reserves and I feel like we're in very good standing. And this is what all adds up to about 50 million square feet of office space leased in the past four quarters. That has to be a record. It was a very strong quarter. I'm incredibly proud of our team and I remain very optimistic about the direction of the city and the economic activity that supports our performance.

Finally, before we open it up for questions, I want to address our big guidance revision for this quarter. The revision is great news and certainly represents the culmination of efforts not just over the past three months, but over the many years leading up to this. We've executed a deliberate strategy to invest what was needed to move our occupancy back toward 95% and we're now reaching a positive inflection point. This should not be a big surprise since we forecasted this positive momentum back in December. Maybe the magnitude is even more than we expected, but it's obviously a pleasant result.

Matt, if you would, please elaborate on the underpinnings of this significant guidance revision.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Thanks, Marc. It is clear we have had a fantastic first six months of 2026, exceeding our expectations on several fronts including our second quarter reported results and we are excited to be able to translate these successes into a significant upward FFO guidance revision of $1.20 a share, more than 26%, the vast majority of which is recurring.

In the Manhattan office portfolio, revenues benefit from strong leasing, particularly early renewals and the lease up of pre-built space, both of which have immediate earnings benefit along with a conscious effort to accelerate GAAP revenue recognition by delivering space to tenants more rapidly, which is coupled with phenomenal expense containment as always by our operations team to drive $0.20 a share of incremental FFO in 2026 from the real estate portfolio, 10% of which we recognized in the second – $0.10 of which we recognized in the second quarter while visibility into the execution of the remainder of our 2026 business plan over the next six months also provides us the opportunity to generate additional fee and other income, which we expect to contribute an additional $0.20 a share of FFO.

Now, if we had simply increased FFO guidance by $0.40 a share for these operational successes, we would have been thrilled. That equates to about a 9% increase at the midpoint, but because we built one of the most successful and more importantly profitable buildings in the country here at One Vanderbilt, we're able to add another $0.80 of recurring, not one-time FFO to our guidance revision. This property has generated so much cash flow that we repatriated all of our invested equity long ago. That cash flow in excess of our share of GAAP net income at the property caused the carrying value of our investment to go negative. GAAP allows you to carry a negative basis, but only up to the value of any known or potential tenant obligations.

At the end of the first quarter, our negative basis reached the maximum allowed under GAAP. So, starting in the second quarter, One Vanderbilt's incremental FFO contribution is calculated based on the sum of two things. First, amortization of the negative carrying value over the term of the related tenant obligations. This amortization component alone is approximately $21 million a year through the early part of 2031 plus the difference between cash distributions we receive from One Vanderbilt and our share of GAAP net income.

Going forward, every dollar of cash distribution out of One Vanderbilt that's in excess of GAAP net income is incremental FFO to us. The total of these two components contributes an additional $0.80 a share of FFO in 2026, $0.35 of which we recorded in the second quarter. And based on current projections, is expected to contribute as much or more to FFO next year.

The way I look at it, it's essentially flowing deferred cash profits from the project through earnings and further evidence of the incredible success of One Vanderbilt, more importantly, a testament to the hard work of the best employees in New York real estate that work here.

With that, operator, we can open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question will be coming from the line of Nicholas Yulico of Scotiabank. Your line is open, Nicholas.

Nicholas Yulico
Analyst, Scotiabank

Q

Great. Thanks. Hi, everyone. And so, maybe we can start on the leasing side. The mark-to-market again this quarter was strong, above guidance. Can you just talk about what – if there's specific buildings driving that activity, sub-markets, or if this is actually just sort of a broad-based improvement?

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

A

Well, it's – let's start with it's a broad-based improvement, but then within that, within the portfolio, there's some particularly notable transactions and buildings that are really seeing rent appreciation. Anything on Park Avenue, we've raised rents dramatically. Sixth Avenue, for instance, 1185 6, rents are up dramatically and then across the portfolio, we've been consistently raising – asking rents throughout the year.

So, 245 Park Avenue where we've done a lot of leasing this year, we've got some deals pending to replace some tenants. At OVA, rents are going to be up dramatically. So, I think what we saw this quarter, we're going to see it again next quarter.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. Thanks. And then second question is just going back to One Vanderbilt, 100% leased and as we think about it, I know you've said before there's a significant mark-to-market embedded in that asset. Is there any opportunity to perhaps move an existing tenant to 346 Madison, your new development project and unlock some of that mark-to-market in One Vanderbilt through that process?

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

A

Well, [ph] less so it moving (00:12:38). It's a little early to talk about 346 Madison since it's five years away, but there are opportunities that we're pursuing for tenants that have either outgrown their space and we're recapturing some of those spaces and then accommodating tenants that need expansion space in the building. We've got several pending transactions and you'll see those leases I expect to sign this quarter and the rents will be up to really, I think, illuminate the fact that the building is in place. Rents are well below current market.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. Thanks, guys.

Operator: And our next question will be coming from the line of Alexander Goldfarb of Piper Sandler. Your line is open.

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Q

Hey. Good afternoon down there. Two questions. Marc or Steve, the pace of this office recovery is just – it's incredible. I mean, it's like what the dotcom was, maybe even better. Is it solely just the lack of supply or what do you think is causing companies to clamor for so much space so quickly and even be willing – like it's just, as I say, we haven't seen this in decades? I'm just trying to understand if it's lack of supply or something else.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Four things. One, the economy in New York City is doing extremely well and profits drive growth. Growth drives demand for space. It's broad-based, as I mentioned earlier and there's no sign of abatement right now because things are really just firing on all cylinders across almost all sectors. And that is kind of like the tip of the spear, if you will.

Second, we just are in a situation where there's almost no additional space to speak of in a 400 million square foot market and that's really looking out over the next five years or so. And that's because a lot of projects during 2020 and 2024 either got delayed or shelved or changed or whatever. And as a result, you just can't flip a switch and produce that space. It takes a lot of time and effort and money and foresight to be able to open up the inventory. This isn't like one of those borderless markets that are out in other CBDs around the country where you have constant new product replacing old. Here, it's much more delicate, especially in a fully built-out midtown. So, scarcity, I'd say, is the second major issue.

Thirdly, you had companies that were just sitting on the sidelines uncertain as to what direction they were headed and we had some very lean years back in 2020 through 2023. And then now we've been the beneficiary, especially in 2025 and 2026 of just companies that have plans for the future that are so ambitious and so affirmative that the issue we face right now is not just delivering space. It's giving tenants confidence that once they lease space, we'll have more growth options for them either within those buildings or surrounding buildings to satisfy their future growth needs. And it kind of feeds on each other and it's turned into smart businesses wanting to put away their long-term space plans for 10, 15, 20 years now and not have to deal with the unknown down the road.

And I would say fourth major point is convergence. You heard me on this back in 2024. This was something I identified as what I thought was going to be one of the most significant trends in favor of diminishing office supply and sort of a winnowing of secondary and tertiary office space being converted into primary and very attractive residential space and much needed rental apartments. And as a result, you have an inventory that's actually dropping and is bringing up the middle and bottom of the market into rates that become economic for the business. So that's why Steve said earlier we're experiencing rental growth across all facets of the business.

So, I think that taken together really should not be surprising because we've been on these themes for months and months, maybe years and years. And I think what you're just seeing is that playing itself out in a very predictable way. And as long as the economy stays robust as it is, we don't see this abating anytime soon.

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Q

And then so, Marc, just on that point, on the office to resi conversions, do you see most of that pipeline continuing on or is your view that we'll suddenly get a bunch of buildings that were planned to be converted come back to office, and maybe that's competition?

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

A

That's an interesting question that we'll have to see play out. I'd say right now for the projects that have been what I'll call lit and/or have been permitted or about to be permitted, I think you're going to see them all go through as conversions because before I would say the economics were in favor of residential, I'd say office at that segment of the market is closing the gap and maybe it's getting closer to a push.

But you have to remember, aside from just the pure economics of rental value and cost to convert, you still get a pretty strong financing edge with residential where spreads are tighter than office and a stronger cap rate environment to sell into or JV into as you saw on 7 Dey where I think the cap rate was about a 5% or 5.1% and that's – I think some projects will command better than that depending on location. So, I think the gap is narrowing but still tilts in favor of conversion for a number of these buildings, but that could change in a year or two and you may hit an equilibrium.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Our next question will be coming from the line of Steve Sakwa of Evercore ISI. Steve, your line is open.

Steve Sakwa
Analyst, Evercore ISI

Q

Yeah, thanks. I know you guys had an ambitious debt refinancing and capital markets transaction program for 2026. Could you maybe just kind of give us an update kind of where you are on refinancing and asset sales for the year?

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

Yeah, sure. So, just talking about the capital markets more broadly, I would say the shifting macro landscape since the start of the year and the resulting benchmark rate widening, they've tried to interfere with the natural trajectory of the market, but these are moments where New York City shines. Marc always says New York City is the AAA investment of our sector. So, despite not having the wind at our back, we continue to see what I would call unending domestic and international demand for quality Midtown Manhattan product.

Just this morning, we saw a report that was issued and published in Crain's about how Manhattan's investment sales market jumped 50% annually in the first half of the year, which marked the strongest first half of the year since 2022 when interest rates were just starting to rise.

So, when we look at transactions over this past quarter, the development sector, we completed our partnership with Mori Building at 346 Madison. This is our third transaction with Mori Building. Mori is a remarkable partner. They're incredible developers and visionaries, and we're proud to be able to launch this project with them. We shook hands on our partnership within only a few months of us closing one of our acquisition. I think that really speaks volumes to the quality of what we will be building and the trust between our two organizations.

In the core office sector, we entered into contract to sell 10 East 53rd Street. That cap rate was approximately 5.7% for a side street building. That sale will complete a successful transaction for SL Green and notably it's about a 3.5 times multiple on the acquisition of our partner's interest in 2024.

And another example is our good friend's purchase of Park Avenue Plaza, which was a highly competitive process. That's on the heels of their purchase of 623 Fifth and then in portfolio deals, I assume everyone's seen the rumors in the press regarding a potential transaction for the Hudson Square portfolio.

So, I would say most interestingly, much of this quarter's demand was driven by domestic and long-term investors in our sector. Most of those groups were on the sidelines for quite some time. So, between availability of debt capital, the strong fundamental performance that you've been hearing on this call, and the diversity of investor base that we saw this past quarter, I would say this is one of the better investment sales backdrops we've seen in quite some time.

With respect to our program more specifically, we've completed or in contract on 4 of the 11 deals in the plan. I expect we will be announcing two additional deals soon and then we're going to get started on the remaining five deals that are in the plan. As most of you know, our disposition plan this year was weighted to the second half as we strategically launched sales throughout the year and the team is gearing up to launch on those remaining transactions.

We can talk more about the debt capital markets, but I would say specifically to our plan, the next one up in the queue is 245 Park. That one is in advanced stages right now, and I expect that we'll have more to announce and discuss in the coming months.

Steve Sakwa Q
Analyst, Evercore ISI

Great. Thanks. Marc, I don't know if you could maybe just comment on 1515 Broadway. I know you were disappointed with the casino outcome, but have you guys kind of given more thought to sort of the long-term plans for that building? And if so, when do you think that kind of takes more shape?

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

Yeah. Look, we shook off the disappointment back – I guess it was last September, I want to say. Amazing how time goes so quickly. It's a shame because I think we would have been close to open when we were – all would be walking into the casino.

But since then, we've had the opportunity to assess a lot of plans and what I've come to appreciate even more is that we're in a very good spot, I think, with 1515 Broadway. One, Paramount, after being acquired by Skydance and now having an agreement to merge in with or acquire Warner Brothers to create, I think, one of the most powerful and largest media companies in the world...

A

Hold it.

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

We good? Okay. One of the most powerful media companies in the world puts 1515 Broadway kind of squarely back in the mix for longer term use by that combined entity. I'll call it Skydance for the moment.

I don't know that they have their plans all sorted out yet. My guess is not from what – from the conversations we had and also given that that merger is not yet closed. But certainly, the combined entity is going to employ, I think, more than 4,000 people. I think a lot of those jobs can and will stay hopefully in New York City, and we would expect to be a net beneficiary of that.

Now, with all that said, you have to remember that the debt is on rapid amortization over there. So, at the expiration of the Paramount leased, we have very low debt outstanding on that particular mortgage, which again gives us flexibility to consider other types of conversion options to maximize entertainment uses, which I think is really highest and best for Times Square and for that asset, signage opportunities far and away above what currently exists and really make it kind of a mixed-use destination, entertainment, theater, live theater, live music, media, office capital of Times Square.

So, I think there's going to be a lot more to say on that. Time-wise, Steve, I think is next year because I think like I said, until things are clearer with our primary tenant over in that building or sole tenant in that building, there won't be a lot to do. But I think as soon as that transaction's culminated, we could be very active over there and I'm very positive on that particular property right now.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Thank you.

Operator: And our next question will be coming from the line of Tom Catherwood of BTIG. Your line is open, Tom.

Thomas Catherwood
Analyst, BTIG LLC

Q

Thank you. Good afternoon, everybody. Marc, I want to go back to something you said in your prepared remarks when you were talking about the step function and economic occupancy in 2Q. Maybe view it from a different angle. Think of vacancy leasing and how it eventually drives economic occupancy, but there's a good portion of your portfolio that are leases that were signed 2020 to 2023 when tenants were focused on shorter term renewals. Do you have a sense of kind of for that portion of COVID vintage loans or leases, kind of what's the embedded mark-to-market on that, that maybe it's not reflected in economic occupancy right now, but in the next year, two years, three years really starts to roll into the numbers?

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

A

Yeah, I mean, look, I don't have that number and I'm looking at Steve and Matt. They're not giving me the [ph] hide (00:27:49) sign here that they have it. So, I'm going to give you a little bit more gut and instinct. I would say let me give you broad range between 10% and 20%. I think just given based off of our increases in our asking and taking rents that Steve referred to earlier, I have a better sense building by building how we've moved rents up sort of incrementally over the past 2, 2.5 years. And I think typically, the range of increase is minimally 10%, probably as much as 15% or 20%. I mean, I don't know. A building like One Vanderbilt more than that, but that's – we're fully leased here.

So, I would say a safe bet is 15%-ish on when those what you call COVID year leases come up for renewal. But I'm giving you that more touch and feel than like I don't have the numbers in front of me, but I don't think it's less than that. Steve, do you have anything to add?

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

A

Yeah. Well, I think there's a couple of thoughts with regards to it. A lot of the deals that we did during COVID were even shorter term. Like we're five, six years past COVID at this point. So, a lot of those deals we were doing at that point in time were three, four, five years, one.

Secondly, is if you'll recall, the net effectives may have dropped more than the face rents. Face rents were probably down about 10% from where they were at the end of – beginning of 2020. And since that time, face rents have dramatically increased throughout the portfolio. And certainly, as our portfolio, the complexion of our portfolio has changed over the years, you're seeing much bigger rents appreciation on parts of the portfolio, particularly Park and Sixth Avenue buildings.

And with the stabilization of concessions over the past year and a half, the net effectives, not only have face rents kept going up but the net effectives are going up as well. So, I think we're probably past the moment in time where those kick the can deals, those leases have probably already come back and we've attended to them as part of our leasing over the last couple of years, particularly if you look at our rollover schedule over the next couple years. We don't have any big, chunky expirations. Certainly nothing of consequence this year that's not already being attended to and our largest lease next year is like 150,000 square feet. That's one lease. So...

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

A

Yeah, but with that said, we're going to be mining opportunities that are non-contractual.

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

A

[ph] Being what? (00:30:32)

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

A

I think you're going see the growth come from is really three things – four things. One, nominal face rent increases. Steve and I just spoke about that. Two, stabilized lease concessions for new deals maybe even slightly contracting. Three, a much higher prevalence of renewal to new.

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

A

Early renewal.

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

A

Well, renewal to new [indiscernible] (00:30:55) fourth, which we're saving considerable – that's where your net effective rents are going to be far higher than 15% to 20%. So, you're getting that kick on face rent and then you're getting a compounded effect on reduced TI and free rent.

And then lastly, we're mining the portfolio for every expiration between now and 2032. I mean, we are out there like five, six years forward hitting every tenant right now trying to do blend and extend deals, early renewals, trying to get blend in rental uptake and defer out some capital costs. And I think you're going to see in the second half of the year we're going to get some good traction there.

And so all of that is what we are busy to work on. I mean, when the – you got to hit the market when the market's there. And we recognize that and we're not just focused on the next year or two. We're focused on the next five or six and with an intense eye on saving capital dollars and trying to max out face rents.

Thomas Catherwood
Analyst, BTIG LLC

Q

Got it. Got it. Appreciate that color and then last one for me. Maybe Harry, just want to touch on the debt fund. You've had success deploying capital there, but how do you see that opportunity set potentially evolving as New York market continues to improve and traditional lenders start to get more comfortable with office? Do you have to focus on a different part of the cap stack or kind of shift strategy in any way?

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

Yeah, look, so we've done approximately $600 million of deployment through, call it, yesterday. We have a handful of opportunities in the pipeline today that we're working through and I think these are moments where our team shines.

I mean, we had obviously a lot of opportunity in front of us last year and the beginning of this year as that capital stack start to tighten. For us, this is now about financial engineering and working with senior lenders, trying to get the tightest senior financing, much like the execution you saw us do on our balance sheet years ago at 550 Madison.

And this is where we go out, work with our relationships. There's a deal we just closed in the debt fund. We're not disclosing transactions in the debt fund, but there's a deal we just did where we went out, originated the entire stack, syndicated out a senior, syndicated out of that subordinate mezz and we're able to get to our yield requirements. So, for us, this is where our team focuses on our relationships and builds capital stacks to get to our yields.

Thomas Catherwood
Analyst, BTIG LLC

Q

Got it. Appreciate the thoughts. Thanks, everyone.

Operator: And our next question will be coming from the line of John Kim of BMO Capital Markets. Your line is open.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thank you. I wanted to follow-up on what drove the $0.20 of operational uplift this year and what surprised you. You didn't raise same-store occupancy guidance. I'm assuming a lot of this is timing and economic occupancy moving up, but is it purely just a better renewal rate in terms of retention of every tenants and more leasing of pre-built space? I'm just trying to understand why such a big uplift relative to expectations.

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

A

Sure. Yeah, I thought I'd hit that in the opening comments, but it's – you [ph] reiterated (00:34:21) the biggest ones and Steve and Marc highlighted that as a catalyst to what we're seeing, renewals and early renewals. If you're looking at NOI, right, I mean, it's very focused on GAAP revenue recognition and economic occupancy. Renewals and early renewals are instant gratification when it comes to GAAP revenue recognition and we're doing more of those.

We've also made a conscious effort because we talk about turning on GAAP revenue recognition is triggered by the turnover of space to tenants. We are working with our tenants that our own team is hustling to try and turn over space even faster so we can turn that earning spigot on.

And then just from an expense perspective, we budget very conservatively. We're ahead on expenses and the combination of those things, that $0.10 of the $0.20 we already recognized in the second quarter. That was $0.10 ahead of our expectations just in Q2. You have $0.10 left for the balance of the year, which is a combination of those handful of items.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. And then I also want to follow-up on the refinancing plan for the year and in particular 245 Park. The leasing has been very strong. The redevelopment is underway, but now with the tenure moving up above the assets mortgage rate, how does that impact either the timing of some of the refinancing or sales and the valuation of the asset?

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

Sure. So, just – I spoke earlier about equity capital markets and a bit on 245 Park, but let me just talk about the credit markets more generally. We continue to be encouraged by the strength of what we're seeing in the credit markets. We've seen approximately $11 billion of CMBS originations year-to-date. That figure same period last year was about $8.5 billion. The two biggest deals that got done this past quarter was the $1.9 billion financing of Two Manhattan West. [ph] I see here (00:36:19) the $1.8 billion financing of 9 West 57th Street.

And I think one of the best data points that we've seen out there is really this tightening of the AAA spreads. We're now seeing AAAs tied in sub-100 and overall spreads on the deals that are getting done are in the mid to high 100s depending on last hour LTV.

And I would say interestingly when you compare it across all asset classes, spreads on single borrower CMBS AAAs for trophy office are now trading in line and in some cases inside of what we're seeing are for spreads on industrial, multi-family, and self-storage. So, I think the bond market is starting to appreciate what we're seeing in the trophy office asset class.

We're going to be big beneficiaries of that on 245 Park financing. That's in process now and I think you'll see a lot more illumination on that as we launch to the rating agencies and data becomes public.

But I would say from a spread perspective, we're very confident in the execution that we're seeing. Of course, the benchmark, as you noted, is not cooperating with us. That's obviously outside of our control, but Matt can speak to some of the hedging that we're putting in in place to ensure that we have the proper protections at the right times in the market.

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

Yeah. As has been customary for the last few years in this rate environment, we are maintaining a very cautious stance when it comes to rates. We're hedging out well ahead of time, financings like 245 Park to protect against rising rates. The bulk of our debt remains hedged as well. We were at one point 70/30 fixed to flow. We remain more like 90/10. So, hedging existing and hedging forward for the foreseeable future.

John P. Kim
Analyst, BMO Capital Markets Corp.
Q

Great. Thank you.

Operator: And our next question will be coming from the line of Blaine Heck of Wells Fargo. Your line is open.

Blaine Heck
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks. Sorry if I missed this, but just on the leasing pipeline, I think it stood at 900,000 square feet last quarter. Can you give us an update there, the mix between new and renewal and how much of the renewal activity is pull forward renewals?

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

Well, there's a 900,000 square foot pipeline. It's roughly 50% new, 50% renewal and of that 900,000 square feet, 400,000 square feet of it are leases that are in active negotiation. Essentially, very far advanced negotiation, I'll say, and the balance are term sheets, which we expect to convert over to leases.

As far as the renewals, most of the renewals are – I don't have a perfect answer to it, but they're near-term renewals. They're not early renewals for the majority of that square footage.

Blaine Heck
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks, Steve. And then second question, just a follow-up for Harrison or Marc. Can you just walk us through the thought process you all went through kind of on 346 Madison? Was there any consideration of either selling a smaller stake or waiting for some leasing activity to potentially push the valuation a little higher? Did you just see this as something you wanted to do for timing or relationship reasons?

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

Well, I mean, we did it first and foremost for business reasons. I love fully capitalized deals, development deals. You never want to take for granted a moment in the market and we do have very special relationships with many of our JV partners, Mori Building on 346 Madison certainly among them. And we've gotten to a point with many of our co-investors where it's a symbiotic relationship where we count on their partnership and they count on our delivery of opportunities in this city, which are the good ones are few and far between.

We were able to get our standard package, if you will, of JV enhancements for being the ones to source and execute the deal. But in the case of Mori Building, they're also a really good co-developer. I mean, these are folks that have built as much as anybody in Tokyo, Azabudai Hills, Toranomon Hills, Roppongi Hills. These are fabulous investments. I think there'll be opportunities for us each ways, both opportunities for us and for them.

We had their commitment early on. There's a lot of planning that needs to happen and happen early and having a good partner like Mori together with us at the early stage makes the entire development go much easier. We reserved enough that we plan in the future to probably syndicate equity further down the line. Maybe when we sign our first leases or maybe when the project's completed or maybe when it's recapitalized, that'll be for a later date.

But the combination of derisking through capitalization day one, getting the kind of economic deal we set out for and then some, point two. And the solidification of relationship, point three. And on we go to the next one. I mean, this is – we are a volume shop and while developments are bespoke and long-term and they get a lot of our senior level attention, there's lots more deals for this company to do in this market both long-term and opportunistic. And we want to be flush with capital to take advantage of this market. And I think we've proven our ability to do so in over our decades in the business, but certainly over, I would say, the past three to five years. And we're happy with how it turned out.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Yeah, that all makes sense. Thanks Marc.

Operator: And our next question will be coming from the line of Peter Abramowitz of Deutsche Bank. Your line is open, Peter.

Peter Abramowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thank you for taking the questions. First one is just in relation to the guidance raise and this kind of expected ramp in NOI and fee income maybe faster than you were expecting at the beginning of the year, just wanted to ask. How does that sort of impact when you think you'll start to see an inflection in FAD? I think previously you've kind of messaged that the expectation would be end of 2027 or early 2028, but just curious for any updated thoughts on that in relation to the guidance raise.

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

A

Yeah, I would say we're – the trajectory that we're on is slightly ahead, but 2027 into 2028 with the breakeven point in 2028 is still the path that we are on at this point.

Peter Abramowitz
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thanks, Matt. And then a second one just on SUMMIT, I think Marc, you had some commentary around tourism maybe being a little bit weaker in the city this year. Just on SUMMIT, I'm kind of curious. Was there any noticeable impact from World Cup travelers in the second quarter and into the third? Sort of how are you thinking about that impact as it relates to the full year results?

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Yeah, well, look, I mean, the FIFA games, there were eight of them, including the much-watched finals and there was definitely a bump that I think all hospitality got from those events.

It's hard for me to parse how much of that was FIFA-driven versus we're in the heat of the summer right now and SUMMIT typically does very well June, July, August. And certainly, I look at the numbers daily and the past, I would say, four weeks in particular have been very strong. Ticket sales, daily ticket sales exceeding [ph] $400,000 and some odd-thousand (00:45:12) a day is fairly typical. So, those are like end-of-year holiday numbers, so I'm happy with that.

People love SUMMIT. It's all ages, all walks of life, domestic tourism, tristate residence, foreign tourism. People love going. They repeat. They go back. I think our year-over-year attendance numbers are down a few points, but really modest because most of that was in the more challenging beginning of this year when we were up against weather and other issues. But I would say since May, numbers have been sort of right back to where we had them. And I'm hoping and expecting that through the ability to manage variable operating expense and also have a big second half of year, that we'll finish up right on our numbers which are market-leading. They're well ahead of the other observatory attractions, both in terms of average ticket price and attendance because it is a very special experience that I'm now excited to be bringing to major cities like Paris and Tokyo and more to come.

We've got a lot in the queue and maybe more on that in December because I always like to hold something back for December. But we're hard at work trying to bring SUMMIT to everyone around the world for people who can't get here. And I think it's going to be – it'll just – the momentum will build and the experience will get even better, and the team is very excited about the future.

Peter Abramowitz

Analyst, Deutsche Bank Securities, Inc.

Q

All right. Appreciate the color. Thank you for the time.

Operator: And our next question will come from the line of Anthony Paolone of JPMorgan. Your line is open, Anthony.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Thanks and good afternoon. Maybe give us a sense of cap rates and what to expect on your dispositions over the balance of the year, maybe even bucket them depending on whether it's things like maybe a 245 Park stake or resi or something like that.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

You know what? For competitive purposes, obviously, we wouldn't want cap rates on any specific transactions out there. I think the best data points to look at right now are what we completed. We just announced the 10 East 53rd Street. That's a core office building on a side street, and that got done at a 5.7% cap rate. We announced 7 Dey. That's a core residential and retail asset that got done in a 5.0%. And I think you'll continue to see assets trade in those types of ranges. But I don't think we'll go along any specific number or type any specific asset at this point.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then just my other question on 750 Third and 346 Madison. [indiscernible] (00:48:32) had the incident with the other conversion close by on 750 Third and then there's some press on 346 Madison that maybe neighboring properties delaying you or something. Can you comment on just the progress on those two deals and whether anything gets interrupted on either of those in terms of timeline or plans?

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

A

Okay. Let me just make sure, the question is 750...

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

And 346 litigations [indiscernible] (00:49:00)...

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

A

That's two questions. Okay. 346 Madison what?

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

The litigation.

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

A

Oh, oh, okay. So, 750 Third, I want to make sure I got the question. I've got with me Bob. There was a question about what are we doing over at our building to ensure integrity of the execution or what happened [indiscernible] (00:49:21).

Robert DeWitt
Senior Vice President-Construction, SL Green Realty Corp.

A

It was – we see an interruption on our project at 750 Third?

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

A

Okay. No, no. There's no interruption on the project, debt or equity capital from what took place at a property on 42nd Street, which I assume many of you are aware of what happened there, was basically as far as we know and it's not yet official, it's human error. And something that has zero extrapolation to our project; and therefore, our debt and equity is not impacted by that in any way. We expect to have that transaction closed in the third quarter, both debt and equity. We're on a path. I feel great about the project. I think it will be the top rental project in that, let's call it, Midtown – I don't know what you call...

Robert DeWitt
Senior Vice President-Construction, SL Green Realty Corp.

A

[indiscernible] (00:50:29).

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

A

...and that particular Third Avenue Midtown submarket has expanded all the way over to Second and to First. The design is extraordinary. The amenity package we have for that building is like none other. We're having a lot of fun with it and we're able to do it in a way with domestically sourced products to keep it within our original budget, which I think was around total cost, $800 million plus or minus.

I've got my head of construction here making his debut after 122 conference calls that we've done since 1997. Robert DeWitt, the man behind the curtain who shepherds, under Ed Piccinich's watchful eyes, our developments at One Vanderbilt; One Madison, now 346 Madison; certainly, the conversion of 750 Third. Bob, a little bit just a minute on what controls we have in place at 750 Third to ensure structural integrity, which on a project like 750 Third is actually, I'm going to say, a fairly easy lift for us relative to the kinds of things we've done at One Madison and elsewhere. But I think it could be illuminating if you could show that.

Robert DeWitt
Senior Vice President-Construction, SL Green Realty Corp.

A

Sure. Thanks, Marc. Thanks for the intro. So, we have numerous layers of oversight, review, inspection and approvals before any structural demolition or overbuild is authorized to proceed. We've got a world-class design team, independent and major New York City construction manager, third-party special inspectors, as well as our own dedicated staff overseeing the day-to-day execution of the project.

We have extensive procedures in place to track the execution of the structural reinforcement of columns and beams at all levels of the project. Ultimately, each location is tracked with detailed photographs and logged electronically in our online tracking software by our construction manager and design team. Once reinforcement is confirmed, complete by the subcontractor and the construction managers, an independent third-party special inspector performs their inspection and confirms the work is complete per the plans and specifications before any further work can continue.

And finally, no structural additions, demolition or overbuild activities are permitted to commence until all required structural reinforcement has been completed, all the inspections have been approved, all tracking documentation is in place and verified, and all structural stability requirements have been satisfied and confirmed, and a pre-transfer and pre-overbuild conference that includes all members of the design team and development team. This process is not only standard for our 750 Third project, but any project we complete across the portfolio that involves structural overbuild or structural work.

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

A

Thank you, sir. So, that is where we stand on 750 Third. As to, I think the question was on 346 Madison, the litigation you're referring to is for some access across [indiscernible] (00:53:44) building. That's fairly, I hate to say, routine in New York City development. There should be a lot of neighborly love and an access, but you often have to make a visit downtown to lay out the parameters of exactly what level of access, monitoring, building protection, et cetera. We did it on OVA, we've done it in other buildings, we did it here. When people build next to us, we're on the other side of that. And I think that will all be sorted out next month in August. Ahead of our demolition, we anticipate no adverse outcome and no adverse impact on timeline.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thanks for all the color.

Operator: And our next question will come from the line of Seth Bergey of Citi. Your line is open, Seth.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking my question. I guess just a first one. You did a $14 million of buyback activity in the quarter and I know the dispositions kind of back half weighted. I guess, just thinking about the use of those proceeds, how do additional buybacks compare to your goals of debt paydown on a relative basis?

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

A

Yeah. Our goal is to make the most with what we have, and that takes different forms at different times; development, opportunistic investment, buybacks, debt paydown. We had said, I think for a while now when we felt we were in a position either with deals done, deals in contract or deals within our sights, that we have incremental liquidity, that we would use that incremental liquidity for buybacks. And we were in that position towards the end of the second quarter. We did dip into the market at that point in time that we felt the price was not nearly reflective of the underlying value of this platform.

I think with the intense focus of the analyst and shareholder community on earnings, and I understand that because we focus on that too, there's also an intense lift on valuation. I mean, our assets, which are already premier assets, are becoming more valuable with each passing day, with every bit we lease up and with every bit we improve. And winnow some of the low-growth assets and redeploying to high-growth assets.

So, we feel not just really good about leasing, we feel not just good about where our earnings and cash flow is headed, but we feel good about underlying valuation. So, we consider it to be a structural disconnect in the second quarter, we put some money to deploy, and what I often consider to be the best and most obvious way, to invest in yourselves, because we believe in ourselves, and I think we'll be rewarded over the long term for those investments which we may or may not do more of as time goes forward. We'll just see what the landscape is at that time.

The great thing is we've got so many different levers to push at any moment in time to try and optimize return for shareholders that even though our focus is in one market, it's a pretty [obscenity] (00:57:08) big market, and there's lots of opportunity and lots of ways for us to deploy capital and make money.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. That's helpful. And then with just the $0.80 of FFO kind of re-rated to some of the basis accounting and then having some component of kind of maybe fair value adjustments on derivatives, have you put any thought into disclosing either a core or a real estate FFO metric to kind of give the investor community a better sense of the underlying earnings performance of the business?

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

A

No, I don't believe in violating what NAREIT says is FFO and creating your own. So, we do it as reported, as everybody should, and that's the best way to compare across companies.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Thanks.

Operator: And our next question will come from the line of Vikram Malhotra of Mizuho. Your line is open.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Afternoon. Thanks for taking the call and obviously congrats on a strong print. Just two clarifications. I guess you referenced a fad and breakeven. I was just wondering if you can clarify what do you mean by breakeven? And, Matt, could you at least, for 2026, give us a sense of how like the CapEx should trend in the back half as to the first half?

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

A

Sure. Yeah. CapEx tends to be a little back-ended just because we get budgets approved and then you got to get to spending, that's our spend, and reimbursement to tenants. So, historically, capital spend is higher in the back half than the first, but since that's largely out of our control, we can't say for certain how that plays out. And the commentary on 2028 is the same thing we said back in our first quarter call, with FAD steadily improving 2026 into 2027, but 2028 you are breakeven as against coverage of your dividend.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Dividend. Okay, that makes sense. And then I guess just now, given what you talked about in terms of more interest to capital markets even opening even wider, is there a way you can share with us like, as of today you sold East 53rd, I think it was [ph] a 5%, 7% (00:59:31). But how should we think about the range of cap rates for, say, like newer build core asset versus maybe older need CapEx or just a lease-up opportunity? Like how should we [indiscernible] (00:59:45) Manhattan in the range of cap rates, older versus new product?

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

A

So, Vikram, cap rates, I subscribe, are really driven by two things. Embedded growth, expected growth within the asset and a view on rates. You can get a low cap rate with an old building, a high cap rate with a newer building. It's not really new versus old. It's when cap rates compress is when the market believes you're going to have above average earnings momentum and growth. And if that growth in NOI projection over 3, 5, 7, 10 years outstrips your view of where rates are headed, then you're going to have a compressed cap rate and they could often be below your financing costs. It's not uncommon to have cap rates drift lower than your financing costs when you have embedded growth. And right now, when we see nominal rents and net effective rents increasing at these kind of rates, as long as interest rates are roughly stable and that's a caveat, then I think you'll see cap rates compress notwithstanding it's a higher than historical interest rate environment because people are investing for growth.

They want to borrow in 2026 and repay in 2036, and have a lot of nominal growth along the way. And when you have that circumstance, you can have premier growth assets sub-5%. I think the bulk of what we own is between 5% and 6%, and there's really not much in our portfolio that trades north of 6%, in my opinion.

I'm not giving you market cap rates, I'm giving the cap rates for our portfolio, the way I look at our assets. I don't think we have much of an appetite to trade in the 6.5% to 7% range, even if that were the market, which I don't think it is for our assets. So, I think it's decidedly between 5% and 6%, certain assets are sub 5%, very few might be a touch over 6%. That's kind of a broad range of how we view. And the more – the tighter, I think, occupancy in the city in our portfolio gets and the more net effective rents improve, I think the more you may see those cap rates dip. And then if you get a little interest rate relief, then it's all bets off.

And we've seen that. We've seen how fast it can go in your direction or five years ago, go against your direction. But I think right now we're in the place we want to be. And I think that's why you saw us dip into the buyback market again, which we haven't done in many years. And I think that's a fair assessment of cap rates.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you. And then – that was helpful. Just one last one, Matt. You have fair amount of debt coming due next year, and I guess concurrently also a bunch of swaps expiring. You talked about asset sales, but just maybe, can you give us an update specifically the plan for 2027?

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

A

Yes. I plan to do that in December. Thanks for your trick question.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Any early preview?

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

A

No.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Thanks so much.

Operator: And our next question will be coming from the line of Ronald Kamden of Morgan Stanley. Your line is open.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Hey, great. Just two quick ones. My first one, I know we talked about sort of the leased occupancy target of 95% and potentially exceeding that, but any sort of color where the commenced occupancy ends the year? And the reason I ask is at the Investor Day, I think you guys caught a lot of attention on that same-store NOI for 2027 over 10% potentially, and just would love to understand where the commenced occupancy ends and if that's still sort of a good target or realistic. Thanks.

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

A

Yeah, it's a good question. We are trending ahead of our same-store NOI projections for 2026, which is great, but then it calls into question, well, that's increasing your benchmarks. What does it mean for 2027? But the trajectory into 2027 is such that we still expect to be in excess of 10% same-store NOI, cash NOI growth in 2027 as well, even though 2026 is outperforming.

As to occupancy, you're talking about commenced occupancy. I think the more relevant is probably economic occupancy, that's a flows through earnings. Commenced is more of a legal term. Economic occupancy, we expect it to close the gap to leased occupancy by at least half of what it was at the end of 2025 by the end of 2026. And we are on that trajectory.

Ronald Kamdem Q

Analyst, Morgan Stanley & Co. LLC

Great. And then my follow-up is on the alternative strategy portfolio, just any updates on 2 Herald Square, I mean, I see 650 Fifth, Worldwide Plaza, just any traction there. Any movement on those assets? Thanks.

Marc Holliday A

Chairman & Chief Executive Officer, SL Green Realty Corp.

Ron, Harry had to leave for [indiscernible] (01:05:25). We hung in there as long as we could. But he had a hard stop at [indiscernible] (01:05:31). He really is the one to hit those questions. I will have him call you on those, but like...

Ronald Kamdem Q

Analyst, Morgan Stanley & Co. LLC

Okay, we'll follow up [indiscernible] (01:05:39).

Marc Holliday A

Chairman & Chief Executive Officer, SL Green Realty Corp.

In terms of what I can say just sort of broadly is that they're good assets that for different reasons need to be recapitalized. I mean, I think that's obvious. Worldwide Plaza, it was the move out of the main tenant, Cravath. In the case of 2 Herald, there was the Amazon/WeWork lease expiration I guess, it will be. And 650 Fifth, that one, I think that's still yet to be played out. I mean, needs to be recapped, and will be recapped, but that's a good piece of real estate on Fifth Avenue we lease to a great tenant.

So, I look at all of those as assets that have some challenges, not fundamental real estate challenges, but capitalization challenges. I think we've proven time and time again in that ASP portfolio and otherwise an ability to get in and work with the various stakeholders to try to get to a solution for everybody. That's the optimal solution on the table. And we're committed to trying to make it work on each of those assets, but each one needs to be restructured, and either we'll be successful or we won't. But just to reiterate, those are assets that contribute little in the way of earnings and really nothing in the way of NAV as we perceive it. We have no recourse to speak off on those assets. And I look at them as just three opportunities that we are giving attention to, we're not committing a lot of capital to and probably won't; but we might, under the right set of circumstances, commit some. And yet to be played out, but we're hanging in there. And I think the stakeholders recognize we've done all we could do in those circumstances. And I think we're kind of in the batter's box, if you will, to be the ones to help put those assets back on safe footing. And if we do, we may get a surprise to the upside.

Ronald Kamdem Q

Analyst, Morgan Stanley & Co. LLC

Helpful. Thank you.

Operator: And our next question will come from the line of Brendan Lynch of Barclays. [Operator Instructions] And as a friendly reminder, please limit yourself to two questions.

Brendan James Lynch
Analyst, Barclays Capital, Inc.

Q

Sure, I'll limit myself to one question. On the concession environment, one of your peers has argued it's hard to get free rent down below a month per year of lease term, which you guys were able to do this year – or, excuse me, this quarter. And the argument being that you need the time to build out the space, clients kind of resist having double cash rent during the buildout period and they'd rather have higher face rents. So, the question is, how low do you anticipate you can get free rent going forward?

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

A

Well, you have to differentiate between new tenants coming into the portfolio versus renewal leases. And as I think Marc made the point earlier that the net effectives and the concessions – net effectives rise, the concessions tighten when we're doing renewal deals. So, assuming that it's a typical five-year renewal, when the market is at its peak, generally its free rent is maybe two or three months. Today, we're kind of in the three to four months, three probably being the average on a typical kind of five-year renewal for most of the deals, these small to mid-sized deals. New transactions, if it's a 10-year lease, I think that's generally when – I would not be surprised to see free rent ultimately get down to kind of the 10-month free rent for a 10-year transaction.

Brendan James Lynch
Analyst, Barclays Capital, Inc.

Q

Okay. Very good. Thank you.

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

A

Yeah.

Operator: And our next question will come from the line of Caitlin Burrows of Goldman Sachs. Your line is open.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Hi, everyone. Sorry it's so late. Just a quick one on the One Vanderbilt, $0.80 of additional income, I guess it seems like something that you guys would have had some visibility into. So, I guess, why wait until now to talk about the boost to FFO? And then more importantly, what will cause fluctuations over each quarter going forward? So, like if the 2Q contribution was $0.35, why is then Q2 to 4Q total like over $1?

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

A

So, the first answer is if we have visibility into it and we get affirmation of the treatment, we would include it. So, we didn't have that until we included it this quarter and vetted it all the way through all the rules, auditors, NAREIT, and everybody else involved. So, when that was vetted through and we had eclipsed the threshold only after the end of the first quarter. So, it wouldn't apply till the second quarter. And that's when we employed it, and we'll use it going forward.

What impacts that going forward is, most importantly, distributions. As I went through the math earlier, there's what I call a fixed component of the calc and a variable component of the calc. The variable component is cash distributions as compared to what would conventionally be GAAP equity pickup. And as cash distributions increase or decrease, so does the FFO contribution. It's almost equivalent to a cash basis of accounting.

So, as we look forward, we look carefully at distributions. If we need cash or something, we'll hold it back. If we don't, we'll distribute more. And those distributions will impact quarter-to-quarter income rec and FFO recognition.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you. And then just on SUMMIT One Vanderbilt, you guys are talking about how well it's doing. I know last year Ascent was offline for part of 2Q, but I believe it was online for all of 2Q 2026. So, just wondering if the 2Q 2026 expectations were in line with your expectations and if there is any changes to the full year 2026 expectations?

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

A

No. Caitlin, as I said earlier, I think that I started seeing the turn in numbers late May, June, so the latter part of 2Q. I think Q3, you're going to see some good numbers. The downs I referenced were really Jan through May or Jan through part of May. It's not really Ascent-driven. I mean, we had to reintroduce Ascent, we had it down for maintenance for a while. It's back up, it's running, it's great, very popular. And that'll be a part of what you see in Q3, is the multiple effect of Ascent at full throttle plus ticket sales back to many, many days where we're selling out.

Weather's been great, et cetera. So, I'm very optimistic for SUMMIT in what is a challenging market. I think if you look around at some of the other optics where foreign tourism particularly has been substandard for the year, it's made up a little bit by domestic tourism, but it's still down overall. And I think some of our competitors have had to resort to discounting tickets. We've been able to keep our rents high. We don't participate in the past [ph] program. We're probably the only object (01:13:28) I know that doesn't participate in that program, which generally discounts tickets just because we have a great following and it serves as a great traction both for new attendees and repeat attendees. And I think we're going have a very good second half of the year. And whatever we experience in the first half, we were able to somewhat mitigate through management of variable expenses. I think the team did a great job there.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Got it. Thanks.

Operator: And our next question will come from the line of Michael Lewis of Truist Securities. Your line is open.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Thank you for running long here. So, the AI lease thing is obviously very strong. And I know some of those tenants are large players, some of the largest companies in the world, but some of them are not. So, kind of similar to when the early days of the Internet, the Internet worked, but not all the companies did. And there's a lot of AI companies. I'm just wondering, from an office landlord's perspective, what are you seeing in terms of credit quality and are there AI kind of employees say, oh, I'm going to pass on that one, it worries me a little? Alternatively, are there ones where you say, wow, the growth could be really explosive there, that one might be worth a shot? I'm just wondering what you kind of see the breath of the AI demand.

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

A

Well, I think there's a couple of things to point out to. The good news is, broadly speaking, the technology industry is back, in a big way, leasing spaces in Manhattan. There's 9.5 million square feet of active tech searches going on right now. Of that, 2.5 million square feet are AI tenants. So, important to differentiate so people don't believe that just because it's tech therefore it must be AI. That's not the case. That's one.

Two, during the dot-com days, we were very conscious about not having – being overexposed to that industry. And we were very limiting as to the deals and the size of deals that we did. But there is a big difference between what we saw with dot-com tenants during that market period versus the AI tenants that we're seeing today. Most of the tenants of any consequence that have come through our doors are firms that are well-capitalized. They have big revenue versus the dot-com tenants, which many of them had no revenue. A lot of these tenants have big, big revenue in place.

But having said that, there will be winners and losers, no doubt about it. And we've consciously limited our exposure to the AI industry to somewhere between 1% to 2% of the portfolio. And most of that industry is Midtown South, as far as where the tech and AI tenants like to locate themselves in our buildings in that part of town at this moment in time for the foreseeable future, are 100% leased.

Michael Lewis

Analyst, Truist Securities, Inc.

Q

Okay, great. And then my last question, somebody earlier asked about an alternative FFO metric. I'd prefer not to have another FFO metric to worry about, but I might propose something to all the office companies as far as net effective rent comparisons. So, this 18% cash spread is great, and I've done this on your call and I've done this on other office calls, right? I pulled up your Q2 2016 supp and your 2Q 21 supp and I just – I look at the rent, the free rent divided by the term, the [ph] PI (01:17:21) divided by the term. Whenever I look over, it seems like net effective rent goes up like 2.5%, 3% a year. I don't know if it keeps up with OpEx. But I guess my question is, right, when you look at that 18% cash rent spread, which tells us a lot, what would it be if you looked at the annual rents on a net effective basis, right? You talked about those are spiking up. But I could never see it in the number. Does that make sense?

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

A

I guess we're trying to interpret your question, Mike. You're asking what [indiscernible] (01:17:55)...

Michael Lewis

Analyst, Truist Securities, Inc.

Q

Yeah, Matt...

[indiscernible] (01:17:57)

Michael Lewis
Analyst, Truist Securities, Inc.

A

...are really going up that much because I can't see it.

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

A

You're...

Michael Lewis
Analyst, Truist Securities, Inc.

A

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

A

...you're – okay. So, the question [indiscernible] (01:18:02).

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

Wait, wait.

Michael Lewis
Analyst, Truist Securities, Inc.

A

What is net effective rent growth? 18% is the face rent, what's the net effect?

Harrison Sitomer
President & Chief Investment Officer, SL Green Realty Corp.

A

What's net effective rent growth?

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

A

Well, let's just go this way. I mean, if concessions have been stable for the past, call it, at least year-and-a-half, so if the space rents are up materially, the net effectives are up, that's really...

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

A

Yeah. I think a measure of it would be you have to look over a two-, three-year period if you have FFO growth, an AFFO growth that exceeds the FFO growth, that differential largely would be or at least partially driven by leasing cost savings, yeah? On first gen at least, right?

We don't track, what do you call it, net effective growth because it's very hard. I'll give an example. Just the question becomes do you amortize all the TI over the period of the lease to calculate net effective or do you assume some salvage value? Some leases, yes. Some, no. And TI is one of the biggest components. And to just assume that all TI is written off over a 10-year lease term, I don't think is accurate, or it's sort of dependent on the quality of the tenant's installation. So, it's just not that simple.

And I mean, really the way we – I'm striving for like as higher renewal probability as possible, 75%-plus and keeping the concessions down to three to six months on a renewal and TIs of paint and carpet, that's the ultimate, in which case your – even if rents are flat, even if rents are flat, replacement rents, your net effectives will be up by almost 100%.

And in order to drive the rental rates, it's not just leasing concessions, you have to invest in your buildings and you have to invest in amenities and lobbies and roofs and everything. So, that's why what may seem like, geez, I should be looking at 50% net effective growth, yeah, but we spent a lot of capital on the buildings themselves in order to drive nominal rents. It's not just about direct leasing costs.

So, I think that – I mean, we're managing to try and get FFO growth at a consistent level. And I think 3% to 5% a year nominal growth, anything above that is gravy. And that or more on cash flow growth. And you should see that in our numbers as 2026 compares to 2025, and then when we get to 2027 and 2028, I think you'll see it. But to give you an exact percentage increase in net effective, we don't have that number.

Michael Lewis
Analyst, Truist Securities, Inc.
Q

Thank you.

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

All right. Thank you for the calls, everyone, and have a great rest of your summers. We will be heading right back into the pit and start to put together, plant the seeds for a great Q3. And we'll speak to you all in October.

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