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SLG - Q2 2016 SL Green Realty Corp Earnings Call

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PRESENTATION

Operator

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

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

Also during today's conference call the Company may discuss non-GAAP financial measures as defined by SEC Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed in 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 second-quarter 2016 earnings.

Before turning the call over to Marc Holiday, Chief Executive Officer of SL Green Realty Corp., I ask that those of you participating in the Q&A portion of the call please limit your questions to two per person. Thank you. I will now turn the call over to Marc Holiday. Please go ahead, Marc.

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

Okay, thank you, operator. We are pleased that all of you have joined us on this gorgeous day in New York City and we are even happier that we were able to put out yet another quarter of strong operating results and market-leading capital transactions.

Our second-quarter results continue a trend in 2016 of surprising to the upside in leasing velocity and rental achievement. We executed another 620,000 square feet of Manhattan office leases highlighted by the recently announced expansion of Bloomberg in 919 Third Avenue and the renewal and expansion of New York Life at Graybar Building. In fact, SL Green was responsible for three of the eight largest leases transacted in the second quarter in midtown, Bloomberg, New York Life and Wells Fargo at 100 Park Avenue.

The mark to market on the second-quarter Manhattan leases was a robust 16% bringing first-half 2016 average rental increases on replacement leases to 28%. And that is on about 1.5 million square feet of leasing during six months. I think it speaks for itself as an extraordinary accomplishment.

Velocity continues even into the month of July with another 84,000 square feet of leasing in office in Manhattan and just the past three weeks at an 18% mark-to-market inclusive of the recent Omnicom renewal at 220 East 42nd Street.

In terms of forecasting these leasing trends for the remainder of the year, I would not that the best indicator of what those results are likely to trend towards would be our current leasing pipeline. That current pipeline stands today at about 1.6 million square feet, the vast majority of which is comprised of leases pending or leases out for signature, and notably the mark to market on all of this pipeline deals exceeds 20%.

So, fortunately for shareholders, and unfortunately for Steve Durels and his leasing team, we must and are increasing our full-year guidance for completed Manhattan office leases to 2.6 million square feet for the full year and mark to market on those leases which are replacement leases to 22% mark to market.

So, numbers that in each case are fairly significantly ahead of where we were in December. That sound you just heard was Steve hitting the floor. You can pick yourself up, Steve. Let's just put the best face on it and go forward, okay (laughter)?

And this manner we provide additional motivation and encouragement to our leasing and operations team to execute at the highest level of consistence with this Firm's culture of hard work and outperformance. These leasing results in our projection of second half performance is driven by continual demand for high-quality, well located, reasonably priced office space, which descriptively, is the sweet spot of our entire portfolio.

Midtown space continues to be in high demand as the vacancy rate decreased 10 basis points to 9.2%, and sublease space in midtown stands at only 2.9 million square feet, near historical lows over the past eight or nine years for its sublease space -- very important barometer. We haven't talked about that on the last few conference calls. But we are talking about sublease space midtown that is about 1.1% of total inventory. So very, very low.

Job creation in the financial security sector is roughly flat for the year, I think contrary to market perspective that there has been some substantial contraction in this sector, it is actually I think only down about 1,000 jobs year to date, which on that job basis is essentially zero.

But interestingly the fire sector, finance, insurance, real estate, is accounting for much of the first half leasing activity in midtown and elsewhere. Healthcare is also making a reasonably good showing, but I would say Financial Services had an above average showing in the first half of the year. That activity -- whether it is the fire sector, healthcare or otherwise, is driven by jobs and job creation.

Unfortunately the June New York City job numbers are not out yet, they are going to be out imminently. We would have hoped to have had them for the call but we don't. But if it is any indicator the national numbers that came out from Bureau of Labor Statistics for June were quite strong relative to May and earlier. And we are hopeful that the New York City numbers will follow in form the national numbers.

In part it is almost self-fulfilling because the end of the Verizon strike in and of itself will probably put back on the roles of the city I think 3,000 plus jobs in June. So we are just hoping that -- and more growth on top of that. But we will see shortly.

So that is a quick snapshot of the leasing picture. I am sure you guys will have questions as we go forward. But I also want to make sure we touch upon the investment side of the portfolio. We did complete some important divestitures during the quarter including the Citigroup headquarters building sale, 33 Beekman sale and sales of a suburban property in Greenwich.

The proceeds of these significant -- the significant capital transactions went to pay down debt and invest in certain new opportunities including a 20% stake in a recently completed residential product on the west side known as Sky and additional investment in the debt and preferred equity portfolio.

On the topic of DPE, we are still on track reaffirm our December guidance that for year end balances we'll be just shy of $2 billion, about $1.95 billion of balance and contribution for the year should be on the order of about $200 million of gross revenues from that book of business.

We have sizable identified pipeline of deals that we expect to close during the second half of the year carrying retained spreads of approximately 9.9% for that pipeline book of business, which is higher than first half's achievement. But when blended will certainly exceed the 8.5% that was used in our earnings guidance back in December and then our earnings revision at the first quarter.

So that is a very I would say positive story and a good market for us to be conducting our business with on the lending side as well as on the equity owned real estate side. We have been market leaders in the provision of subordinate debt capital for large and small New York City commercial projects for years and years.

We established that position by being the most active lender in that market I guess for nearly 20 years. So there is a reputation and franchise and knowledge of the business which I think you will see has been paying off over the years and will be a shining example through the balance of this year.

With excellent visibility at this point into our remaining 2016 production and performance, given there is only 5.5 months to go, our focus will naturally turn to 2017 and beyond. In order to meet our stated objective of delivering market-leading recurring earnings growth and sector leading total return to shareholder growth we have positioned our investment portfolio to generate substantial increases in NOI through leasing up the remainder of the growth portfolio and taking advantage of the embedded rental mark to market in our stabilized office and retail portfolios.

These engines of growth should enable us to continue to deliver sector leading increases in FFO over the next three to five years, and this is before accounting for the earnings contributions from 1 Vanderbilt.

Speaking of 1 Vanderbilt, we are on track with this iconic development project with the site now almost 100% cleared of the four older buildings that formally occupied the site. Heavy equipment has rolled in to complete the removal of the last two floors and in three weeks we will have a clean site ready to be excavated and foundations poured.

Extraordinary amount of credit goes to our construction and operations team for undertaking over the past year what we believe to be the largest surgical demolition of commercial buildings in decades. And it was done on time, on budget and in a safe manner. And New York City is better for it.

There is barely a day that goes by where I don't get a comment from somebody who sees how that site is now being transformed in a way to upgrade the appreciation you have of these great landmark properties that surround the site like Grand Central and Chrysler and Lincoln and others.

By allowing what will replace those buildings, the new building having setbacks to the property line and a tapered form to let and maximum light and air -- enormous benefit to the city, to the skyline and to this Company by adding this extraordinary building to our portfolio.

Our financing arrangements for that $1.5 billion construction loan are on track as we've signed a final term sheet with a consortium of five lenders and we will look to have the loan fully committed and closed by the end of the third quarter.

You also saw we took advantage of interest rates by entering into a $300 million swap, a seven-year term swap. And what is interesting to note is that in the past two Decembers, Andrew Mathias quick write up on the screen, another engine of earnings growth which I think doesn't get the proper amount of due, which is not top-line revenue growth but bottom-line debt service savings.

And we showed that there was an extraordinary amount of mark-to-market savings that we could achieve over the next three to five years in our debt to book by having rates just basically stay roughly where they were when we went through that analysis in December. In fact, rates have fallen since then, so I would imagine the opportunity for us at this moment exceeds the $30 million or $40 million per year annually that we have forecasted at that point.

And these swaps are one -- just one point of evidence of how we can take advantage of that because the rate we locked in for seven years is actually lower than the floating rate we had forecasted for the year. Recall we always model LIBOR curve plus 50 basis points. And the -- Matt, what was it 1.13%?

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

1.14%.

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

1.14% we locked in for seven years is actually below that floating rate amount and now locked in for seven years. So clearly we are going to be intensely focused on these kinds of opportunities with the rest of our debt portfolio to take advantage of rates, lock in these sort of historical lows where we can and where it is prudent to do so. And wind up hopefully creating a fourth measure of earnings growth on the debt service expense savings side.

So, I feel like we are firing on all cylinders, I said that last quarter. I feel like the cylinders are still properly functioning. I feel very good about our positioning in the market for the present and for the future. Our same-store portfolio is 97.4% leased, our leverage levels are the lowest in the Company's history and getting better. Our liquidity exceeds $1.5 billion.

We expect to have little or no line of credit balance outstanding by year end based on projections for balance of year. We have substantial store houses of growth embedded in the portfolio, which I mentioned. And we are on track to develop the greatest building in New York City. So with that I would like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Toti, BB&T.

David Toti - *BB&T Capital Markets - Analyst*

Just want to touch on the sort of tenant mindset from your perspective. You have got a bunch of big leases expiring in the next year or two and the market has been a little bit jittery. Have you noticed any change in attitude in renewal conversations or new tenant conversations in the last quarter or two?

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

I will -- Steve will address the -- sort of the tenant mindset and/or mood. But I would want to go back to the supplemental while Steve is answering. I think we have very little in the way of not even large expirations, very little in the way of expirations in the next -- for the balance of this year and next year.

So, something we have done and we have done with like a single minded focus is to do a lot of not just current leasing but forward leasing. The only way we could lease 2.6 million square feet this year when we only had like 1 or 1.2 million square feet rolling is by putting to bed what could be either exposure opportunity in 2016, 2017, 2018.

So we will look back. I think -- just I want to make sure we are clear. We have very little in the way of rollover exposure for the balance of this year and next year. But with that said, Steve, what is the thought?

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

I think that the feedback we are getting from tenants today is no different than what we were getting a year ago. The general mood from the tenants that we speak to is they feel good about their businesses, they think they are in a healthy position. I think it depends on the type of industry you are talking about as to how bullish they are.

But most people are still in the mindset of expanding their businesses, making capital commitments as far as restacking or rebuilding and changing how they like to use their space and I don't think that is ever going to go away for the next several years to come because it is a bit of a cultural thing.

And tenants -- we have continued to see tenants that in 2017/2018 expirations, a willingness to engage in early renewals. And as Marc touched on, a lot of the sort of outperformance on the leasing velocity within our portfolio is a combination of filling vacancy but also tenants' willingness to step up and do early renewals. And in the 1.6 million square feet that is in our pipeline there are some very meaty deals inside that pipeline which we hope to have success on before the end of the year.

David Toti - *BB&T Capital Markets - Analyst*

Okay, that is helpful. And if I could just follow up with a quick follow up. I know we have asked -- Marc, we have asked you this before about the presence of we work in the New York City market now occupying close to 3 million square feet by some estimates and recently demonstrating some weakness in revenues or in profits.

Does that concern you at all as that member gets larger and larger in the market? And I am thinking back to the late 1990s when we saw a number of sort of WeWork-like tenants kind of disappeared during periods of economic weakness. Does that present incremental risk in the market in your mind?

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

Yes. I don't know that it is accurate to compare WeWork to the other tenants you mentioned -- I forget what period you mentioned, but I guess maybe 2000 or whatever. What was that?

Unidentified Company Representative

Late 1990s.

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

Late 1990s, 2000.

David Toti - *BB&T Capital Markets - Analyst*

Yes, I am old enough to remember that far back at this point.

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

Yes and we were there too. So it is a different company with a different model, a very successful model and a model that is attracting an enormous amount of financial support. So to me the difference between companies -- not just for actual office companies or full service communities like WeWork that do their business, but really any Company to write there any period downturn is simply -- well not simply -- but is in large part capacity and liquidity.

So I think that if any of these companies are capitalized properly, and WeWork looks to be like they are, then these downturns in New York tend to be short-lived. Downturn doesn't mean things like go to zero. Downturns in York may just be marginal rent reductions of 10%, 15%, 20%.

I think that the model we have seen them execute in this market is sort of best of class. And I think that is generally perceived to be such when you look at the landlords that are doing business looking to WeWork is sort of in many cases a prime tenant.

So it doesn't give us concerned, 3 million square feet for any tenant on a 400 million square foot inventory; I don't want to be too dismissive but it is not like 3 million square feet in a 100 million square foot market. This market is four times that size. And therefore we don't -- it is not something that keeps us up at night.

David Toti - *BB&T Capital Markets - Analyst*

Okay, thanks for the detail.

Operator

John Kim, BMO Capital Markets.

John Kim - *BMO Capital Markets - Analyst*

So the Brexit vote happened, that was a surprise to many. Has your business changed at all on the leasing or the investment side since the vote?

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

As a result of Brexit has it changed on the leasing or investment? Not that I have seen.

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

No, I haven't seen it on the leasing side and I haven't gotten any kind of feedback either from the brokerage community or tenants that -- maybe a year or two from now we will see something but there is nothing in today's conversation.

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

Andrew, any --?

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

I would say on the investment side we haven't seen any change. There is some expectation that New York will draw even more capital interest as London is less attractive for foreign investment. It's still too early to tell on that front. We are monitoring the deals that are in the market now and certainly values are holding up or even taking another step forward. But it is too early to sort of tie that to Brexit or not.

John Kim - *BMO Capital Markets - Analyst*

Okay, and my second question is on your leasing pipeline. I was wondering if 1 Vanderbilt was a component of that and if so how much?

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

No, in that 1.6 million nothing is directly connected to 1 Vanderbilt, nor would we expect it to be. We are 4 plus years out before we are delivering the building. And although we are actively presenting the building, we are early to the game. And we have got a stretch goal for the Company to do some leasing this year of about 200,000 square feet. But like in every year, we have a list of goals and then we have stretch goals because we push ourselves to outperform. And we are working hard at it, but nothing to announce yet.

John Kim - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Vincent Chao, Deutsche Bank.

Vincent Chao - *Deutsche Bank - Analyst*

Just wondering on the leasing activity that you have done for the quarter here, you guys have posted some very good results here in the first half. The pipeline actually I think is a little bit bigger than what you talked about last quarter. But that seems a little bit at odds with some of the market reports that we see. I am just curious if you had any thoughts on why you are performing so much more than the overall market.

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

Well, I would ask you the question why should we only perform at the market? I mean we are better at this (technical difficulty). I hope that doesn't sound boastful but --.

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

97 plus occupied in a market --

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

We are 97.4% leased.

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

-- in a market that is 91% occupied.

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

Yes so I mean, I think it sort of speaks for itself. We like to think of ourselves as having among the best platforms in New York City in executing these kind of deals. So there is a wide disparity of buildings and ownership groups that comprise the 400 million square feet of inventory in the city. I hope we are, if not the best, among the best, but I like to think we are the best.

And as a result we I think have an unusual scale and footprint in the city, almost 30 million square feet of real estate. So, we are able kind of leverage position to maximize our relationships with tenants, partners, lenders, and vendors to keep this portfolio 97.5% leased. Maximize our rents. Keep our TIs, leasing concessions low. I don't think anybody mentioned that, but I think it is worthy of mentioning.

I think we were about $26 a foot or $30 a foot, thereabout, for the quarter. So quite efficient I think in terms of how we executed the business. And that is our calling card.

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

Let me just add to it. I think the market is better than those reports are actually indicating as well. A lot of the market reports that get printed are lag reality. And we are in a better market than statistically that is being reported as evidenced by some of the deals that we are working on that we think are going to close in the third quarter as evidenced by some of the deals that closed at the very end of the second quarter. So we are ahead of the market, we are doing well. But I think the market is better than what's actually in those reports.

Vincent Chao - *Deutsche Bank - Analyst*

Okay, thanks for that color. And then just maybe going back to the Brexit question just in a different angle. I'm being I guess it is still very early days in terms of what is going on and what the impacts might look like. But I guess does this pique your interest at all in looking at London again?

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

I think it sort of reinforces our strategy, which is questioned from time to time, of wanting to be sort of the sharpshooter in one market. I think we attempted to not just -- it wasn't it by accident we chose to do $25 billion of business in one market, it was designed to be done in what we thought was the market that had the best liquidity, stability, transparency, depth of market participants, Fortune 500 tenants.

London I think exhibits many of those trades, but I think New York is a better market going in. And I don't think there is any more desire on our part to diversify into that market or other markets which we would almost deem as like adverse diversification.

So there is plenty for us to do in this city both in office, retail, multi, debt and preferred equity. We have got actually quite a full plate. And while there may be some good opportunities in London that emerge, my guess is that will be taken advantage of by people who have or groups that have significant footprints in that market.

So, I wouldn't think so, but not something we have looked at all that closely at the moment. Shareholders start asking us to take a look at it, maybe we will become more focused. But it is not a topic.

Vincent Chao - *Deutsche Bank - Analyst*

Okay, thanks.

Operator

Michael Lewis, SunTrust.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

So, whether it is the reports from the brokers or Street FFO estimates, you topped expectations in the second quarter. And I am just curious about your guidance for the full year. Are you expecting -- I guess I could back up. Was this better than your expectations for 2Q? And then do you expect any kind of slow down the rest of the year?

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

Hey, it is Matt. So the quarter was on expectations maybe slightly better, it was a really solid quarter, solid first six months of the year. We obviously always want to be accurate in our guidance, conservative and prudent. And as we look out over the balance of the year and where we reset guidance only three months ago, which was pretty unusual only three months into the year to adjust.

Feel-good with the range, you have to keep an eye on a couple things that we have out there, not the least of which is the potential impact of the Aeropostale situation at 1515 Broadway, which has not yet resolved itself, that may have an impact. And so at this point we felt it was prudent to keep the FFO guidance for the moment unchanged.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

Okay. And then my follow-up, I am not sure how much you could say on this, but on 1 Vanderbilt, the decision to JV, or not sell a JV interest, and then kind of the timing of that, how do you think about the risk/reward of mitigating some of the lease up risk? Maybe you JV early, maybe you wait and try to get a better pricing as it is closer to stabilization? Or is it still too early to talk about that?

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

Well, what we said in December and reiterated on the last call and I guess I will say again now, just as a refresher, all focus right now is on closing out that loan, as I think it should be. I think the first order of business and an important part of the overall capitalization of this project is to get a properly structured priced $1.5 billion construction loan facility closed, which we've been working intensely hard on for several months now. And it looks like we are nearing the conclusion point and hope to have that closed in the next 60 days or so -- 60 to 75 days.

So I think along the way we have begun to have conversations with equity investors, I would say all of which have gone exceedingly well in terms of receptivity of these various institutional players who have the capacity to fund a deal like this and have the desire to be a part of development projects which are kind of best building, best market, best location.

With that said there are certain signals from our shareholders and analysts about trying to expedite, do it rapidly. We are not on that approach. It is a bad approach, we don't want to -- I think. I mean it is just there's no exact right or wrong, but we think that for a project like this we should see the whole market and there is going to be a lot of different opportunities out there, different structures, different amounts, different kind of the yield enhancements available to this Company.

We are working very closely with [Heinz] in this regard. I would say by the end of this year we will have covered -- I don't know, maybe 40 of the top domestic and foreign investors in the world for a project like this.

And then we will try and zero in and grind it down to the right partner for a project like this. You don't want the wrong partner. You want to make sure this is the absolute right partner, shares a long-term vision, has the capacity to fund side-by-side all the way through the project. And has a real deep love and affection for this project.

I am confident we will get there as I was confident we would find the -- pull together the debt financing. It is not -- this is not like an urgent track, it is not on a fast track. It is on what I would call kind of a responsible track for a project like this. Remember there is very little money spend right now, I keep reinforcing the fact that most of the money spend begins middle of 2017 when you start going vertical in the project.

We have kind of fully -- the site is unencumbered, we have no partners, we will be funding whatever remains in demo and excavation just out of cash flow between now and year end. And then we get to do some initial loan draws where our expectation is we will be able to do initial loan draws on the loan facility to basically prime the pump for 2017.

So we have time, we think the market is coming our way because as rates drop and you have things like Brexit, which take a fairly attractive and competitive market and maybe puts it on the sidelines for a year or two, I think we will be the beneficiary of seeing, at least temporarily if not permanently, some excess investment dollars searching for projects like 1 Vanderbilt. And I think it is our job to take advantage of that.

So, we are proceeding apace and we will definitely keep you apprised. But I have said I didn't expect much in the way of announceable events on the JV side in 2016, I would probably reiterate that at this point.

Michael Lewis - *SunTrust Robinson Humphrey - Analyst*

Great, thank you.

Operator

Alexander Goldfarb, Sandler O'Neil.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Marc, maybe just following up on 1 Vande. On the closing of the loan what is left to be done? And then in the loan are there pre-leasing hurdles or do they -- do the lenders have a say on who the JV partner is?

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

You know what, out of respect for the lenders they were kind enough to let us give you guys a glimpse to the fact that -- how far along we were and the fact that we selected the lenders and we signed the term sheet. We are not at this point at liberty to get into any terms of the deal nor would we until it is closed. So hopefully on the next call, which I guess is October, we will be able to share with you at that point the answer to that question, we will make note of that and put it in the prepared remarks, Matt, please. And other questions I am sure you will have at that point.

I would say suffice it to say we look at it as a very good piece of financing that is in all respects equal or -- well, really consistent with our business plan in all respects, not just in pricing but in things as it relates to funding, and etc. So we are going to just get that done and then hopefully on the next call we will be able to share with you some details.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay, but Marc, can you just at least say are the still things that you -- like documents that you still have to go over with the lenders? Or is it just a matter of lawyers going over the loan document before it is signed in 60 days?

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

I am not sure. We are documenting the deal, so I mean that is the whole 60, 75 and we are at the point of a term sheet. And now the term sheet has -- not you document and close. So that is where we are. It is not like documents are in escrow. But it is (inaudible) fairly customary.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay, great. And then the second question is there was the article in the Post this morning on 650 Fifth and the court stopping the seizure or at least on part of the building. How does this impact you guys?

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

We do not see any impact to our leasehold position there which was fully approved at the time we signed the lease by the party who is now contesting the government's claim.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay, so you guys still have 100% control with your JV partner on the retail part?

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

Correct.

Alexander Goldfarb - *Sandler O'Neill - Analyst*

Okay, cool. Listen, thank you.

Operator

Manny Korchman, Citi.

Manny Korchman - *Citigroup - Analyst*

Maybe if we just think about the investment environment in New York City overall. Have you seen buyer pools or buyer appetites change to date? I know, Marc, you talked about Brexit potentially driving more money towards New York. But have you seen any of the opposite given sort of the turbulence in the stock markets?

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

I think it is still a little bit too early to tell. I mean we are seeing values hold up to take a step forward even in certain cases. But it is too early to tell whether those buyers are sort of forum shopping and would have otherwise been investing in London but are now investing in New York.

Or if it is just the natural flows of capital we have been talking about consistently which are really -- continue to drive values in New York. So just not sure if it is situational or if it is more just the overall trend we have been tracking.

Manny Korchman - *Citigroup - Analyst*

And then if you think about just rents at 1 Vanderbilt, I know it is early, I know you are not under the gun to get leasing done today. If you think about rents went you first announced the project you first thought about the project to where they are now to where they will be when you sign, what has the trajectory of those been?

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

Well, we put rents up in December and our whole approach was to price the building in 2021 at rents that are consistent with what the best buildings are getting in the city today. So we viewed that very conservatively because our pro formas are based on I guess what you would say no growth in those rents over five or six years off of today's best rents.

Even though this building will as a physical -- as physical space and infrastructure, sustainability and views and ceiling heights and [column free nature] will be far in excess of most of those buildings considered their best buildings. We just kind of priced it based off of today's rents. And those rents are going to go up and down over the next five, six years. We mentioned earlier the bulk of the leasing we expect to occur I guess probably 2018 and beyond.

So the real question is, what is the market then? We feel very good about the project's positioning and the rent positioning of the project where we sit today, not just where we sat in December. And we might be conservative, we might not be, but I don't think we are aggressive and the returns are such that even if the rents are 3% to 5% off, the deal returns for a development site of this quality are still far, far in excess of baseline returns.

Manny Korchman - *Citigroup - Analyst*

Thanks, guys.

Operator

Jamie Feldman, Bank of America Merrill Lynch.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Can you talk more about the [D&PE] pipeline? It looks like you are trending kind of in-line with your guidance midway through the year. We haven't seen a slowdown in transaction activity this year. Just maybe help us understand what is in the pipeline and what gives you guys comfort you will hit your numbers?

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

I'm trying to think how we can -- we certainly are not going to advertise for our competitors the deals where in pipe. What kind of information could we give you other than the volume of that pipeline?

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Well, I guess just thinking through maybe how the balance could end up in the third quarter and fourth quarter. I think you are trending down the first two quarters of the year from the fourth-quarter run rate.

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

It's very hard, what if something closes like a day after the third quarter ends? It is very hard to predict sort of daily closings. It is easier over a six-month period. If you are saying, hey, what is going to close in September because not much will be this summer I would expect. How much would you expect sort of (multiple speakers)?

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

I think the balances should be I think up for the next quarter. I don't think they will be down; they are likely to be up and possibly up meaningfully --

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

Okay.

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

-- (inaudible) in the next quarter.

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

But I mean --.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

I guess another way to ask it is like just thinking about where you were at the Investor Day and the pipeline you had then. Is it pretty much the same pipeline or has the market changed and you are finding different opportunities?

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

Oh, the pipeline stage is like weekly, monthly. There are deals on the sheet none of which existed in December of 2015. Financing deals are not like real -- real estate deals can take anywhere -- they can take one, two, three years to ferment. Transactional activity financings are typically -- have a three to four month shelf life kind of thing. So none of this was an pipe in December, this is all brand-new product.

That which we projected to close in first half we closed already. You saw we sold a lot of product because if we don't syndicate then we are going to be far in excess of our balances at year end. So we may originate over the second half of the year well over $1 billion. But the real issue is not what are we going to close, it is what are we going to retain. We control that, Jamie. So that is how we could be highly confident of hitting our goals.

When we have a pipeline that might be $1 billion to $1.5 billion and we are only looking to originate and retain maybe $600 million, $700 million, $800 million between now and then at most. So we control the brake and accelerator on our decision, how much and when to syndicate. We could syndicate less.

But I think the issue we will have is not your issue of, hey, are we going to be able to originate the business? It is going to be, syndicating ferociously to keep the balance within and below the $2 billion mark, that I would say is more of a challenge.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay. And then what about the quality of the deals? Are you saying you have to get more aggressive here given fewer transactions in the market?

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

Less aggressive. This is -- the competition is less right now. When the competition is less you have got your pick of the deals.

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

As we outlined last quarter, the syndicated bank market has backed up this year so they are not as aggressive. CMBS took a pause, it is coming back -- the market is coming back now strong, but that gave us an opportunity to lock up some very attractive originations with great risk return profile for us we feel.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay. And then can you give an update on Aeropostale, just where things stand today?

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

They filed bankruptcy, we are in bankruptcy court obviously making claims for the rent we are owed and we are marketing the space.

Jamie Feldman - *BofA Merrill Lynch - Analyst*

Okay, all right, great, thank you.

Operator

Steve Sakwa, Evercore.

Steve Sakwa - *Evercore ISI - Analyst*

Marc, could you just comment a little bit more about the leveraging? I know at one point you had a number of assets on the market for sale. So just trying to think through as you grow the loan book, but also want to try and take leverage down. Just kind of help us think through sources and uses over the back half of the year, please.

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

The sales at least as part of what we talked about in December have been completed. So with the completion of Citigroup and 33 and West Putnam. So, now (multiple speakers).

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

Lipstick closed earlier.

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

And Lipstick -- and there were other closings earlier in the year, the three that just closed in this quarter. So that now is -- brings us on a pro forma basis to about 7.5 times debt to EBITDA by year end. And that forecast of 7.5 for yearend already had incorporated in it the growing of the portfolio by $150 million from [1.8] last year to [1.950] this year.

So that $150 million of incremental growth was part of the forecast that gets us to the 7.5. So it is all still on plan. By the way, $150 million here doesn't move the needle like a 10th of a basis point. But it is in there just to answer your question directly, it is accounted for. And so, where it looks like as we sit now we are right where we hope to be at year end.

Steve Sakwa - *Evercore ISI - Analyst*

Okay and then I guess for Matt, just to be clear on the guidance. I mean I know you are not changing numbers, but if we take your six-month figures and we back off some of the one times in the quarter including the promote, you are kind of around $1.70 run rate.

A, I just want to make sure that that kind of jives with your number. And that I guess if you were to kind of look at the six-month numbers and begin to back off some of the one time and take the $1.70 as a run rate you are kind of in that $7 range. Does that math kind of make sense?

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

Yes, the $7 is squarely the midpoint of our normalized guidance, the second quarter had big one timers in it, it also had 2.5 months of Citi because we didn't close that deal until June 10. There are a couple of things we had 1515 Broadway's percentage rent for $3 million and it is a low expense quarter as every second quarter is, but it is better than we expected. So you run all that through and you get to a run rate that gets you to that $7 midpoint and (technical difficulty) [like was done with Arrow].

Steve Sakwa - *Evercore ISI - Analyst*

Okay, so you would say that the $1.69 is kind of a clean run rate as we kind of move into the back half of the year?

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

Again, adjusting for you add [$0.16] of Citi contribution into one -- I will call it (technical difficulty). That's obviously gone away for the third and fourth quarters.

Operator

(Operator Instructions). John Guinee, Stifel.

John Guinee - *Stifel Nicolaus - Analyst*

Just a quick clean-up question, then a leasing question. It looks like you had booked a $206 million gain on 388, 390, but then your gain on sale of real estate and discontinued ops is about $197 million. Is there a gap there for any reason or is there some complexities I just don't understand?

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

I wouldn't say there are complexities that you don't understand. But obviously there are other items beside just that one gain that we have to run through that line item, so it just comes through adjustments.

John Guinee - *Stifel Nicolaus - Analyst*

And any losses on any sales recently or not?

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

The 500 West Putnam sale is noted in the depreciable real estate reserves, that is that number -- I think it is around $10 million.

John Guinee - *Stifel Nicolaus - Analyst*

Got you, got you. And then I guess for Steve just a little nuance on the world of leasing. You are quoting sort of a full-year 22% cash mark to market -- maybe this is Matt's question. What does the math look like if you did a GAAP mark to market for the year? And then what does the mark to market look like on a net rent basis versus a gross rent basis? Do you guys have any sense for those kind of escalations?

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

Well okay, I want to make sure -- that was like four questions so I've got to ? we're all busily writing here. The first one is GAAP, right?

John Guinee - *Stifel Nicolaus - Analyst*

Yes.

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

The question is if 22% is cash do we know what GAAP is. So I guess we always, we can maybe formulate that, I don't think we have it, John. We always look at the best representative of spot market -- spot market increase is the current cash rent versus the immediately preceding escalated cash rent. That to us is the increase.

Now if you then take it over time, which is I guess the GAAP, if we did a 10 year deal and it had an average of 2% a year increases plus a midyear bump -- a midterm bump every five years. Then that is going to be I think wildly in excess of the 22% because you are going to be comparing sort of the (multiple speakers) average to the spot rent. And it is going to be -- we could calc it, but it will be definitionally higher than the 22%.

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

It would be a misleading number for people I think because as Andrew was saying, the mark to market compares starting rent to the ending rent. And if you did it against GAAP you would be (multiple speakers).

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

On both sides.

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

Yes --.

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

The ending rent would be lower because you would be --.

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

It would be like a (multiple speakers). So look, we will play around with it for a couple of leases and see what the results look like. But then I would just want to think through the implication of that metric once we have it. The second thing -- the difference between gross and net.

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

I think it was net effect. You were talking about net effect net of concessions or gross and net?

John Guinee - *Stifel Nicolaus - Analyst*

Well, just if you -- the quick math is let's say you have a $75 rent and a $25 OpEx and that is $50 net. Or $75 rent goes up by 22% while your OpEx stays constant, your cash rent, your net rent is going up much more than 22% unless of course you have got a big OpEx increase factored in. And I am just trying to sense if you guys do that math or not.

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

Yes, that is right. Because it is 22% gross to gross, which would be higher if you went net to net. I think that is right. Yes, I think that is right. But I guess what we are looking at is within our NOI at any given point in time you have the net, so the question is how much contribution are you getting to the NOI. Which you already -- remember NOI has already taken out the expenses.

So the contribution is the differential in gross rent. So if the NOI of the building is $10 million and we sign a new lease and the gross rent goes from $75 to $80 we have got $5 a foot more is going to drop to that bottom line to the NOI because expenses don't go up when you sign a lease. Your point is that increase on a net basis is probably more than 22%. I think that is right. So we can take a look at that.

John Guinee - *Stifel Nicolaus - Analyst*

Great, thank you.

Operator

Nick Yulico, UBS.

Nick Yulico - *UBS - Analyst*

Just going back to the new 22% mark-to-market guidance for this year. Is that because -- which is higher than your prior guidance. Is that because of getting better rents on a lot of space or is it because of one or two big leases moving into the pipeline this year affecting those numbers.

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

It is not driven by -- it is all over the board as far as one particular deal up and down. But if you -- if we shared with you the pipeline, the vast majority of the deals that we are working on all have positive mark to market. And then it is a question of just some having more than others. It is not disproportionately dependent upon a single deal.

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

I think it is -- well in some cases the opposite. I am thinking of Bloomberg. Bloomberg was only a 14% deal, so that (multiple speakers). So the quarter would have been almost 150 basis points higher. But the tendency, Nick, is for the larger leases, the outlier leases may not get quite as much mark to market.

Your point is, hey, the bigger leases have that biggest mark to market and drive the deals. That is not usually our experience in this market, it is the opposite. By number of deals, the number of deals we have big, big mark to market. But then you get some larger deals where you don't always have the exact same price as ours. And you may have to take a lower amount. But whether it is 16% or it is 28% or 22%, I mean these are big numbers you are talking about.

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

In terms of guidance, as Steve starts the year he doesn't know which 17, 18, 19 leases he is going to pull forward into the year and renew early call it. So I think we have had -- we have probably renewed some leases that were big mark to markets early.

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

Yes.

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

Which is driving that guidance.

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

and I think that speaks to the health of the market right now. Because we are not in a defensive position. We are in a point of view where tenants are coming to us and are doing -- willing to do early renewals and they are paying for it. I think that is where obviously we want to be and the market is on our side right now.

Nick Yulico - *UBS - Analyst*

Yes. No, that is helpful. I guess the follow up then has to go -- goes to the idea of the kind of overall market, whether you think given that the vacancy rate in the overall market hasn't come down much, business uncertainties may be a little bit higher.

Marc, you talked about earlier this year worried about kind of the job growth slowing and maybe some of that impact would be in the back half of the year. Is New York City still a market where you could see some positive rent growth? Not that you necessarily need it, but is -- or is things going to sort of flatten out from here you think?

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

Well, I have to look at our own portfolio and our own facts. We have got 1.6 million in pipe with a 20% mark to market. So I couldn't sit here and say I think rents are going down because of that evidence, you know what I am saying? I mean we could look out into the future and sort of speculate as to what the longer-term trends might look like, but we are busily at work trying to close out that 1.6 million fairly substantial rental increases.

So I guess I would have to answer that question by saying it looks like we are going to get those increases. The other way of saying that is I wouldn't raise the guidance 22% if I didn't feel pretty good about that.

So I did see earlier at the outset that it has surprised us to the upside. I didn't expect the second half of the year to be quite as good as it looks like it is panning out to be.

In response to someone's earlier question, maybe we are outperforming the market. So you could have a situation where both things are true -- and that is okay for us, which is maybe the market is slowing a bit and rental growth is slowing a bit. But if our portfolio is still full speed ahead then I don't want to like question it, I want to go with that and do more of that and keep going and differentiate ourselves from the market.

That is what you look for I think in top companies in any industry is that kind of differentiation. We are not bigger than the market but we can certainly do better than the market. And I think we have and will. So I think both could be true.

But we see a very good environment over the next six months to conduct our business and finish out our year and hit these sort of sector leading numbers. Then towards the end of the year we are going to give you our view of 2017, which I think it is a little too early because I would like to see a few more months of jobs numbers before I even go there.

Let's see June, July, August and the balance of the year and see where those job numbers go. Because if the private sector job numbers and (inaudible) job numbers are up and still not up as much of last year and years prior but in the range of 50,000 new jobs plus. And 15,000 plus are office using jobs, then we are still in a good market. But I want to see that data.

Nick Yulico - *UBS - Analyst*

Thanks, Marc.

Operator

Craig Mailman, KeyBanc Capital Market.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Just wanted to go back to some earlier comments on the leasing side. Steve, I know you said that tenants in general are kind of in an expansionary mode. I am just curious, are you seeing the pendulum swing back at all on tenants trying to get more efficient with space?

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

Are they getting more efficient? I think every tenant continues to try to maximize efficiency. You have heard me say in the years pass, I don't think that is a trend that ever goes away. It is just a function of what people are willing to do through a combination of technology and ultimately allocations of square footage per person.

But yes, everybody once to either use their space differently and that can be sort of like just cultural. And others as do they want to use it differently and that goes to how much space per employee. So, but I don't think we are seeing anything different today than we saw last year or 18 months ago or even 2.5 years ago.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Okay, so no one's -- so you're --?

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

(multiple speakers) is it coming back the other way? Are you saying are they coming back (multiple speakers)?

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Yeah, are people kind of loosening up trying to get more efficient?

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

I get you. So we have heard sound bites of that, yes. But I can't say that there is -- anybody has found the absolute perfect solution for themselves. There have been a number of examples where tenants have gone out and tried to be overly aggressive as to the small amount of allocation of square footage per person and then had to come back and adjust it because it was operationally too taxing on their employees. But I think those are exceptions to the rule.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Okay, and are you seeing -- I am just curious about what tenants are doing on the contraction side at this point in the cycle if anything.

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

Nothing of note. I mean we if we saw contraction in this market, A, we would tell you, B, we would have a different tone on this call. There is no sublease space, that is the first sign of contraction. Shadow vacant space doesn't really exist. All the big financial firms that might have had to sublet space in the past, Craig, they all own their buildings now. Goldman owns their own building --.

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

Citi owns their own building.

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

Citi owns their own building. Those buildings are not going to be for the most part multi-tenanted. JPMorgan owns their own building at 270. I don't think they are subletting the building. I don't think they are going to like shed space and take in and go multi-tenant at 270 Park.

So it is a different market today. And it is good, it is more balanced, more diverse, a lot of these big financials own their own facilities for safety and security and control reasons, which is probably smart. That puts less in -- more tenants competing for less inventory because that space is not on the market -- on the direct or sublet market.

So, where I hear the nature of the questions, we're just not seeing it right now, which is why we are upping our guidance on different levels. If we saw that we would probably hold tighter or decrease.

Craig Mailman - *KeyBanc Capital Markets - Analyst*

That is helpful. And just separately, there is not a lot of talk about joint venturing 1 Vanderbilt.

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

Craig, we like to hold these for like an hour out of respect because I know people start to drop off after an hour. We have got six people in the queue. Can you just sort of come back around?

Craig Mailman - *KeyBanc Capital Markets - Analyst*

Sure, no problem.

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

With that question? Thanks.

Operator

Blaine Heck, Wells Fargo.

Blaine Heck - *Wells Fargo Securities - Analyst*

Matt, on same-store NOI, sorry if I missed this, but last year you guys had the termination fee associated with 919 Third. Did that have any effect on same-store NOI growth this quarter? Were there any other kind of one-time items? And what would the normalized result be if you adjusted for any of that?

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

It didn't have any effect on same-store cash NOI, the termination fee we received last year at 919 is paid out over time, so it is included in GAAP NOI but not in cash NOI. So if you are looking at pure cash termination fees we received second quarter of last year would be about $2.2 million as against about $1.4 million we received in the second quarter of this year. So it did affect GAAP NOI but not cash NOI.

Blaine Heck - *Wells Fargo Securities - Analyst*

Okay, thanks. And then can you guys talk a little bit about the Omnicon extension you guys recently signed? I think that reduces their expiration in 2017 to close to 225,000 to 250,000 square feet. So what is the plan for the rest of that space? I think there had been some talk about selling a condo interest in the 300,000 square feet that they had expiring when we talked about it last quarter. So is there any update on what is going on there?

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

So, the Omnicon story is a great story on many fronts. When their lease was originally scheduled to expire we had zero expectation that they would be renewing any portion of the space because they have got a big portfolio in town and they were making other plans.

But we have a free good relationship with them and their business needs changed, they came back around the horn, did a big deal with us at the beginning of the year. Thought they were put to bed and then this most recent renewal is a function of them growing their body count and wanting to do business with one of their preferred vendors.

So, we picked up another 64,000 square feet. We have got a large lease that we are -- a large transaction that we are working on for a big chunk of what is remaining, but it is premature to announce.

Blaine Heck - *Wells Fargo Securities - Analyst*

Great, thanks for the color.

Operator

(Operator Instructions). Vikram Malhotra, Morgan Stanley.

Vikram Malhotra - *Morgan Stanley - Analyst*

Just looking at all the leasing that you have done last year and especially the first half has been really strong. If you were to look out past 2016 into 2017, and obviously you won't provide guidance, but I am assuming all this bodes really well for same-store cash NOI going into next year. If there was a very high-level objective or even a trajectory you could provide us with, that would be really helpful.

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

It is Matt. Certainly it sets us up nicely because of the benefit the leasing that we do this year generally flows through 12 months later. You are right, we are not going to give any guidance at this point. We'll touch on that in December. But it is certainly putting us on a good trajectory. Bear in mind, of course, that we had very strong growth last year of like 4.5% and we are going to be north of 6% this year. So we are growing off a big base but Steve is setting us up nicely.

Vikram Malhotra - *Morgan Stanley - Analyst*

Thank you.

Operator

Jed Reagan, Green Street Advisors.

Jed Reagan - *Green Street Advisors - Analyst*

I know you said on prior calls that riskier lower quality assets in New York might be repriced downward this year. Have you seen that actually coming to fruition? And if so, maybe what kind of magnitude of impact are you seeing on a percentage basis?

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

Yes, I think it sort of depends on the building, the situation. I mean there is a building now on Ninth Avenue trading which I think would have fit in that category, and it happens to be drawing a very strong bid so I think there is -- I think that building is sort of un-impacted or not really dimensional in terms of value. And then there is other side street really inferior assets that because of the change in financing costs have maybe backed up 3% to 5%, nothing major.

Jed Reagan - *Green Street Advisors - Analyst*

Okay, thank you.

Operator

Thank you, and I would not like to turn the call back to Mr. Holiday for closing remarks.

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

Thank you very much. Sorry we ran a little late on the call, but I guess there was a lot to cover. And hopefully we addressed all the key items for the quarter and the market. And we look forward to speaking with you folks after the summer. Have a great summer and we will speak again in October. Thanks.

Operator

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