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SLG - Q1 2017 SL Green Realty Corp Earnings Call

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PRESENTATION

Operator

Thank you, everybody, for joining us, and welcome to the SL Green Realty Corp.'s First Quarter 2017 Earnings Results Conference Call. This conference call is being recorded.

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

Also during today's conference call, the company may also discuss non-GAAP financial measures as defined by SEC Regulation G. The GAAP financial measures most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on the company's website at www.slgreen.com by selecting the press release regarding the company's first quarter 2017 earnings. Before turning the call over to Marc Holliday, Chief Executive Officer of SL Green Realty Corp., (Operator Instructions).

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

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

Good afternoon, all, and thank you for calling in today. It's hard to believe that the book is already closed on the first quarter. The more typical let down in activity we often see in the winter months was certainly not apparent this year as we had a very active quarter with solid results. I'll hit some highlights and convey to you some observations on how our markets are performing before opening up the phone for some questions.

On the demand front, our leasing performance was ahead of budget, and we remain on track to meet or exceed our leasing goals for the year. We concluded leases for nearly 350,000 square feet of Manhattan office space within the portfolio having a 21% mark-to-market supporting our December projections of market activity in Midtown.

Since the end of the quarter, we've signed another 70,000 square feet of deals, and our current pipeline has actually expanded from the last quarter to a total of 665,000 square feet of leases and term sheets currently in negotiation. This pipeline represents over 50 transactions, almost entirely made up of deals for space that are 50,000 square feet and under, reflecting the highly leased nature of our portfolio. At this point, we are really just filling in pockets of space around the portfolio and renewing our bigger exposures, which are scheduled to be happening in the future, generally occurring within the next 24 to 34 months, so that we keep maintaining our industry-leading average lease terms of 10 years plus and we keep our near-term rollovers for the balance of '17, '18 and into '19 at very, very low levels relative to the total portfolio size of about 28 million square feet.

Of particular note, we are generating this leasing activity, while still holding the line on tenant concessions. Our average TI for renewal deals was just under $20 per square foot for the quarter and just around $63 per square foot for new deals. This represents levels well below what we incurred throughout all of 2016, which makes our rental achievements for the quarter, I believe, that much more impressive.

We certainly read the reports, and we're aware of certain deals, [which] take a different approach and buy up the rents with outsized TI packages. While these occurrences are infrequent in terms of a number of deals in the market where we see that occurring, they often do get a lot of scrutiny and notoriety. And I think that elevates it to a level that indicates a trend, which really we don't see within our portfolio. But our philosophy is to lease at the market and hold the line on tenant concessions. And we encourage shareholders to take note of the varying approaches to leasing, none being right or wrong, just different.

On the retail leasing front, certainly, our successes were not limited to office as we carried out our business plan to relet substantially all of the space vacated by Aeropostale last year and to do so at rents that will ultimately result in a 30% mark-to-market relative to the old Aero rent. The lease we previously announced with the Korean technology giant, LINE FRIENDS, combined with a just recently announced retail lease to Viacom, is certainly further proof of SL Green's ability to outperform the market with respect to retail as well as office. In fact, we currently only have 2 spaces available within our high street retail portfolio with limited expirations through 2018. And in those limited instances, we believe we will have the opportunity to substantially increase our rents due to the below-market nature of what's rolling.

While there are fewer retailers in the market at the moment, we certainly have a different retail story to tell as our high street portfolio continues to be a source of extraordinary earnings growth and profitability, and I think this was crystallized in our announcement -- recent announcement, I think yesterday, regarding 102 Greene Street, where we entered into an agreement to sell a 90% interest in the property at an attractive valuation to the company due to the expectations of our ability to lease that space on favorable market rates in the near-term.

So these balanced leasing markets, both in the office and retail sides of the equation, are supporting continued high property valuations. And I think this is evidenced on the largest of scales with the sale of 245 Park Avenue, a trophy asset that traded hands to a Chinese purchaser with several others, including ourselves, in pursuit. This transaction shows that private institutional demand, in contrast to public REIT equity markets, is still significant with what seems like literally a mountain of equity capital searching for high-quality deals in Manhattan.

I'll sort of wrap this with a discussion of some of our achievements relating to our One Vanderbilt development project in the first quarter, and then we'll take some questions. There's a lot that went on in the first quarter. I'm happy to say that we are really starting to feel the excitement and the enthusiasm of this development project as we complete our excavation. We've begun our foundation walls. We'll be laying our first steel in June. And by the end of this year, we would expect to have 5 or 6 floors of steel rising from the base level of the project.

In furtherance of that, Tishman Construction has signed the GMP with us for the entire construction cost of the project. And I'm happy to say that, that GMP was signed below the low end of our, what we call the goalpost, the low end of our goalpost budget. So we've experienced some savings to date with our 80% procurement. We expect to be able to deliver the other 20% of procurement at or below budget as well. And essentially, a big element of risk in the project has now been assumed by Tishman, not just for construction cost, but also milestone scheduling, all of which, I believe, will lead us to a very well-executed development that will be delivered, both on time and under budget. So we were happy to report that.

And that was done in conjunction, within a matter of days, of having received from the City of New York our building permit. So it's good to know that we can actually go forward and officially build this project. We've cleared what took about 6 or 9 months of hurdles with the city to submit all the plans and go through all the requisite inspections and meet all the different requirements to be eligible for this permit. We now have it. So we are completely green light to go in that regard.

Obviously, we talked about previously in the first quarter our closing of our joint venture for approximately 29% of the equity with the Korean pension fund service and with Hines investors. And that, obviously, is 71% of the project with us, but with the $525 million equity commitment that we now have in the project, combined with the $1.5 billion of construction financing, which is locked and loaded, our future equity commitment to the project between now and 2020 is less than $100 million a year. And we'll -- we feel that this project is now extraordinarily well capitalized and able to be completed. So that really all focus, at this point, can be put on marketing and leasing of the space, while the construction group carries out the construction of the project.

And to that end, in furtherance of our marketing efforts, I would say we achieved sort of a pivotal moment in the deal where we were able to partner with one of the most renowned chefs and restaurateurs in the country, perhaps in the world, Daniel Boulud. And we are extremely happy to have announced just days ago our partnership with Daniel to construct and operate a 11,000 square-foot restaurant on the second floor of One Vanderbilt, I think really marking a point of not just fine dining, which it certainly will be, but really a whole rebirth of great restaurants in this Midtown area. This restaurant, I think in particular, will be leading the way not only for local business folks and residents and tourists, but also for tenants of this building. This will be an extraordinary amenity in terms of the food offerings that will be made available to tenants in a number of different ways throughout the building.

So all in all, great progress in 3 months. Happy to report that. And it really, I think, sets up well for what I hope will continue to be a very successful 12- to 18-month marketing effort as we continue to meet with tenants on our path towards being able to sign up some leases, which we had rolled out a -- our expectations for that, both last December and again in January. A lot of that happening towards the middle to end of 2018.

So that's the report on One Vanderbilt and the quarter. With that, operator, why don't we open up the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John Kim of BMO Capital Markets.

John Kim - *BMO Capital Markets Equity Research - Senior Real Estate Analyst*

Marc, I wanted to ask if you can elaborate on your views on the pricing of 245 Park Avenue. Do you think this is a high watermark as far as the price per square foot for an asset this size? And how will this impact pricing for properties like Worldwide Plaza and 1515 Broadway, if at all?

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

Well, let me first speak about 245. I don't really see it as a high watermark at all. I mean, I think it's about $1,240 a foot or so, depending on, I guess what footage you're using. But let's call it, right around $1,200, $1,250 a foot. That, I think, for trophy assets and quality location, is somewhere between average, maybe even below average. I think the best buildings in New York today have commanded, and I think will continue to command, $1,500 a square feet and higher. The best buildings, new construction, $1,800 square feet to $2,000 a feet. So that, to me, if you want to talk about high watermarks, I'd be looking at $1,800 to $2,000 a feet for best-of-class new construction in new -- in best locations. $1,200 a foot doesn't -- I think is unto itself, unremarkable. I would look at the yields. The going-in cap rate on that is reportedly somewhere around 4 -- between 4.8% and 5%, again, depending on exactly how you would go about measuring that. And I think when -- most importantly, I think the proper form of measurement is what kind of expected returns would a investor be able to see off a project like that. And I think it's very consistent with returns where they've been marked for assets sold in '15 and '16, now beginning of '17. I would say unlevered IRR is approaching 6%, and levered IRR is, depending how much leverage you put on, between 8% and 8.5%. So I think you've heard on these calls before a 6%, 8% -- 6% unlevered, 8% levered, for trophy assets, completely in line and I think completely understandable in an environment where borrowing costs are 4% or less for conventional levels of financing. It's an excellent asset, and I trust the buyer will be quite happy with this particular purchase over the long haul.

John Kim - *BMO Capital Markets Equity Research - Senior Real Estate Analyst*

Can you provide an update on 1515 Broadway and what the potential use of proceeds may be?

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

Well, an update in terms of that's one of the assets that we currently are in discussions with certain larger investors for a potential JV in the property. So I mean, I can't update you on that other than to say -- I don't know what update you're looking for -- other than to say, we're in discussions, and I think we're having good discussions. But that's the update. In terms of what would the latter expected use of proceeds, everything [can fund] our business plan. You saw our goals for the year when we met in December. I presume you did. And we have acquisition goals. We have the potential for increased levels of structured finance. We have a stock repurchase program that's up on the -- that's been allocated and approved, and we could always choose to further delever. Although sitting here on in an NAV basis below 37% loan-to-value, that, I don't think, is necessarily the highest and best use of those proceeds, but it is a possible use of proceeds. I would point you towards those and possibly others. Thank you.

Operator

Our next question comes from Alexander Goldfarb with Sandler O'Neill.

Alexander David Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

Just first on the New York REIT, the stock position. Was this something -- presumably, this was something legacy from when you guys were in the hunt for it. Or was this a transaction that was after you guys were pursuing that company?

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

Alex, this is Matt. So that position, we derived it in the second half of '16 and then sold out in the first quarter.

Alexander David Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

Okay, okay. Cool. And then maybe for Steve Durels. In some of the broker commentary, it's highlighting -- and Marc, you talked about it, but the increase of concessions out there in the marketplace, how do the tenants look at it? Are the tenants swayed by -- if there's one landlord that's offering a huge amount of concessions but high face rent versus other one -- someone else is more of on effective basis? Are the tenants really swayed by that? Or is this something where we're going to see more of this come in and more broker commentary about concessions, especially as stuff on the Far West delivers?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Well, I don't think there's a consistent way the tenants look at it, to tell you the truth. Everybody manages their business from a different point of view. Some are all about capital preservation. Others are about occupancy savings. So it really depends on who you're talking to, and you could sort of bucket a little bit by industry sometimes. But having said that, it's very hard to parse it out. I mean, we do deals with tenants where they want a turnkey installation, and they're willing to pay a premium rent if we'll put the capital into the space. We have other tenants that come to us and say, "Hey, we're sitting on capital. We're willing to put it into the space, but we'd like to net down our rents." And from the management of our portfolio, we have the flexibility to address each of those desires.

Alexander David Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior REIT Analyst*

Okay, okay. But you've never seen -- do you -- but it sounds like in general, you don't see tenants -- unless they're like maybe a small looking for a prebuilt. It doesn't sound like you have tenants who are readily swayed because one person's offering significant concessions versus another there. It sounds like they look at pretty much the effective.

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

No, no. I think just the opposite. I said some tenants look at it net effective. But I think the driver could be one person looking at it and saying "I want to lower my occupancy costs and, therefore, net out the concessions." Others will look at it and say, "I want to preserve my capital, and I'm willing to pay a higher rent." So it really is very tenant specific. Clearly, you've seen some landlords go into the market, and it's sort of a new phenomenon I can tell you, certainly in my career, where landlords, who generally have a short-term investment horizon, are willing to spend extraordinary amounts of capital to buy [up] the rents because they expect to exit out other buildings in the near future. But that's kind of new to the game, but -- and I think a part of it's driven by the fact that interest rates remain low.

Operator

(Operator Instructions) The next question comes from Jamie Feldman with Bank of America.

James Colin Feldman - *BofA Merrill Lynch, Research Division - Director and Senior US Office and Industrial REIT Analyst*

I guess, Steve, sticking with you and the leasing market, can you just give us some more color on kind of any trends you saw during the quarter? I know you're still comfortable with your 1.6 million square foot target. But thinking about how much you did in the first quarter, what gives you comfort keeping that level?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Well, I'll tell you the big differences is that in some of the buildings that I was -- that we were challenged with last year, even though we had good velocity in buildings, we had portions of certain buildings that were challenged. Best example is being 10 East 53rd Street, where we did a lot of leasing, but it was all in the top half of the building. And this year, we've been able to knock off a good portion of the base of the building, which are the larger floor plates relative to a small building, but don't have great light in there and different price point. But last year, I -- we was hard-pressed to even generate proposals. And this year, we've already signed 2 leases. We're about ready to sign a third floor. We're trading paper for the balance. So that building is well on a path to be fully baked by third quarter, I would think. Tower 46, same story. We're down to our last 145,000 square feet of space over there. We're about ready to sign a full floor lease. We've got a lease out on one of our prebuilds. Tour activity has picked up, partly because, I think, once the building was fully introduced to the marketplace, we started to see more tenants come through. Once the first tenant occupied the building and the doors were open for business, that generated a level of activity. So I feel very good about that. And the fact that, quite frankly, we don't have any big blocks of current vacancy to speak of. We've got pieces and parts that we're backfilling in, as Marc spoke about.

So we've got good velocity, and it's going to be a lot of deals to meet the leasing target, because we don't have that big block into being sort of 2 or 3 big monsters that wrap it up for us.

James Colin Feldman - *BofA Merrill Lynch, Research Division - Director and Senior US Office and Industrial REIT Analyst*

Okay. And can you remind us what are your next big blocks that you're working on or that you have available now?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Well, I've got at Tower 46, we still have 146,000 square feet remaining. 45 Lexington's got 200,000 square feet, and The News Building, 220 East, still has about 124,000 square feet. After that, the largest -- and by the way, those are not contiguous blocks. Those are just availabilities. After that, our largest availability in the portfolio drops down to more like 67,000 square feet.

James Colin Feldman - *BofA Merrill Lynch, Research Division - Director and Senior US Office and Industrial REIT Analyst*

And then your next big expiration?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Would be 100,000 square feet of small spaces rolling in Graybar, the largest unit of being about 20,000 square feet, and another 70,000 square feet at 45.

Operator

(Operator Instructions) Our next question comes from Manny Korchman with Citi.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Steve, just while you're on, if I'm thinking about tenants renewing and the way that they think about renewal timing and also rate, are they more willing to sign with you now sort of 24 months ahead of expiration? Or are they willing to roll the dice and see how sort of momentum of rental rate and availability goes over those next, call it, 12 to 24 months?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Again, it's not a hard and fast rule with that. It's generally driven by size of requirement. So the bigger tenants have a longer time horizon where they'll make a decision earlier to the game. The smaller guys want to wait till the last minute. Most tenants, I think, are influenced by -- or many tenants are influenced by their point of view as where they think the economy and the marketplace is headed. But you've seen us, over the past several years, be able to get ahead of our lease roll because we're actively out there encouraging tenants to do early renewals. And that's benefit of -- benefited us through [all] market cycles. And as we sit here today, we're the beneficiary with a low rollover of both 2017 and 2018, so we can weather whatever storm comes our way.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Great. And then, Marc, just going back to NYRT, appreciate the timing comments from Matt. But maybe you could provide us some more behind your thought process of both buying into that position and selling it more recently.

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

Well, I think in terms of buying into it, we underwrite, and we pursue New York City assets. So I don't think we're particularly driven by whether it's owned in a public or private entity. I mean, you should assume, I would think at all times, that any large-scale New York City-based asset, office asset offerings, we'll have significant interest in, and from time to time, take a position. What was the second part of the question?

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Why sell now?

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

Well, when you say sell now, I don't think we sold now -- I think we sold earlier in...

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Sell in 1Q.

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

We sold a few months ago, as I recall. But we sold it right after the announced plan of liquidation. So I think just right at or whenever the plan of liquidation was either done or in our minds, was headed towards absolutely being done, we decided that was the right time to make the investment for us. So that was it.

Operator

Our next question comes from Michael Lewis with SunTrust.

Michael Robert Lewis - *SunTrust Robinson Humphrey, Inc., Research Division - Director and Co-Lead REIT Analyst*

Not to beat New York REIT to death, but were you initially interested in buying the security or the company if -- because if it was the security, why not just buy shares of SL Green, which also traded at a discount?

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

Can you ask that again, Michael? I'm not sure I understood that.

Michael Robert Lewis - *SunTrust Robinson Humphrey, Inc., Research Division - Director and Co-Lead REIT Analyst*

Yes, I'm just wondering if you were interested in -- you saw an undervalued security, or if you were -- if the interest initially was really to own the assets or the company? And if it was the security, why buy that instead of buying your own stock?

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

Look, I mean, I don't look at it as either/or, so that's -- I think those are your words. We buy assets routinely. And I guess you can make a question, why do we buy any asset? This was a stock purchase. I think we've got industry-leading knowledge of New York City assets. We thought it was a prudent investment we made at the time. I think it turned out we were right because I think we made money on it. So I'm not sure how 4.5 million a share of purchase or whatever thereabouts has any bearing or relation to everything or anything else we do in the company. I wouldn't set it up as a either/or scenario. I think we invest lots of money every year. Sometimes in a typical year it's $1 billion or more, some years less. And we're always looking to try and get the best risk-adjusted returns we can and cover all the ground we possibly can in New York City. And so I think that's your way of saying job well done, so thank you. But anyway, next question.

Michael Robert Lewis - *SunTrust Robinson Humphrey, Inc., Research Division - Director and Co-Lead REIT Analyst*

Well done. My second question. This largest mezzanine position in your book, is that 666 Fifth Avenue? And if it is, given it's been in the news quite a bit lately, how do you kind of view your position there?

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

Yes, I think -- first of all, what is our largest position, Matthew?

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

It is not 666.

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

And we don't disclose specifically our...

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

Right.

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

We don't disclose our position specifically. So...

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

But it is not 666.

Michael Robert Lewis - *SunTrust Robinson Humphrey, Inc., Research Division - Director and Co-Lead REIT Analyst*

So do you have a loan on 666 Fifth? Or you can't disclose that either?

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

Well, I mean we never have. I don't want to say yes or no because it's...

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

We don't disclose specific mezzanine investments.

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

I think the supplemental to date has given just about as robust a disclosure as we can short of actually pinpointing particular locations. We do that, really, for our borrowers who otherwise aren't accustomed to that type of discrete disclosure of their capitals stacks when they borrow traditionally from banks or other forms of lenders. So -- but I think we put just about everything else in there in terms of type of loans, exposure, rate, term and everything. So it's all in there. But no, it's -- you asked about the largest exposure. It's not 666.

Michael Robert Lewis - *SunTrust Robinson Humphrey, Inc., Research Division - Director and Co-Lead REIT Analyst*

Okay. That largest one, it looks like the last dollar per square foot is almost $1,200. Is there anything to talk about there then? Or...

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

Yes. I mean, it's an asset with a significant retail component, so I think you have to -- yes. Maybe (inaudible)

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

Let me just sort of get to maybe more of the heart of what you're asking. We are extremely confident that, that book is money good, if that's the question. I'm just not sure of the question. But if the question is, "Hey, you've got a big loan at $1,200 a square foot, do you think -- what do we think of that and others?" This portfolio, on average, we think is about 70% -- 65%, 70% loan-to-value. That's like our value. Often, our borrowers' values, appraised values, market values tend to be a little higher. But in our internal values, we're at around 65%, 70% last dollar. There's nothing in the portfolio approaching anything that would be over 100 or probably not even over 90% or 80%. So it's an extremely good collection of New York City collateral, almost entirely made up of office and retail, maybe some multifamily and maybe a couple of bridge loans. I want to say almost completely devoid, if not entirely, of luxury condo loans, development or otherwise. And it's yielding somewhere between 9% to 10%, I guess. So this is a program we've been doing for about 20 years, extremely profitable. Losses are infrequent, almost, but for 2, I would say nonexistent and dating back almost over a decade ago. And it's still a very good market for us to be an originator and syndicator of that paper, which we did in size in the first quarter. I want to say over $450 million worth or so of new originations.

Operator

Our next question comes from Vikram Malhotra with Morgan Stanley.

Vikram Malhotra - *Morgan Stanley, Research Division - VP*

Just on One Vanderbilt, the partnership that you announced, can you give us any more color on sort of what are the economics of this partnership? Is this sort of a template or a model that may be used for other retail or restaurant deals in the building?

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

No, I think to the contrary, Vikram. This is not a template to roll forward. This is very, what I would call, special situation. I mean, we have many restaurant tenants and leases and some very excellent and high-performing...

Unidentified Company Representative

World's #1 restaurant.

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

World's #1 restaurant, just voted this year, 11 Madison, soon to be coming Four Seasons at 280 Park, legendary Four Seasons at 280 Park; the very high-performing Lavo over at 625 Madison. So I mean, we have excellent tenants and restaurant tenants, and we have ones that are very profitable in the space. But this is -- I think you have to look at this much differently. This is a part of the fabric of the building because of the interconnectivity of the importance of creating a restaurant as both a destination, a quality of food offering that is going to be consistent with the extraordinary high quality of the building itself and the location itself, and the kind of amenities that it can provide to our tenants of the building, which is something that we want to be a part of, quite frankly. And having the opportunity to partner with Chef Daniel is -- we look at it as an extraordinary honor. And we were happy to do it, and the economics are pretty much straight up. I mean, we're going to be all be investors. We're -- our joint venture, consisting of us and our partners, they're going to put up the lion's share of the capital. But Daniel will have real money invested. And I can't speak to the cost or any details yet because the restaurant now will be first designed and costed, but we are confident that it'll be squarely within our budget because we have within our 3-point-whatever billion-dollar budget, there is a -- there is obviously ample dollars that have been allocated for restaurant and amenity space and [objects], et cetera. So it'll fit squarely within that. And the profitability, we hope, will be in excess of what we would've achieved as a leasing result because we've got some really special things that we're working on together that we think will be quite successful and quite rewarding in a monetary sense. So we're really looking forward to the place.

Vikram Malhotra - *Morgan Stanley, Research Division - VP*

Okay. And then just on -- back on the leasing pipeline, just trying to get a sense versus the last quarter. Been talked back and forth on the various verticals in the financial segment in terms of leasing. I'm just wondering in your own pipeline, have you seen that the composition change in any way? Are financials now a bigger part, smaller part? And any interesting trends by price point?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

There's no doubt that the pipeline of both leases out and term sheets being negotiated are heavily weighted towards the fire sector right now within our portfolio. Not a comment about the overall market per se, but I think that's a function of the products that we currently have available are the types of buildings that appeal to that profile tenant. But within the leases out, probably half the square footage that we have leases out right now are with fire-sector tenants, and a good third of the leases that we have in term sheet negotiation are in the fire sector as well.

Operator

Our next question comes from Steve Sakwa with Evercore ISI.

Stephen Thomas Sakwa - *Evercore ISI, Research Division - Senior MD and Senior Equity Research Analyst*

Steve, I was just wondering if you could spend a little more time on the leasing. And just maybe give us a sense for the types of tenants and their desire to expand. Are these new deals? Are these kind of movements within the city? Are these new tenants to Manhattan? Just trying to get a sense for how many are taking expansion space? How many are contracting and maybe if there's any kind of flavor around the industries?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Well, first, remember that with the leasing that we've done to date and with the leases that we have out right now, there are no monster deals, right? It's been a lot of mid- to small-type leases because of -- we're so well leased up right now. But generally speaking, it's certainly not new initiatives moving into the city. It's tenants that are making decisions to either go into a different quality building or a different quality of space. They're restocking. They want to use their space differently. A bunch of them have been driven by expansion. But maybe I'll take a different tact on it. One of the things, for instance, that's kind of notable right now, I think is, if you look at 280 Park Avenue, 280 Park has been on fire this year. I think if we had more space -- we'd have more deals for that building. And all with financial services, most of them have an expansion component. And if we sign all the leases that are out right now, we'll be down to 1% vacancy in that building. So that building is put away. When you look at tenants over at 10 East 53rd Street, a pretty wide diversity of type of businesses, both financial services, luxury goods, fashion tenants driven by, largely by needing to restack and pick up expansion space. And then if you look at Tower 46, I think that's been a pure -- attracter for tenants who want to upgrade for the quality of the space.

Operator

Our next question comes from Craig Mailman with KeyBanc Capital Markets.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Just on One Vanderbilt, I know you've kind of reset expectations, don't expect leasing till next year. But one of the financial service tenants that been reportedly looking at your building is also now reportedly looking at the West Side. Just curious if those requirements would be the same? Or if they're kind of different and they could take space at both spots?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Well, I'll tell you. Any big tenant of size is coming through our door, there's no doubt about it. We still are 3.5 to 4 years out on a time horizon, so that's our biggest challenge to date. But whether they come our way or they go to the West Side, it confirms one thing very clearly, which is that New York City is starved for new construction. And if our building were being delivered sooner, that we would have a very active leasing pipeline right now. And we feel very good about that based upon the presentations that we've been giving to tenants and the feedback that we're getting from both the brokerage community and the tenants who we sit with.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

And on the pricing, has that -- I think you guys need around $150-ish average. Is that price point been receptive to people? I know it's very early in the process, but just hint at that.

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

We don't need $150. We don't need $150. $150, if you remember, we put up on the screen, was a 7.1% development yield, which is fairly extraordinary for a building of this quality and size. So I would just -- need is a funny word. I mean, that's our expectation. (expletive), what is wrong with the mic. I hope you guys can hear me on the other end, otherwise I've been doing a lot of talking and no one's been hearing me. That's our expectation of where the market will be with rents at the base of the building being somewhat below that, and rents above the middle of the building somewhat higher than that. I thought we put up on the screen around December a deal at $135 a foot, which still yielded something in excess of like 6% or right at 6%, just in excess of 6%, which is still actually quite high. So our expectation of pricing averages about $150 for the building. We feel very good about that price level based on all the conversations we've had up to this point and where it falls in, relative to the other significant and most attractive Midtown properties around town, where those leases are being done. There were many, many deals done at levels of $125 a foot and higher over the past 12 months. They're just not the million-square-foot deal. We are not targeting the big million-square-foot-plus financial user for this building. I mean we've said that. So -- and you know that. It doesn't mean we're not going to have those discussions. It doesn't mean it couldn't happen. It doesn't mean it couldn't work great. It just means that this is a very bespoke and boutique building that is designed for value users in kind of the base and midsection of the building and very high-end users at the top of the building who are very focused on location, amenity, design, space, infrastructure and the like. And within that regard, I'd say we feel very good about where the rents will come out in 2022 dollars, or something like that, because we're talking about rents 4 or 5 years from now.

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Just to add to that. The presentations that we've been asked to give to tenants have been with users that have been everything from as small as 35,000 square feet to, obviously, the very large tenants. But the majority of them are for a large tenant in this building, have generally been in the 150,000 to 250,000 square foot range. And we think likely, what'll happen is we'll land 1 or 2 tenants like that, and the balance of the building will be 1 and 2 floor tenants at a time.

Operator

Our next question comes from Nick Yulico with UBS.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Somebody could talk a little bit about the West Side and how it relates to the rest of Midtown. I mean, it sounds like there's some leases in the works that are going to get related to Hudson Yards, some more even further leased up. Brookfield sounds like it has good interest. And starting to hear stories of about tenants actually being turned away from the West Side looking for space because they can't be accommodated. And so I'm wondering, how much does that -- are you seeing that helping traditional Midtown yet? And what you're trying to lease at One Vanderbilt? I mean, has that activity picked up and that tenants just can't be accommodated over there and increasingly looking in Midtown?

Steven M. Durels - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

I want to say exactly what I said before, which is that, yes, you're correct. New construction, 5 Manhattan West in particular, they've got 2 deals pending. It left 1 or 2 tenants on the sidelines because they were slow to pull the trigger. Does it bode well for us? Maybe, but I think they're going to deliver their space immediately, where ours is still off in the time horizon. But it tells you one thing, and I keep saying it and I think it's an important message, which is that tenants want new construction. And One Vanderbilt being the only new construction to be delivered in Midtown is the place where tenants are going to come once we're in the sweet spot of timing.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Okay. And then I guess just on the debt and preferred equity investment activity. I'm wondering if you could remind us at what level you're comfortable providing financing. If you look at, for example, 245 Park, they're looking for, it looks like, about an 80% overall loan-to-value on their financing. I mean, can you just remind us kind of where you're willing to lend up to on that? And where is sort of pricing in the market right now for that type of mezz for those types of investments?

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

It's Andrew, Nick. We definitely do not have a hard stop anywhere in the capital structure. So we are risk-adjusted return investors, which means we'll judge the risk of any given position, put what we think is the appropriate return on it, and that's sort of where we'll provide capital. That goes for equity, preferred equity, junior mezz, senior mezz, B-note, A-note, mortgage, whatever part of the capital structure it is. That's the platform we've built, and that's why we are so successful at generating above-market returns. So -- because we are one of the only guys in New York City, if not the only guy in New York City, that can do that. So we've seen areas of the capital stack compress for sure. There's a very active senior mezzanine bid right now. I think you've seen us sell pieces of debt we've originated into that market. So you've seen us sell senior mezzanine positions on several of the loan originations we've done over the last 6 months. The CMBS market is near its post-2007 lows, so AAA spreads [stayed at] at 75, 80 over swaps. So the CMBS market's aggressive. The debt markets, in general, there's a very active senior bid, which creates great market conditions for us to generate above-average returns in the junior portion.

Operator

The next question comes from Vincent Chao with Deutsche Bank.

Vincent Chao - *Deutsche Bank AG, Research Division - VP*

One of my question's already been answered here, but maybe just sticking with the DPE portfolio. I know there's not a lot that's rolling off [for] the balance of the year. But I guess is there anything notable in terms of timing of the expiries? Or is it fairly ratable?

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

It's Matt, Vin. It's pretty ratable. I mean, there's nothing really -- to your point, there's not much left to expire for the year or to mature for the year. But nothing significant in any one given quarter. And much like you saw in the first quarter, our expectations are that the originations that David and his team do, at least equal if not exceed, whatever matures in any one given quarter.

Vincent Chao - *Deutsche Bank AG, Research Division - VP*

Got it. Okay. And then maybe just a cleanup question, again, maybe on the accounting side. You mentioned the deconsolidation of position at 885 Third. Can you just talk about how that's going to sort of impact the reported numbers going forward?

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

Sure, we got hung up in accounting no man's land when we sold the asset last year, about February. At which point, we had to keep the real estate asset on our books. And the $135 million debt position that we originated couldn't be shown, and we couldn't record income on it. The buyer of the asset, the current owner, refinanced the mortgage in April, which means starting with the second quarter, we won't have to keep the real estate assets that we actually don't own anymore on our books any longer, and we can start to pick up income on the debt position, that was $135 million position, in about 5.75% yield. We'll start recording income on that here in the second quarter, and that is consistent with what our expectations were when we put out guidance, as we did expect the current owner to refinance the mortgage this year.

Operator

Our next question comes from Blaine Heck with Wells Fargo.

Blaine Matthew Heck - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Matt, sticking with you. It looks like the spend related to Viacom at 1515 Broadway was relatively modest this quarter, which was a positive for cash flow. Can you remind us where you are with respect to the total spend there and whether we should expect that to go away this year?

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

Originally, I think when we did the lease, we said we would've expected it to go away like 2 years ago. So it's a bit beyond our control. It's really money that's allocated to Viacom to use at their discretion, and they've taken quite a long time to use it. So I want to say we have, call it, $50 million or so left to fund them. I think our expectations are that, that happens this year, but really no way to tell.

Blaine Matthew Heck - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. And that's been a pretty big drag on cash flow the last couple of years or so. And I guess once you guys are done spending on that, you'll be seeing higher cash flows. So do you think that's going to have any direct effect on your thoughts on the dividend?

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

Dividend gets evaluated the end of every year, as we look forward to the next. Our expectations are we pay out 100% of taxable income. We'll continue to do so whether it's -- I don't think Viacom, contrary to your point, I don't think it's been necessarily a big drag on cash flow. Every year, we have leasing capital we need to spend. That's just one lease that had [capital spend] in the last few years. But with income increasing, cash flow increasing, you would expect the dividend to increase.

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

Yes, I think we have time for 2 more questions please.

Operator

Our next question comes from Jed Reagan with Green Street Advisors.

Joseph Edward Reagan - *Green Street Advisors, LLC, Research Division - Senior Analyst*

You mentioned the GMP with Tishman and how that was set at the low end of the budget range. Just curious if that crystallizes savings versus the kind of the $3.2 billion total budget you guys have laid out for One Vandy. And if so, kind of what that new budget is?

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

Well, I think we'll revisit that a little later, Jed. I mean, I did say in December, and I'll sort of reiterate now, our goal, unlike, I think, a lot of other people's goals when they set out on a project like this is, God, I hope we meet budget. We want to realize, hopefully, significant savings to this budget that we presented to you in the past. But there's still a long way to go. There's still a lot of unknowns. And the GMP is a giant step forward in terms of realizing upon, not just the savings at the time of GMP, but also with respect to all the contingency we have in this deal to the extent, unused by the end, would represent additional areas of significant savings. So I think it's too early for us to start to quantify that. And we'll, as we go forward, we'll have an opportunity to do that. But it does feel good sitting in the position we are now, not only to be able to identify those areas of savings right at this early stage before a piece of steel's been put into the ground just based on the purchases we've contracted for, but also the milestone dates look like we pulled the project forward so far about a month. And whether a month sounds like a lot to you or it doesn't sound like a lot to you, in project of this size, 30 days forward from what was expected to be an August date to go vertical, now in July, big, big difference. So it's early, and we hope to have continued success as we roll forward with the construction. But so far, things are very good.

Joseph Edward Reagan - *Green Street Advisors, LLC, Research Division - Senior Analyst*

Okay. That's helpful. And then have you guys seen any kind of noticeable changes in values for The Street retail market across Manhattan recently? And I guess, where would you ballpark cap rates for kind of stabilized retail at this point and kind of street retail in the city?

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

I think the first part of the question, [no], I think the values, there's still a lot of demand for retail properties, no better indication than our trade on 102 Greene we announced today. And then in terms of stabilized cap rates, we've always looked between 4% and 4.25% on a stabilized cap rate basis. Obviously, most of our street-level retail, as part of the prime portfolio, has rents that are significantly below market, so we've used lower cap rates in terms of expressing the value of those assets. But when they're sort of stabilized and marked at current market, 4%, 4.25% cap I think is a good indicator.

Joseph Edward Reagan - *Green Street Advisors, LLC, Research Division - Senior Analyst*

Okay. Could you guys see yourselves being net investors or net sellers in that business over the next year or 2?

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

I think it totally depends on the opportunities. We're watching the market carefully. There's some interesting situations in terms of properties on the market and tenancy situations. So we'll continue to monitor that. It's just going to be totally based on opportunity, but certainly not an area of investment we'd shy away from.

Operator

Our next question comes from John Guinee with Stifel.

John W. Guinee - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Matt, real quick. Depreciable real estate asset -- real estate reserve charge of $56 million, can you explain that, if you haven't already? And then second, changing over a little bit to multifamily, any place on the island on Manhattan where landlords have pricing power in terms of for-rent residential? And then do you have an opinion on the pricing or the valuation of the condominium market?

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

All right. I think the first one is for me, right, John? So depreciable real estate reserves, when you put assets out for sale like we have, 520 White Plains Road, which is under contract, and Stamford Towers, which is out being marketed, you need to take the potential losses on those ahead of actually closing on them.

John W. Guinee - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. So it's suburban market. Okay.

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

You got it.

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

On the multifamily question, I think we're seeing good lease-up statistics continually at Sky. So I would say on the Far West side of 42nd Street, we continue to see good absorption in that building, and that's at increasing net effective rents. So I guess you'd say there is pricing power there although we are leasing the top of that building as we go up, so -- but the rent's per foot for the higher apartments. And I think Manhattan in general, multifamily is a relatively balanced market, so -- but I think for a new product with great amenities like -- in a building like Sky, there's pricing power. Residential condominiums, I don't think anybody in this room has any view of.

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

Okay. Well, that would do it for today. Thank you, everyone, and we look forward to speaking again sometime this summer.

Operator

Ladies and gentlemen, that does end today's presentation. You may now disconnect, and have a wonderful day.