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# EDITED TRANSCRIPT

SLG - Q2 2017 SL Green Realty Corp Earnings Call

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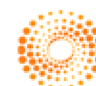

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**Matthew J. DiLiberto** *SL Green Realty Corp. - CFO*

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

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

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

## PRESENTATION

**Operator**

Thank you, everybody, for joining us, and welcome to the SL Green Realty Corp. Second 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 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 2017's earnings.



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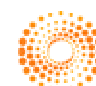

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Before turning the call over to Marc Holliday, Chief Executive Officer of SL Green Realty Corp. (Operator Instructions) Thank you.

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

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

Okay. Thank you, and good afternoon, everyone. With the second quarter now in the books, I'm pleased to state that we finished up the first half of the year on plan. In certain areas like earnings and mark-to-market on Manhattan leases, we are trending ahead such that we are likely to end the year at the upper end of our guidance ranges.

In other areas like lease termination fees, we are trending behind our annual averages, but this is likely a positive as we are nonetheless on track with earnings and implies less tenants looking to buy out of their spaces.

Each year, we set out for ourselves between 16 and 20 fairly robust stretch goals for the company, as you know. And nearly 7 months into the year, I'm confident that we will meet the vast majority of our stated objectives for 2017.

Also notable in the quarter is the initiation of stock repurchases at very attractive pricing, which we believe represents an exceptionally good opportunity for the company given our strong liquidity position and balance sheet.

Recall approximately 1 year ago, the company authorized up to $1 billion of stock repurchases due to the prolonged disconnect between the stock price and the underlying value of our real estate assets.

After executing on approximately $7 billion of asset sales in 2015 and 2016, we generated nearly $2 billion of net proceeds that we used to retire debt and to build a storehouse of capacity for opportunities going forward.

As there continues to be significant investment interest from foreign and domestic capital sources for well-located, high-quality Manhattan office assets, we've developed our own internal conviction that repurchasing our stock represents among the most attractive investment opportunities for the company at this time.

SL Green's Manhattan office portfolio, from which we obviously generate the vast majority of our revenues, has been undervalued in the market for quite some time. And back in December, we set forth in detail the financial rationale underlying this belief.

Over this period of time, we've been quite successful at confirming our net asset values through voluminous sales of assets, and the market has also confirmed pricing for many other comparable non-SL Green assets.

The debt markets are liquid, competitive and quite stable. And interest rates continue to hover around levels close to historic lows.

The New York City economy continues to appear quite strong, with a record low 4.3% unemployment rate and an increasing labor force participation rate.

Office-using employment in New York City, the statistic that we monitor closely, is up a seasonally adjusted 20,000 jobs through May of this year, which is on par with the last several years, and recall that those years were at or had set historic highs in terms of office-using employment levels and increment to employment base. And these 20,000 jobs through May will likely result in an upward revision to the city's full year estimates, assuming that the Department of Labor stats that are due out this afternoon continue to show growth in June.

The big 5 New York City banks also reported earnings up 4.5% Q2-over-Q2, although most of the office-using job growth is coming from the diversified business services sector and not from the FIRE sector.



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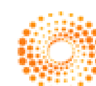

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Also of note is the leasing velocity and leasing volumes in the first half of the year, which amounted to about 2 million square feet of net absorption in Manhattan. And our own leasing pipeline bears out this increasing leasing velocity as our pipeline stands at 1 million square feet, over half of which are represented by leases out for signature or under negotiation. That's obviously up substantially from last quarter.

The one area of weakness that we see in the market is in the retail sector where demand in some submarkets is [lacking] and valuations have adjusted accordingly. Fortunately, our retail portfolio is in great shape, with almost all of our high-street retail holdings leased for term to credit tenants, with the only exceptions being 609 Fifth Ave, which we will begin redeveloping next year; and 719 Seventh, where construction was recently completed.

I think good evidence of the strength in our high-street retail portfolio was the culmination of the complete retenanting of the Aeropostale space in the second quarter with the final piece to the puzzle as it were a lease out to -- a lease that was consummated with Kiko Cosmetics, an Italian cosmetics firm. That brought to bear a full 30%-plus increase in revenues, turning a situation that many had thought would be a negative into a huge positive for the company.

Accordingly, given all of that, we view stock repurchases as a very attractive and viable use of investment capital. And we may continue to make similar investments in our own portfolio side-by-side with shareholders so long as these dynamics persist.

As not to say that stock repurchases will define the sole use of our available capital, but rather we believe that stock repurchases have a place alongside a balanced investment strategy that includes asset purchases and potentially special cash distributions. We believe that this balanced approach will enable us to maximize value for shareholders while maintaining an opportunistic approach to growth through asset purchases and dispositions.

With that, I'd like to open up the call for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Vincent Chao with Deutsche Bank -- I'm sorry, from John Kim with BMO Capital Markets.

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

Marc, in your prepared remarks, you said you were confident in hitting many of your 2017 goals and objectives. A couple of them seem like they'd be difficult to achieve, including 97% same-store occupancy as well as the greater than 2.5% same-store NOI growth. So I'm wondering if those 2 components in particular, you still feel confidence in?

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

Yes, I don't -- I mean, as I said, I think at the very, very outset, we are right on plan. So with those 2 metrics in particular -- Matt can elaborate more, but I think that we would -- we feel based on the pipeline and second-half activity and everything else that we're going to be right on top of, slightly ahead, slightly behind those exact numbers, which is I think what I affirmed at the beginning of the call. But Matt, do you have any color on that?

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

Yes, I'm just going to add a little color to the same-store NOI number. There is a variable per lease termination income in there. And so Marc alluded to the fact that we are behind for the first half of the year on lease termination income, almost $2 million behind our expectations. And we have



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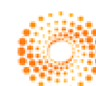

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some layered into the balance of the year. And if that materializes, we're good. If it comes up a little shy, well, we'll be at the lower end of our guidance range. But we'll have to let that play out. But our target of [2.5%] at the midpoint of our guidance range is maintained at this point.

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

And my second question is in relation to a clampdown in Chinese institutions. I realize there's a difference between sub and multi funds and state-owned enterprises, but I'm wondering if this clampdown impacts you at all in terms of directly, or how do you feel about how that impacts Manhattan office pricing?

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

It's Andrew, John. We haven't seen any direct impact from the clampdown. Obviously, we saw 245 Park trade in the first half of the year to HNA, which is a Chinese company. And we've continued to see Chinese investors actively look at both equity and debt opportunities in the market. So it hasn't changed from our perspective, the appetite from that sector of the world.

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**Operator**

Our next question is from Vincent Chao with Deutsche Bank.

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

Just last quarter, we had a pretty healthy discussion around concessions in the market, and it does look like free rent and TIs per square foot per year were up in the portfolio this quarter. I'm just curious if you could comment on the level of concessions that you're seeing both in your own portfolio but also across the broader market?

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

Well, let's -- before we get to broader market, Matt, do you have those numbers? Let's just go to [the notes]. I think sometimes they're sort of talking a little apples and oranges.

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

Yes, I -- because we all keep reading that there's a -- something going on in the market with the increased concessions, and I want to address that part of it, but then our numbers, the concessions are up, concessions are up. And I think what gets lost in the stats that are published are not only where -- what properties leases are being done at, but more importantly, the new and renewal mix. So what we did as we took a look at the last 2 years and quarter-by-quarter, new versus renewal leases to see what the true net effective rents are. And consistent with what we said last quarter at the end of the year and with our expectations, net effective rents are up on all what I'll call 4 metrics. So new and renewal leases, both unassigned and commenced basis, [and all effective] rents are up. So while the stats may give the illusion of concessions being up, you're not appreciating the fact that there may be a higher mix of new leases this year versus renewals last.

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

So that's with respect to our portfolio where I do believe the robust discussion we had last quarter was mostly around our TIs, our free rent, our concessions, which had been trending somewhere between stable or down year-over-year. And I think through Q2, other than the mix of new to renewal, but on an apples-to-apples basis, new to new, renew to renew, we are, Matt, what? Stable?



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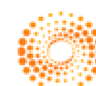

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**Matthew J. DiLiberto** - *SL Green Realty Corp. - CFO*

Yes.

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

So with respect to the markets, Drew, why don't you address that?

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

Well, I don't think they've change materially this year. The concept of increased TI in connection with buying up rents, you've seen it in the market driven by a couple of landlords in particular, but that was a phenomenon [sort of in] the market mid last year or maybe even a little earlier. Certainly, we've experienced where we have to do turnkey installations for tenants, construction costs rose last year. But I don't think there's been any noticeable change through the beginning of this year to as we sit here today.

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

Okay. And just a second question, just on the FFO guidance. I'm just curious if the fees that were generated this quarter, the [$0.19] total, was that all contemplated in the original range?

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

Yes.

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

Yes. I saw a lot of that repeatedly referred to as one-time. But I just want to clarify, we have a substantial joint venture management business. And from that, we generate substantial fees of all natures that are in our guidance every year, and I don't really understand the one-time nature of that. I think that is -- there will be much more fees coming out of One Vanderbilt investment as a result of our joint venture as well as countless other joint ventures we have. So that's just, in our book, JV fee income. I'm not sure what the one-timer relates to there. It's -- it could be considered larger because it's a larger project. But there are significant fees that this company will experience over the development lease up and stabilization of One Vanderbilt as well as other projects that we're working on. So I think that's something that you will see in some greater or lesser magnitudes as we continue to go forward.

**Operator**

Our next question comes from Jamie Feldman with Bank of America Merrill Lynch.

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

Steve, I was hoping you could just give some more color on what you're seeing in the leasing market. I know you guys referenced good net absorption in the market, but we also know there's been good activity for some of the new developments, especially the Hudson Yards. So maybe if you could just talk bigger picture about where the demand is, how it matches up with your portfolio, what you think we may see going forward and maybe tie in the leasing pipeline, the millions worth of leasing pipeline that Marc mentioned.



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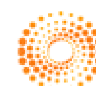

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**Steven M. Durels** - *SL Green Realty Corp. - EVP and Director of Leasing & Real Property*

Okay. So I think there's this sentiment in the market that you hear and see in the press and some of the mix reports that are out there from the brokerage community, sort of colors the picture and betrays reality a little bit. I think the pipeline that we've got says it all, with 1 million square feet of pipeline that's growing from first quarter to the second quarter really is representative of the strength of the overall market. Yes, tenants are migrating to new and redeveloped type product. I think that's a good thing. I think Manhattan has been starved for new construction for many years because we haven't had the benefit of a new construction being in the -- in our product mix. If we'd had this discussion 1 year or 3 years ago, everybody would have been scared about the prospects of filling new construction. But obviously, Hudson Yards and Downtown, wherever there's new buildings, tenants are migrating to it. That bodes well, I think, for our prospects at One Vanderbilt. And certainly, the increased number of tenant presentations and requests for proposals that we're experiencing in One Vanderbilt further evidences the demand for high-quality product. Our pipeline has continuing a mix of types of businesses led heavily by financial services interestingly enough of the -- over 500,000 square feet of leases that we have out. Over 200,000 square feet of it are financial services related. And then after that, it's a wide variety of different types of businesses. So like we saw at the beginning of the year or even towards the end of last year, good demand across the board at all price points and all geographic locations.

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

Okay. And how much of that pipeline is for One Vanderbilt?

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

I don't want to break that out. That's -- it's a small -- it's a relatively small portion of the total million. But the leasing for One Vanderbilt, we have pretty much on track for 2018 second half and beyond. Anything we do ahead of that is kind of good news early stuff. We're sitting here in the middle of '17, coming out of the ground, building a lot of enthusiasm. Yes, clearly, we're having a lot of meetings. We are trading some paper for sure on One Vanderbilt, but we're not going to revise what otherwise was, I think, a very conservative but prudent lease-up projection that begins in the second half of '18 where you're away from that. And our focus right now is predominantly and primarily on our portfolio, which comprises the bulk of that million square feet.

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

And that's mostly stuff you think gets done this year? Is that a better way to think about it?

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

I hope so. Otherwise, we're not going to make our guidance. But I reaffirmed at the beginning, so I feel pretty confident we're going to make our 1.6 million this year.

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

I'll just -- I'll add to that a little bit because some of the analysts' reports noted that second quarter number leases that we signed this quarter was lower than maybe their expectation was. This quarter could have easily tipped by 100,000 to 150,000 square feet of additional leases signed. It's really just a function of documents sitting on tenants' desk for execution. So if not for kind of the vagaries of a week here or a week there, it's actually stronger than the numbers suggest.



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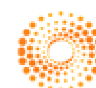

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**Operator**

(Operator Instructions) Our next question comes from Alexander Goldfarb with Sandler O'Neill.

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

Marc, can you just -- on the stock buybacks, can you just talk a little bit more about it, the news reports out that you guys are contemplating, looking at Worldwide Plaza. There's the potential JV at 1515, so you have proceeds that will be generated. Can you just talk in general how you think about buying assets presumably at market versus your stock, which is at substantive discounts?

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

Well, as I said earlier, I think we're taking a balanced approach. There's no all-in approach on stock buyback or investments or do nothing in stockpile equity. I think that's a bad approach because any one of those can be the right or wrong approach at a given time. I think a much more prudent way to look at it is that as we generate substantial amounts of liquidity through joint ventures and sales, and at this point, internally generated funds from operations because with a mostly leased portfolio, we are generating sizable cash flow, how we invest those monies and those monies are being invested in what we think in the aggregate will give us good risk-reward returns, be it development or redevelopment of projects, new acquisitions, stock and heretofore debt reduction although now given where our debt levels stand, we don't foresee further deleveraging, but clearly, we've done extraordinary amount of deleveraging over the past 2 years. And then there's always the potential depending on the tax situation at a point in time for special dividends. So I think that balanced approach is what will give our stock and this company the highest return over time, not taking a point of view in any one of those approaches. But that combined approach, we feel, will maximize NAV. I mean, we're looking to just increase our NAV per share from where it stands today to something significantly higher for the balance of this year into next year. And stock buybacks have a big role to play in that, but there are still deals out there that we think we can -- we have a pipeline that we feel we can acquire at attractive pricing, make significant unlevered and levered returns. And in those instances where we do them in partnerships, significant fee and promote income, which really adds anywhere between 300 to 500 basis points of returns in those investments, which puts them on par with many other opportunities we have for the money. So I think that's the approach we're taking. I think it's working well, and we'll continue on that approach for the foreseeable future.

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

Okay. And then switching to retail. You mentioned the [stock] is in retail. And I think the 2 buildings you cited, one was the American Girl and the other one was the new signage in Times Square. So can you just talk, if given the change in retail, if your expectations for mark-to-market on American Girl or your expectations for the signage building have changed. And then are there any other material retail exposures coming up in the next sort of 12 to 18 months?

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

It's Andrew, Alex. I don't think our expectation for mark-to-market has changed on those assets. I would say our guidance was more in line with our own internal modeling of the market as opposed to maybe where the perception was the market was going to go because people were modeling some pretty explosive growth on those assets. So we're still confident in our numbers there. And I don't think beyond those 2 where 609 and the tenant is still in occupancy until the beginning of next year. And then 719, obviously, we just finished construction. Beyond those 2, we don't see any other major retail vacancies coming up in the portfolio.

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**Operator**

Our next question comes from Manny Korchman with Citi.



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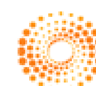

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**Emmanuel Korchman** - *Citigroup Inc, Research Division - VP and Senior Analyst*

And Marc, just another -- or 2 on the buyback, just -- was there anything specific that changed in your mind, I mean, the stock's been at a discount for quite a while. The transaction environment has probably been frothy but stable. And so was there anything that changed? Was it that you saw that you're being incrementally priced out, if that's sort of a proper concept of deals? Or was it -- sort of what made you change your mind from going to being a nonbuyer stock with a tool on your [belt patch] to using that tool?

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

I'm sorry, nonbuyer stock, and what was the rest of that?

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

(inaudible) using the buyback.

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

Oh. Sell versus using it. Well, I mean, I don't know if there was a flashpoint. I would say that we wanted to see some real, I would say, longevity and proven evidence of the fact that the capital markets in 2017 were still functioning well and asset values were holding and that there were still reasonably high, the demand for the kind of well-located assets we talked about in. As we were out there talking with all sorts of investors globally and domestically about existing deals, new deals, One Vanderbilt, et cetera, it became very evident to us that there is just a ton of equity out there for private market direct real estate investment. It's kind of like the opposite of what seems to exist in this -- the overall REIT sector where I think the flow seem more challenging. But in the direct equity space, there just seems to be an incredible appetite, desire, demand again for the best markets, best-located assets with great sponsorship. And for those situations, it just appears to us like that -- the pricing levels are still very firm. The amount of equity out there is still significant. The debt capital to finance those deals and finance them efficiently is competitive as we've seen. I mean, it's really quite competitive and it's competitive at rates that are, as I said earlier, at or near historic lows. So when you take the totality of that kind of environment and appetite for assets and we put it through our own models and get to our valuations, which as we sell assets, we can kind of prove against our own work the validity and veracity of our internal estimates against market. And the more we saw that market holding up, those numbers holding up, the more it became glaringly obvious to us that at the current trading levels of the stock, it seemed so dislocated and such a glaringly obvious investment opportunity that we wanted to use some of our own capacity in that direction and using that capacity that we had built up quite intentionally from 2015 and 2016. So I think all things came together, but beyond that, I can't say there was a flipping of the switch.

**Unidentified Analyst**

Great. And maybe one for Steve. Steve, there's been a little bit more focus on sublease space in the city recently. Have you seen that? And how does that sort of impact whether it be your leasing momentum or hitting that 1.6 million square foot goal by year end?

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

Yes, it's in the statistics. We haven't experienced in our portfolio, and certainly haven't felt it from a competitive element. I can't say we've lost any deals to subleases. It's still at a -- on a historical basis on the very low end as far as availability goes. So it popped off, it was driven by a few space specifics. It wasn't -- doesn't seem to be a broad trend and certainly nothing that I can put my finger on. [It's not anything] that I'm worried about right now.



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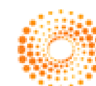

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**Operator**

Our next question comes from Michael Lewis with SunTrust.

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

So you've been asked a little bit about how you could hit guidance and some of the pieces of it. I want to flip that around a little bit because as I looked at the numbers, where you did $3.35 in the first half, even if you exclude the $0.09 [promote] and the $0.10 of fees in the second quarter, you still did $1.59, so you're running ahead of the upper end of the range. You're going to have a tailwind from the share repurchase in the back half. I don't know, maybe you could comment if you have any more, if you expect any more [JVs] this year. You already said there may be some lease termination fees. I guess, are there some offsets there? Because just the way the numbers lay out, it actually looks like to me at least that maybe you're a little ahead.

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

Well, Matt will answer it. We maybe a little ahead, and I don't know where -- you got to -- I think you're reading too much into it. I said we certainly feel like we'll be in the upper end of the range. You get down to a level of pennies, upper end, right on, a little above the high end. I mean, there's still 6 months to go, so we'll have to see how the year plays out. But earnings wise, I think we're doing quite well, which is why it kind of surprised me to read some of the things in the reports following the earnings release. That particular area, I think, is amongst our strongest. And I said earlier, I think we'll be at the high end of our range. Your point is could you be a little higher? Don't know. We'll see where we end up at year-end. But certainly, towards the high end, it's currently what we're managing to in trying to achieve through all of our activities between now and end of the year. Matt, do you have anything to add to that?

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

Yes, and Mike, I said the one big variable, I touched on earlier, you alluded to it, lease termination income for the first half of the year was about $2.5 million short of our expectations. And for the balance of the year, we have another $4 million baked in. So if that doesn't materialize, you're $6.5 million or $0.065 cents to the [bad]. Now we go into every year modeling that same amount of lease termination income, $8 million a year because that is the 6-year historical average. So it's not just pulled out of thin air, but we -- it hasn't shown up this year. It may not show up for the balance of the year. And if you run that out and you come out to the high end of the guidance range, well then, you shouldn't raise guidance, that's Marc's point. You got to move guidance, move it materially and for a good reason and with confidence. And so we left it where it is.

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

I don't want use my second question on this, but -- so this will be part B of the first question. Do you...

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

(inaudible) No, no, no. Too much in the pipeline here. You got one more bullet. One more bullet.

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

Let me shift, then. I want to ask about the increase in the debt and preferred equity investments. It's up quite a bit over the last year, especially in this quarter. And when you talk about your uses of funds, debt capital being available, but maybe there are some holes in the capital structure that you guys still feel. How do you kind of think of that? Could you grow that a little bit more? And how is that attractiveness versus the other uses you might have?



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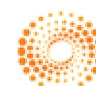

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**Andrew W. Mathias** - *SL Green Realty Corp. - President and Director*

Well, I think the book did spike up a bit this quarter because we -- the 2 (inaudible) investment that we made has been well-publicized. That was sort of an extraordinary opportunity that we took advantage of, quick close and was probably outside of our normal sort of projections for the business for the year. So that's that balances being a little bit higher than we anticipated. However, we had a significant originations model for the second half of the year, which we're in the process of lining up. So I think we're still very comfortable operating around that 10% of total assets level on the structure finance portfolio and continue to see very good, both short-trading type opportunities and longer-term investment type opportunities in that business.

**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*

Most of my questions have been, I guess, asked and answered. But just circling back to the pipeline, Marc, and the sort of million feet that needs to be done in the back half of the year. Realizing that you have a million square foot pipeline today and I assume that there's some fallout, something won't happen, a renewal might not happen, a new deal doesn't happen. What is the sort of shadow, shadow pipeline look like? What would need to happen to the extent that some of this million feet doesn't materialize, what's sort of the backup plan or what else can happen between now and December to fill that gap?

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

Yes. Just -- so a couple of things, Steve. We're sitting here June -- July 20, I think, or thereabouts. 20, 21? And the number I think you're referencing was June 30. It's a very dynamic shop, Steve. We signed a lease a day. 250 a year, one every business day, I think that's what Steve Durels [said]. So you should assume, we've already signed some between now -- between year-end and today. So the pipeline we're giving you is, as of today, we're ahead of 6, maybe closer to 7 than 6, I don't know exactly the numbers, but that's probably right. And so for another 900,000 feet, we have over 1 million square feet specified already and there's term sheets for a bunch more. So we think we'll get there. That's -- root for us, Steve. That's -- we usually don't miss. We usually overachieve. And between July and December, we'll have new deals. Like new deals that aren't even yet on our pipeline. It's still, I don't want to say early, but it's not late. So we will have new pipeline like the moment we hang up the phone. So we're just giving you our best estimate. We've done our reforecast. We've looked at our leasing volumes and occupancy for the end of the year. We think we'll hit our 1.6 million, and I hope we do.

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

Let me sort of just reaffirm what Marc just said. It's interesting that -- how frequently the pipeline number changes. In fact, Matt and Marc come to me with great regularity saying, can you update the pipeline and everybody gets surprised because literally in a 10-day period, the numbers can change and frequently to the positive. So it's just a function of we're out there obviously marketing every day. And the numbers that comprise the pipeline are leases out, leases out for execution and term sheets that are being negotiated, which are those term sheets that we think are highly likely to convert to a lease. There's a whole slew of proposals that are being traded within the leasing department and the brokerage community on deals that we're fighting to get on the short list of the tenants prospect. So as time goes by, those will get filtered down and some number of those will convert over to leases out as well. So it's a very fluid number.



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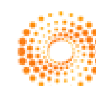

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**Stephen Thomas Sakwa** - *Evercore ISI, Research Division - Senior MD and Senior Equity Research Analyst*

Okay. So it sounds like between things you've done in the last couple of weeks plus the pipeline, you're more than adequate to hit the 1.6 million. I guess just on going back to the DPE book that Michael Lewis asked about. Just -- sort of what is the market like today? And I know you sort of talked about that book maybe getting up to $2 billion and it's pretty much there today. So at this point, anything that's newly originated? Does that either get sold down and you only keep a small piece of it? Do you expect more kind of payoffs or do you think that book kind of grows well beyond the $2 billion figure?

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

It's David Schonbraun. I think, look, it's a very fluid market, so we're going to have payoffs along with originations. So I think we're going to keep the valances in line with what we projected. She'll probably see a couple of loans pay off and new ones be originated. I think -- it's an active market, there's a lot of new capital coming in. I think we've been able to kind of hold the yields around where we projected, but it's definitely a lot more competitive. I think in the past couple of months, activity's picked up, which gives us a lot more opportunities.

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**Operator**

Our next question comes from Craig Mailman with KeyBanc Capital.

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

Marc, you had talked earlier about maybe doing more in the buyback, which I think would be helpful. But assuming maybe that doesn't move the needle here on closing the gap to NAV, I mean, would you guys -- and private market values kind of stay where they are, would you guys consider accelerating asset sales meaningfully to prove the value and potentially just special back to shareholders?

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

Well, there's a couple of different things in the question. I mean, first, in terms of accelerating sales, $7 billion in 24 months, I have to think that's sector-leading. I'm not sure because I don't have that data in front of me, but it feels like it, certainly, in the New York City marketplace. So I mean, could we accelerate that even further? We could, but it's not -- to me, it's not about acceleration. It's about selling into a recapping when it's prudent to do so. I mean, we're in the market right now with 1515. That has nothing to do per se with buybacks. That has to do with having a business plan for the asset that -- which we've achieved, which we have yet to achieve because there's still a lot more growth in that asset that we see coming down the pike. And we think it's just prudent in an asset of that size to bring in a partner right now. And like I said, we'll take those monies and decide how to deploy it. Or I think to your question, potentially special dividend it if it's otherwise not tax protected, and that's -- it comes down to a matter of figuring out the mix of what you sell to generate gains and/or losses, and it comes down to tax structuring. But I don't think there's a notion here that we're accelerating the plan per se from what we have for this year. We think it's a good plan. We are selling some assets this year. We are JV-ing some assets. We are right on plan, and we'll come up with a plan for '18 shortly and roll out some more assets and also roll in some more acquisitions, maybe some buybacks, maybe some stock dividends. But no, I would say it's not like -- I don't think there's a -- I don't think it's swaying in our strategy the speed at which we're executing. The other thing you said is if it doesn't close the gap on NAV. It closes the gap on NAV. The issue is to whether the stock price reflects that or not is a separate issue. But when we buy our stock back at $103 share average, and if we have a underlying valuation on the implied models in December, 140 or more, you have created NAV whether or not the stock reflects that. So I mean, we're focused on creating value. The stock is going to have to react the way it should react in a good market and be reflective of NAV, but it may or may not. But at a minimum for investors, we are creating value when we make investments. We think we're creating value through these buybacks.

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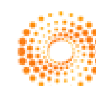

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**Jordan Sadler** - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Marc, it's Jordan Sadler. Now that you're something of a REIT investor, I have a follow-up. Not long ago, SL Green was the best and really only pure play New York office REIT. And today, there's 3 other, at least, similar players for investors to choose from. And surely, you guys are among the biggest and well leased, but how is SL Green going to differentiate itself from the rest of the field over the next 3 to 5 years? How should we be thinking about that?

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

Well, I think that we are differentiated. I'd like to think others are becoming more like the model we've set. But our model is always changing. When we see opportunity in the retail sector, we were big retail buyers. And then as the market cooled, we haven't really invested much in retail and stabilized that portfolio. We, I think, are taking a pretty affirmative and leadership role here in getting out there, buying back our stock. A lot of, I think, our peers out there will also look to their stock as being somewhat dislocated, but we want to be very affirmative with that. And to do that, you have to be a seller. And I think we sell more than most. I think we sell the most. And I think that's not something that's just a '15, '16 phenomenon. You can go back 20 years. I mean, we owned 28 million feet. we probably owned and sold over 20 million feet. I mean, we are a regenerator of capital. We like to illuminate value. We like to deploy that where we think we can make the most money and for the moment, the stock [repurchase] is very attractive. It's hard to say looking 3 to 5 years out, it will depend on a lot of things. Where's the market, where's the stock price and what part of the market do we like at that moment in time? Office equity, retail, multi [then preferred] equity, we have a lot of tools at our disposal. But first and foremost, we're a commercial owner. And I would think 3 or 5 year out, we will still be a very significant, if not the largest and hopefully the best commercial owner. But what will the relative sizings be? We'll see. But whatever it is, I just hope that the stock price is 50% more higher than where we sit today.

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**Operator**

Our next question comes from Nick Yulico with UBS.

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**Nicholas Yulico** - *Macquarie Research - Research Analyst*

Just turning back to 1515 Broadway, and if you were to do a JV interest sale there, I mean, what is the likelihood of being able to do something that's -- other than a 1031 where you could tax protect some of the proceeds?

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

I think one of our goals at 1515 is to structure that transaction in a tax-efficient manner. And we have a couple of creative solutions that we're working on to achieve that goal. So I would expect that a transaction there will be executed tax efficiently.

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**Nicholas Yulico** - *Macquarie Research - Research Analyst*

Okay. And then just going back to the guidance on same-store, Matt. Your, I guess, year-to-date 1.5% same-store NOI growth x lease term income, the goal is still for 2.5% for the year. What are the items that help you in the back half of the year?

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

Sure. Our guidance was with lease terms, so we're actually trending even better x lease term than the goal for 2.5% would indicate. But the back half of the year, you start to see the benefits of last year's leasing at properties like 919 Third, 280 Park, 711 Third, 125 Park, this is Bloomberg at 919, 280 Park has been leasing up. It's going to be 1% vacancy by the end of the year. 711 where you saw the vacancy for the second quarter tick



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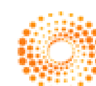

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up, that leasing that we've already done kicks in, in the second half of the year. So you're seeing the 6 to 12-month leasing activity start to flow through during the back half of the year.

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**Operator**

Our next question comes from Vikram Malhotra with Morgan Stanley.

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

Just on the non-move outs that you highlighted, can you just sort of give us an update where are you in terms of back selling some of that? And can you remind us of any other larger move outs over the next 12 months?

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

Yes, it's Matt, Vikram. The 3 properties you're referencing that we referenced in our press release, the 485 Washington, that's city space in the first and second quarter, that's a lease up plan for late this year, primarily next. The other 2 spaces are really leased up. Its vacancy from Omnicom at 220 East 42nd Street, that's space has been leased at VNS at 300,000 feet. They'll be in middle of next year. So obviously not in the numbers yet, and 1515 is the Aeropostale space, which Marc has touched on earlier, has been fully leased. Some of that income will start to roll through the back half of this year and be fully in place next.

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

And on the move outs, any other larger move outs for the back half or to the next 12 months?

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

No.

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

Okay. And then just on One Vanderbilt, I guess from your Investor Day or just maybe over the last 12 months, you referenced the leasing pipeline keep changing. It's very dynamic. I'm just sort of wondering, over the past year, has your thought process in terms of either type of tenants or size of tenants or mix of the building, has that changed at all?

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

No, it really hasn't. I mean, we've represented to prospective tenants that have been everything from single-floor users all the way up to million square-foot users. The predominant profile that tenants have been heavily skewed towards financial services where we've seen some big international corporate headquarters requirements as well. So we still think that the building will ultimately -- is likely to be another 2, maybe 3 tenants of size, meaning 150,000 to 200,000 square feet in size and the balance of the building to be single-floor users. If we get lucky and we land somebody bigger, that'd be good news, but that's -- our expectation is unchanged.

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**Operator**

Our next question comes from Jon Petersen with Jefferies.



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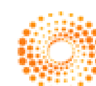

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**Jonathan Michael Petersen** - *Jefferies LLC, Research Division - Equity Analyst*

I was hoping you could touch a little bit on the suburbs. Leasing velocity seems to be picking up there a little bit. Occupancy has been trending higher. And we've noticed that market forecast from CBRE are kind of rosy [right into these] suburbs which is the first in quite a while. So kind of pairing that together with some of the buildings you sold recently, just kind of wondering against that backdrop, are you viewing the improvement in the market as an opportunity to liquidate your suburban assets? Do you want hold on a bit and let NOI trend higher or will there always be a suburban component for SL Green?

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

There was a lot in that question, too. Start with the market, I guess, was that suburban?

**Unidentified Company Representative**

The market's strong.

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

The market up there again in White Plains and in Stamford in particular has been strong. We've taken advantage of the team up there has really working very, very hard. They've done about 2 -- about 300,000 square feet of leasing year-to-date. I think we anticipate another couple hundred thousand feet before the end of the year. And we're actually pretty far ahead. So that's been very, very strong with respect to what we're going to do on a going-forward basis with the rest of that portfolio.

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

Well, right now, I think we had a -- I'm trying to think -- a goal for this year of about 100, is that right? And we've met or eclipsed that I think, already. So there's one objective that we can take off the table. So right now, we have nothing more that we're concerned at the moment. Second half of the year, we'll revisit. Again, there's -- going back to the concept of acceleration where -- It's a very -- that market up there has improved, I think, on the margins we probably will try to identify another asset that we think is somewhat stabilized and/or would meet the market nicely and try to get some optimum pricing. Whether that's second half of this year or beginning of next year, I have no idea because that hasn't -- it's not what I would call the focal part of the strategy for the rest of the year, having got those original sales done. And given the fact that, as Isaac said, markets are improving, mark-to-markets are up, occupancies are up, so that's all very good and really a credit to excellent team we have up there in White Plains who on a much more limited capital regimen managed to keep that portfolio really sort of best of class up there in that metro area. So I think that's what we can really say about that.

**Jonathan Michael Petersen** - *Jefferies LLC, Research Division - Equity Analyst*

Well, I mean, I guess just to push a little harder on that. I'm just kind of curious, I always kind of viewed the Suburban asset as something that you did eventually want to dispose of. So I guess the question is, since things are improving, is now the time to do a portfolio sale or a number of buildings. And I don't mean maybe in the second half of this year, but just over the next couple of years? Is that a possibility?

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

I don't -- I mean, that maybe your feeling or opinion. I'm not sure we've ever -- that's never been really us. I think we've always looked at it as a relatively high-yielding portfolio as the cap rates in the suburbs are 6%, 7%, 7% to 8%. And since it's very stable and requires very little capital that people up there are doing an excellent job, I think we've always tried to strategically pare it down where we think, like I said, either book ends,



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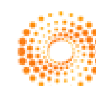

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something is highly stabilized, or on the other end, something where we just don't think we can make much of it. So smaller deals on the left end and mature deals on the right end. But I would say in general, I know, Steve, you just did a couple of deals up there, and it's from Manhattan, the (inaudible)

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

Well, well, the Manhattan relationships where Omnicom just expanded by 25,000 square feet for that market, which is a very -- a large deal with a highly priced tenant. There's been a number of deals that -- in 16 Court, which is part of the Suburban portfolio. That building is stabilized at this point and continues to have very good activity. So I think now more than ever, we've seen the Manhattan portfolio and the Suburban portfolio really working in tandem with one another.

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

I think it accounts for probably less than 5% of revenues at this point and shrinking each year. So I hear what you're saying, but I would say I think the approach we're on right now is the best approach for us given the way we look at it. But I guess we will always be looking at that to recalibrate our thinking. (inaudible) We -- I thought that was the last one in the queue. Keep going.

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**Operator**

We do have our next question from John Guinee with Stifel.

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

I guess if I was to connect all these dots, these asset sales, share repurchase, special dividend, running the DPE book over $2 billion, stock price not appropriately valuing Green on an NAV basis, the next logical conclusion I'd have is that perhaps you guys are no longer going to play by the REIT rulebook and lever up to a level that management is comfortable with rather than what The Street might expect. Is that a fair statement to say it's appropriate to lever up a bit?

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

I think we started the year -- if you measure leverage as debt to EBITDA, which has its own flaws in and of itself, which I think everyone recognizes, but we still use it. 6 point, what, Matt, 6.6, 6.7? 6.7, we sit with all those dots and all those things we've done, I think the 6.7 is 6.8. So if 6.7 to 6.8 is lever up, I guess it is up at tenth of a turn. But no, I think that -- I do think the industry in general is at a somewhat of a competitive disadvantage in growth operating at anywhere between 30% to 40% debt level, depending on whether you're at the low end or the high end of the spectrum when you have most of the real estate investment world out there investing closer to call it 50% to 55%, maybe even 60%. So I think that's an issue that the industry faces. I've been pretty vocal about that, that we'll -- we are executing within the parameters of I think where REIT shareholders want to see debt levels. But I think query whether those debt levels are a reason why the growth levels for certain REITs in many markets, for at least for office companies, I'll speak to them in particular. I can't speak to other sectors as much, but certainly, for office companies, are not as active or not as competitive combined with the fact that office companies have acquired so much over the time, a lot of them and us are digesting what we have, leasing up, redeveloping, executing, JV and the like. So it's not simply a matter of operating within low leverage levels. But clearly, when you do go after an opportunity that you think is a good opportunity, I'd like to stay within these parameters, it does take a little bit more cleverness and ingenuity and resourcefulness to compete with the players out there that are operating, in some cases, nearly 2x the debt level. So I would say, no. I think that our debt levels are relatively consistent with where they've been. I think our guidance at the beginning of the year was [7%] or below, and that's where we are. And I don't really see that changing now through year-end.

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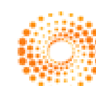

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**John W. Guinee** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Great. And then second question, this would be more of an education question, Matt. You did the 2 Herald Square, bought the mortgage, the first trust as it appears on Page 30 of your DPE book. You obviously quoted the default rate of 11.1%. Can you sort of educate us as to how much will you actually collect in current income on a loan investment like this? And how much you'd accrue and then how you'd unwind that accounting eventually?

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

Well, I mean, the accounting rules would tell you you're only allowed to book income that you expect to collect. Our expectation is that we will collect the default rate. And therefore, we've accrued at that rate. If we do get repaid, and I think the handicap at this point is that we will, we will get paid the default rate from the period of time that we bought it through repayment in cash. That's, I think, likely at some point over the next 2 months.

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

So you'd buy the loan at [250]?

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

Yes.

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

And then you collect -- then you accrue it at 11% and you're able to get paid back at [250] plus 11%?

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

Yes.

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

Or you get a hold of the building?

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

Well, that's the ultimate remedy in all loan positions, but yes, that's right.

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**Operator**

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

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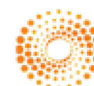

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**Joseph Edward Reagan** - *Green Street Advisors, LLC, Research Division - Senior Analyst*

It seems like there's been a slowdown in transaction volume so far this year in Manhattan, but you mentioned earlier that there's still a lot of equity capital out there and debt capital is still healthy. So curious how you guys kind of bridge that disconnect. Are you seeing [bid-ask spreads] widen out between buyers and sellers in the market or are you seeing cap rates moving higher for office industry retailers here?

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

Well, I think part of the -- there's been a fair amount of volume this year, although it is off from record levels in the last couple of years. The refinancing market is creating a very attractive alternative to sellers that can't achieve sort of very high expectations of pricing. So we've seen several assets be sort of tested on the market, if you will, and then the ownership deciding to refinance in lieu of selling at levels that are below their expectations. But there's also quite a backlog now of deals which we would expect to be consummated in the second half of the year. So we would definitely expect volumes to be up in the second half of the year. Just it's been a little bit of a standoff between buyers and sellers out there. And I would say deals are taking a little bit longer to get done.

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

And as far as kind of where things are transacting value-wise, any kind of noticeable changes on the (inaudible) retail side?

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

We -- I think we haven't really seen any changes positively or negatively. Obviously, every asset is unique, so it's hard to sort of generalize on cap rates. But I think the -- you're still seeing good office buildings trade north of [1,000] a foot sort of across the city.

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

Yes, and I'd say -- I'd just add to that, it's very disciplined equity. It's a lot of equity, that was my point earlier. And I do believe there was a lot of equity out there. But it's discipline. So at a price, you can have 6 offers and 5% higher, there may be none or 1. And if you're the seller who is trying not just to sort of get value, but as a seller, it is -- a lot of these are irreplaceable assets, you have a tendency to want to push not just for value, but value plus, that's where that standoff may get creative, and that's where elongation may arrive. I think that is more the issue with people really trying to sort of get -- you can only sell it once, so you try to get that optimum execution. And if you're what I call realistic transactors like we are, hence we sell and JV and do a lot of deals because -- especially in the context of JVs, we want to do well, we want our partners to do well. So I think that's why we transact as much. But for sellers who are kind of one-and-done to hold out for a high price, and it doesn't mean there's not a lot of equity out there. It just means there may be that gap, that gap may be solved by concession or that gap may be solved through a financing as Andrew said, but it doesn't mean there's not a lot of participants in these deals.

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

That's helpful. And maybe just a quick one for Steve. Are you seeing any changes on taking rents in Midtown office these days? And are there any submarkets where you guys are having to cut rates to attract tenants?

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

No, not in the least. I can't think of an instance where we've cut our rents in the past 6 months. And just the opposite, a couple of the buildings, I think the gap between the ask and the take has narrowed a bit.

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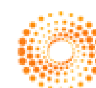

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**Joseph Edward Reagan** - *Green Street Advisors, LLC, Research Division - Senior Analyst*

And broader brush that kind of feels consistent with the market in terms of rent environment?

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

Yes. Yes, I'm not hearing anything from the brokerage community that would be contrary to that.

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**Operator**

Thank you. This...

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

That's it. We're all set?

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**Operator**

That is correct.

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

Thank you very much, everyone, and we look forward to speaking again after the summer. Enjoy.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may all disconnect, and have a wonderful day.

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