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SL Green Realty Corp. (SLG)

Q1 2021 Earnings Call

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OTHER PARTICIPANTS

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John P. Kim
Analyst, BMO Capital Markets Corp.

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us and welcome to SL Green Realty Corp's First Quarter 2021 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 any forward-looking statements that management may make today. Additional information regarding the risks, uncertainties and other factors that could cause such differences appear in the risk factors and [ph] M&A (00:00:36) section of the company's latest Form 10-K and other subsequent reports filed by the company with the Securities and Exchange Commission.

Also, during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measures most directly comparable to each non-GAAP financial measure discussed and the reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's first quarter 2021 earnings and in our supplemental information filed with our current report on Form 8-K relating to our first quarter 2021 earnings.

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

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

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Good afternoon everyone, and thank you for joining us today. After a year defined by lockdowns, closures and restrictions, New York City is now undergoing a vast reawakening. Businesses, restaurants, and hotels are reopening and restrictions are being eased. The leisure and hospitality industry is starting to bounce back as domestic tourism is increasing in Manhattan. 100,000 jobs have been regained over just the last three consecutive months during the first quarter of this year. Leasing volumes for the period January through March were higher than any quarter since the outset of the pandemic. These are just some of the signs indicating a robust and perhaps unprecedented recoveries underway. The cycle of a sharp downturn followed by large monetary stimulus, followed by increased business activity and profitability and ultimately followed by increased demand for office space is a familiar one and one we believe will once again be played out during this recovery. Just about every company we've spoken within our portfolio is making firm plans to have their workforces return to the office sometime between June and September of this year. Big New York City employers like Google, Bloomberg, Amazon and JPMorgan have reversed course and have set hard dates for return to work this summer or even sooner upon workers being vaccinated in certain cases.

Leading the way, Mayor de Blasio has called back 80,000 New York City government workers to city offices on May 3. It's right around the corner. With a goal of 5 million people vaccinated by June, employers will have every expectation of seeing their employees back in action and working together. While some employers will undoubtedly experiment with hybrid workplace model, giving employees the option of working one or possibly two days a week from home, I believe this will be at first limited in practice and over time will become even less and less prevalent. I think we have a bright future for New York City office properties because we have most important thing and that's a growing successful business space in a diversified economy.

Last year, Wall Street firms made $51 billion. That's the second highest profit ever recorded since the data was first kept over 30 years ago. The first quarter Big Five bank profits were up 163% year-over-year. And the technology sector in New York is absolutely booming. This rising momentum resulted in our leasing 178,000 square feet during the first three weeks in April, bringing our year-to-date leasing results to 530,000 square feet, putting us well on track to meet or exceed our 1.3 million square foot goal for the year. And One Vanderbilt is front and center in these results.

I couldn't be more pleased with the way One Vanderbilt turned out. It exceeded all expectations and it's just simply a wonderful addition to the East Midtown and to the New York City skyline, a very special building that is resonating with tenants and establishing a blueprint for the future of sustainable development in New York City. East Midtown needed this development and it is sparking a wave of new development projects all throughout East Midtown, the number one business submarket in New York City. Earlier this morning on Squawk Box, I announced 35,000 square foot lease at One Vanderbilt that was signed last night at 10:30 PM to be exact. And moments after I went off air, we signed another 17,000 square feet, this morning bringing total building occupancy at One Vanderbilt to 77%. As we are trading paper on another six deals at OVA, we expect to achieve 90% lease status by the end of the year, which is much faster than originally projected and higher than our goal for the year of 85%.

The success we are having with One Vanderbilt is an enormous endorsement for a development of One Madison which we are now well underway with. The One Madison Project will be the only project in Midtown, Midtown South delivering in 2023 to offer the desirable combination of well-designed, park front, new construction on amenity package [ph] to arrive (00:06:27) at One Vanderbilt and direct subway access.

Project completion is scheduled for more than 30 months from now but we nonetheless have good activity from tenants in the market who have shown significant interest in this new development. We are about to experience the confluence of low interest rates of approximately $100 billion of federal stimulus making its way to New York over the next 12 months to 18 months, surging financial sector, significant business activity, upward swinging, hiring trends and a gradual listing of COVID era restrictions.

That's a recipe for what could be a truly explosive recovery in the New York City. And SL Green is well positioned to meet the growing tenant demand and develop the future of New York City. So with that, we'd like to open it up for questions on the quarterly release that we sent out last night.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question today comes from the line of Alexander Goldfarb with Piper Sandler. Please proceed with your question.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hello. Hey, good afternoon. I guess Marc first on the – because you mentioned stimulus coming to the city, one of the big issues has been obviously an exodus of folks for lower tax climates more regulatory friendly. So, maybe if you could just offer some of your own thoughts on how we should think about the $4 billion in tax increases [indiscernible] (00:08:10) Albany passed. The fact that repealing the SALT would be sort of a tough hurdle because it's really a tax giveaway for the 1%. And then obviously there's potential that a reimposition of the AMT would sort of negate that for the middle class. So, how do you think about what's going on the political scene versus your comments about employers trying to bring people back and how that plays as far as you know New York going forward?

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

A

Well, I'm much more optimistic on the SALT cap repeal. It has bipartisan support, Senator Schumer and Senate majority with Schumer has I think made a very big point about needing to and wanting to repeal the SALT cap not just for New York but for all the states that were affected by what essentially is a double taxation. Tom Suozzi has the bill out there with a lot of supporters on both sides of the aisle. And whether or not AMT is a part of that, that's a separate question, but the SALT cap affected much more than 1%. This is not a one percentage. This is a much wider swath of individuals in predominantly blue states that are now subject to double taxation. And I think in accordance with what could be coming out of Washington with some potential increases for taxes, I do think a SALT cap repeal is on the table and I think would go a long way towards mitigating some of the tax increase that was just passed.

So, nobody wants a tax increase. I mean that's for sure. But I do think that notwithstanding that tax increase, New York will have to just step up even more in providing reasons for people to be in what's considered I think still one of the most dynamic and diversified places to live and work. And regardless of my particular feelings on the matter, condo sales in March were at very, very high levels. We see occupancy gains in multi-family. We see commercial leasing gains as I mentioned earlier. And we just see a general comeback in New York. So, the tax increases are unfortunate because they're regressive not progressive. But, I think, there hopefully is an effort underway in Washington to bring some level of equity and fairness to those that are now subject to double taxation which is like I said a lot more than 1% of the populous. And that's what we're all hoping for.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. And then second question, and I don't know if you want this or Durels wants it. But this morning on Squawk, you mentioned the rent spreads and that the premium buildings are holding up. And obviously there's been degradation on the older stock. Just sort of curious what that spread is, and if your view is that maybe [ph] Steve towards (00:11:39) prospective tenants that we're going to see a bigger shift in the rent levels between the newer modern buildings that are more efficient versus the older ones and how that may play out?

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

A

Well what Marc said this morning, I think holds true, which is that in our commodity product, you've seen phased rents drop somewhere between 5% to 10%. But in the better quality buildings, the highly redeveloped or new construction buildings, phased rents have held, as in the view use One Vanderbilt as the barometer of that. As we're rapidly leasing up, we're actually pushing rents in this building. There's clearly been a large shift in tenant demand towards the better quality product. And that doesn't necessarily mean just new construction. It means a better quality product at all price points. And we see it throughout the portfolio.

So, whether it's One Vanderbilt Avenue because if it's a particularly unique asset that checks all the boxes for what people aspire to in a modern workplace or in our better quality buildings like a 100 Park Avenue or 461 Fifth or 10 East 53rd Street, we've got good leasing traction in those buildings and more the commodity buildings that's for those owners that haven't invested in the buildings which are really not. You couldn't say that about anything our portfolio. But for those owners in the marketplace that haven't invested and haven't been of forward thinking, they're the ones they're going to suffer.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. Thanks Steve.

Operator: Your next question comes from the line of Michael Lewis with Truist Securities. Please proceed with your question.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Great thank you. You talked about reasons for optimism on the demand side. I wanted to ask a question about supply and this said – New York had always been a barrier to entry market. You've got a great chart in your investor presentation showing how the net new supply in New York City hasn't grown for many years, but now we kind of entered the [indiscernible] (00:13:52) Hudson Yards, you built One Vanderbilt and now it seems like there's this new wave of – to meet that high end demand, you're talking about, now we'll be talking about the Penn District, we'll be talking about towers on 11th Avenue. I saw the Grand Hyatt now has a plan for a potential super tall skyscraper, how do you kind of think about that high end demand that you just talked about versus the supply that seems to be coming to meet it.

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

A

Well, the first, I think, what you're seeing is a number of projects now being announced in East Midtown area where the pendulum sort of swing back to midtown where there was a lot of leasing velocity in the first quarter relative to almost every other commercial submarket. And I think that's very healthy. I mean you talk about a project like the Grand Hyatt, that project I think is sort of a best case delivers in seven years and possibly more. So, the optimism I expressed in my opening commentary really is reflective of my outlook over the next 12 months – 12 months to 18 months for the most part in which I don't think there's any new construction being delivered in Midtown East. But I'm just looking around the room here [ph] is there any (00:15:20).

So, I would say at least through 2022 nothing. In 2023, you'll have One Madison, which is the point I was trying to make in the opening commentary is that will be one of the only new construction projects in 2023 for delivery in

Midtown, Midtown South of any scale. And projects like Grand Hyatt, like some of the other more recently announced projects on the West side, I think you're looking at six, seven years plus. So, I don't want to diminish the importance of that because inventory is inventory. But you've heard me say before, I'm not against growth. I mean I think growth and regeneration of the commercial stock is a good thing because it gives tenants options, those that want to pay more for state of the art office and those that want to be in the value part of the spectrum.

But they're – these are all market rate deals. There's no government subsidy like you had with the Hudson Yards. So, that again all we ever asked for is that it'd be a fair competition for tenants because subsidy is what distorts that. And on a fair playing field, we feel that One Vanderbilt, One Madison and some of the other developments we have currently underway are both timely because they're near term because we went forward in 2008, 2019 and 2020, very difficult time, but we went forward to make sure that we'll be able to deliver this product at a time when we think we'll have good demand and not a lot of competition. So, that's how – that's sort of the basis for our near-term outlook.

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

A

You also have [indiscernible] (00:17:22) balance, yeah balance supply against private sector job growth. Office using growth which pre-pandemic there was office using growth to absorb all the new supply and [indiscernible] (00:17:32) and we expect as that growth returns, there'll be a need for more office inventory.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. Thanks. And then my second question is about, I guess, net effective rents and what it takes to get deals signed in the current environment? I think the deals you signed this quarter seven months free, $60 in capital is about – it's roughly a year of rent and that's on deals with an average term of little less than six years. How should we look at that? And signing deals now versus in the apartment sector, I think we've seen some people try to take inventory off the market and try to weight this out a little bit. What are your thoughts on kind of the deals that are getting done now and the pricing and how that might look six months or nine months from now?

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

A

Well, I think as we sit here today, I'm a strong believer – we're strong believers that the market has stabilized as far as where net effectives are, the concessions we're not seeing is increasing. They're brutal right now. They're at a historic high as far as the amount of concessions go. But I think over the past 90 days, they've clearly stabilized. We're not doing more TI or more free rent for new tenants coming into the market as opposed to [ph] what (00:18:59) then we were doing at the depth of the pandemic.

So, I think we've seen the worst of the rent erosion. And I think at this point, we're bumping along the bottom and waiting for a turn back up. With regards to holding space off the market, that's never been our philosophy in the 20-something years that we've been a public company. We're strong believers. We have a large portfolio. We keep the portfolio full. We meet the market as necessary. And if that gives up a little bit opportunity in the short-term, we'll catch it on the next wave because we've got plenty of well-staged expirations. We don't suffer any one year where all of our space comes back to us on [ph] expiration (00:19:47). We are very careful stewards about how we manage our lease expirations, so that in every single year we try to make it as even as possible or as level as possible so that if there's an uptick in rents, we'll ride that wave when it gets here.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from the line of John Kim with BMO Capital Markets. Please proceed with your question.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thank you. Good afternoon. I have a question on the permanent financing at One Vanderbilt which is reportedly eminent. And I know you mentioned it a little bit in your press release yesterday. But can you comment on the use of proceeds of the capital being returned back to SL Green. And also, how did the bank lenders view the loan to value of the financing?

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

A

Well. The second part, we're targeting around a 60% loan to value loan. The final structure and proceeds of the loan are not set. The Real Deal article this morning was inaccurate in many respects, and in terms of user proceeds...

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

A

User proceeds, it's not – that will be for other debt repayment. So, we will – we have bonds maturing over the summer, we have revolver balance, we will take out existing debt with the proceeds from the new debt on One Vanderbilt, and we hope to have that closed in the – we're targeting the second quarter.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

On that revolver balance, Matt, you drew down $520 million on it this quarter, which didn't seem like it was necessary given the cash balance you already had.

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

A

Yeah.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Can you just provide some color on that?

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

A

Yeah. The biggest component of that is we unencumbered 885 Third Avenue, which is about a $300 million mortgage.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay, great. Thank you.

Operator: Your next question comes from the line of Steve Sakwa with Evercore ISI. Please proceed with your question.

Steve Sakwa
Analyst, Evercore ISI

Q

Yeah. Thanks and good afternoon. Maybe Steve could you touch on the leasing pipeline and how it's kind of changed over the last couple of months and maybe the composition of tenants and what you're seeing in terms of expansions, any contractions [ph] stand (00:22:09) the same space configuration?

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

A

Sure. Right now, it's a pretty diversified group of tenants that we're dealing with. I'd say if it's heavy in one sector, it's financial services seems to be particularly active, but more activity than we've seen in prior couple of quarters from law, insurance. We've got a couple of sizable deals with tech tenants.

So, kind of a broad swath of tenants, but not so dissimilar. If we had this conversation three, six months ago where we don't see a lot of activity is media type business – advertising firms, media businesses they're still kind of on the sidelines. But I think most of the other businesses that we historically have dealt with, they are back in the market and some of them are clearly expanding, the financial service guys, the hedge funds, the private equity guys, clearly expanding. The law firms that we're dealing with, some are expanding, some are consolidating locations. And there's a good chunk of tenants that are relocations, new tenants coming into the portfolio.

And I think how they're going to use their space. It's a great question that everybody ask. Has COVID really changed the way people are using the space? And the short answer is not so much. They're programming more square footage per employee, they're programming more amenity, more meeting space, a greater diversity on size of meeting rooms. The spaces are flexible. But I don't see those as earth shattering changes. So, I think ultimately if you talk to these people about what they're planning in the long-term, ultimately everybody will still be in a fairly dense world, although not nearly as dense packed as we were pre-COVID. And we'll still be in an open plan work environment and I think that's here to stay.

Steve Sakwa
Analyst, Evercore ISI

Q

And sorry, do you just have a size of the pipeline today versus maybe three months ago just to help kind of frame it out?

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

A

Yeah, we're at 760,000 square feet of pipeline comprised of 217,000 square feet or 220,000 square feet of leases out in some form of negotiation and another 525,000 square feet of term sheets that we think have a good chance of converting over to lease.

Steve Sakwa
Analyst, Evercore ISI

Q

Right and then maybe Marc just on kind of dispositions, I know you've talked about a $1 billion goal and likely maybe exceeding that. Can you just talk about your plans for dispositions the rest of the year and the share buyback program?

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

A

Well, we have a – I'd say we have a pretty ambitious program ahead of us that I think was pretty well documented back in December. And – as we sit here in April having done some exploration, investigation, premarketing, we think we're going to get a lot of stuff done. We just announced those two residential deals. We just closed Tower 46. Obviously at the end of December, we had that big sale of 410 Tenth. And there's a couple of sizeable joint venture situations we're looking at. So, not everything is going to be in the form of an asset disposition, we have certain assets that we feel have long term upside and warrant more of a JV execution and there are some that you'll see we'll bring to market for harvesting. So, we're still – we're good with the number. We'll probably exceed that number for sure. And Matt can respond to the share repurchase question.

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

A

Yeah. I would say on the heels of what Marc said about testing the market and getting a feel for the market and putting some assets out maybe more than we have originally anticipated, we're now looking at a targeting debt repayment for some of the proceeds from those asset sales along with the share repurchase program. We did a 100 million of share repurchase in the first quarter. A lot of these sales that we have teed up will close in the latter half of the year. So, you'd see the volume of buybacks coincide with that. But we're balancing any additions to the pipeline of dispositions, allocating those proceeds, debt repayment as well.

Steve Sakwa
Analyst, Evercore ISI

Q

Got it. Thanks.

Operator: Your next question comes from the line of Manny Korchman with Citi. Please proceed with your question.

Emmanuel Korchman
Analyst, Citigroup Global Markets, Inc.

Q

Hey, everyone. You talked about the split between the higher class assets and maybe some of the older less high class stuff. What do you think happens with that Class C or Class B product, is that conversions like we've seen in the past. Is it that those owners do step it up and put in a capital and make it look more like an A or somewhere in between?

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

A

Well. I think it's primarily affordable rent product. I mean you do have a lot of businesses in New York that can't afford high end Class A product. So, it becomes affordable rent or it may get repurposed and converted other uses. But I think for the most part it's going to stay as affordable rent product.

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

A

Those owners will – they'll suffer on execution. They just won't get the same rents by comparison to the better located, better capitalized landlords that have repositioned their product.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

It's Michael Bilerman, Marc or Andrew or Matt, just in terms of OVA, with the refinancing what is the potential for your partner to perhaps use those excess proceeds to buy more of the project from an equity perspective. So, lowering your stake from [ph] 70% down to 50% (00:28:55) or something below. And then can you also just remind us of the math around doing Marc and Andrew sort of profit participation 2.5% to 3%, and whether that gets triggered at all now that you're going to do the permanent financing closer to stabilization. And do you have to start recording that liability on SL Green's balance sheet?

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

A

Well. We'll let Matty take the second question.

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

A

I'll work in reverse order. There is nothing that would trigger putting anything on the balance sheet related to Marc and Andrew's investment triggered by the refinancing.

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

A

Yeah, recall, we paid for those interests.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

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

A

So, we own our interests in when the project starts to cash flow and the capital has been returned, we have our sort of pro-rata interests alongside the REIT in those. But so just as a reminder of how that works. The other question.

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

A

So, the [indiscernible] (00:29:55) buying us on recap or purchasing a portion of our interest, it's too early. I mean, we're not marketing any of our 71% at this time. It's on goals and objectives for the year to evaluate in the future. But the goal is to close the most efficient and most secure in terms of tenure, put away financing as possible in the next 45 days or so.

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

A

Yeah. In terms of a strategy for selling down interest in the future if we want to, I think it would be. I mean sure the existing partner in concept could do it, might have an appetite for it. But I also think it would be one of the most liquid assets of any asset in New York City. So, I think the source of the money in the identity investors is secondary to a strategic decision by us whether to hold these listing position or sell down further.

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

A

Also recall, our partner on One Vanderbilt did become our partner on One Madison as well.

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

A

One Madison, yeah, that's right.

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

A

They might have anticipated getting proceeds. They were obviously pleased with how this deal went. Pleased enough to be a significant part of the next deal. So...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Okay and then also can you just clarify just in terms of the new financing on OVA. Obviously, it's a substantial part of your initial construction cost and you just talked about a 60% LTV which I guess at a [indiscernible] (00:31:36) about $4 billion. I know you've been talking about a value of OVA of like $4.4 billion to almost $5 billion at the most recent Investor Day based on that 2025 NOI stream and applied cap rates. So, I know there's lender values, there are your own values, but I'm just trying to get a perspective of the underwriting of this loan to the NOI streams and leverage levels?

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

A

Michael, it's Matt. So, we'll talk more about the financing when we get it done in the next 45 days. I will say Andrew made the point earlier. There's press out there that is inaccurate. Just to be clear as to where we stand. We did forward starting swaps totaling $2.25 billion, in anticipation of financing that is in excess of that. We haven't said what the proceeds level will be. There are various rumors out there about what it is. It will be 60% financing of whatever the number is and when that's finalized and announced, we'll discuss it in more detail.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks, Matt.

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

A

Yeah.

Operator: Ladies and gentlemen, just a reminder, please limit yourselves to two questions. Your next question comes from the line of Craig Mailman with KeyBanc. Please proceed with your question.

Craig Mailman
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, guys. Hey, guys. Could you give a little bit of color on what tenant was behind the lease term fee this quarter?

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

A

It was retail location, AT&T location at 590 Fifth Avenue property, we just acquired recently.

Craig Mailman
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just an update on – you guys gave when most tenants are coming back. But just has the utilization in your buildings ticked up at all as people have been getting vaccinated or where does that stand currently?

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

A

I think the return to office, I don't think is going to be random or in a haphazard format. The companies we're speaking to which really drive – the bigger companies that drive the population within our portfolio are very forward looking in terms of what their protocols are going to be for return to office. Really the earliest we're hearing from anybody at the moment is May, June. And with what I would say vast majority by September. So, I think that the relevant time period to look at those stats are going to be between June and September, as you'll see it start ramping up. And it's April, I don't think we've had some uptick but not material and it wasn't planned. I mean we've – assume we're in dialogue with every tenant, we've surveyed our tenants. We have schedules of what tenants are telling us when they're moving in. And I think they are on track with their plans. But most of those plans are not for an April return.

Craig Mailman
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Jamie Feldman with Bank of America. Please proceed with your question.

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

Great. Thank you, and good afternoon. So, I wanted to focus on the debt and preferred equity book and just any kind of distressed opportunities you guys might be seeing in the market today. So, could you talk about maybe the health of the book or do you expect to see to get any assets back anytime soon. And then how are you thinking about distressed buying here?

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

A

Question with the health of existing book. David why don't you...

David Schonbraun
Chief Investment Officer, SL Green Realty Corp.
A

Yeah. I mean, I think we haven't taken any credit marks recently against it. I think we're very comfortable with the assets we have where they're marked. There may be an opportunity to, I would say, accretively take in one or two of the assets. But there's nothing that we're seeing out there, that's real distress in our own book.

I think likewise there are few opportunities out there. I think a lot of the distress out there is mostly in the hotel sector. I think office has held up. You've seen with our portfolio rents have been paid and collected. Retails obviously had a little bit of distress but a lot of the guys who've made it through kind of the toughest part are now being positive and seeing kind of the upswing and a lot of the lenders have worked with them. So, New York's a very strong institutional market with good sponsorship and there aren't usually tons of distress. I think we've done well finding there's one or two assets out there which we continue to look for.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

All right. Thank you. And then we have a mayor election coming up, I'm just curious to get your thoughts on kind of what you think are the most important initiatives for [indiscernible] (00:36:37) for the next candidate or the next mayor to kind of get right for New York City?

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

Well, we think the most is – there is probably 10 most important initiatives. But I think you'd have universal agreement amongst many that addressing homelessness and vagrancy and quality of life issues which degraded somewhat during the pandemic in part – in large part because the streets weren't full and the mass transit nodes weren't full. And I think a lot of that will be self-correcting when people are back and everything is back up to 100% utilization and there's life on the street not just on weekends or not during the day, but at all hours of the day. I think that has a tendency to be – to deal with that issue along with tremendous amount of effort now the city is starting to put behind. More ambitious efforts to get things cleaned up and get things put on the right track so that the city at large can feel safe and good about being out at day night and work and commuting.

So, I think for an incoming mayoral candidate, I think, that's the number one issue on my mind because that's what everybody wants, whether you're a business owner, tenant, landlord or resident commuter, I mean everybody wants to feel safe at all times. I think it's eminently achievable. I think the NYPD is still considered the best security force in the country and for any municipality, for any police force. And I think that this – they've gone through a lot of changes and reformation and we have to get back to a point where there's a balance between keeping everyone safe secure and also making sure that people aren't unduly infringed on the other side. So hopefully the next mayor will have a solution to working with the police force to make that happen.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

All right. Thank you.

Operator: Your next question comes from the line of Derek Johnston with Deutsche Bank. Please proceed with your question.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Hi everybody, thank you. Do you expect lease termination income for the rest of the year to dry up given that first quarter's $10.5 million surpassed full year 2021 guidance of $7.4 million.

And I guess secondly like what change that drove the ramp in first quarter versus the December expectation guidance?

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

A

So when we come out with guidance every year, we basically just look at historical trends and lease termination income and put a number in there. The historical trend has been $7 million to $8 million a year. We have no visibility into that for the year. Sometimes we exceed it and oftentimes we've come in below it. We had – we did not have visibility into this termination that happened in the first quarter when we put out guidance in December. It does exceed our full year number by $3 million, but there's no way to tell what the remaining nine months looks like. As of now, we don't have anything in the pipeline. So, it could be zero, but there could be somebody comes in next week and wants to pay us to get out of somewhere else. So, it doesn't cause us to rethink guidance levels or anything like that. It's only $3 million and we'll have to see how the rest of the year plays out.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. No, thank you, that's fair. And as I look at on face 350,000 square feet of leasing looks pretty strong, especially emerging from the pandemic. I'm not going to say it is strong, but – and someone else on the call mentioned starting rents of just $57.16. So, I kind of went back and looked at it. I mean this is the weakest since 4Q 2013 and then the TIs and the free rent incentive packages, these are the highest they've been since we've been keeping track. So, I guess do you guys expect these levels of concessions and low rent to kind of remain in order to achieve the least volume guidance you gave in December.

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

A

Well. Let's – there's one other thing you left off of that observation which is first quarter was strong, the start of the second quarter has been blistering 178,000 square feet signed in the first three weeks, I think, is one of our strongest quarters in quite a while. And then when you look at the rents and the concessions, you really need to break it apart because on our renewal product, we've done a bunch of deals that have been net effective deals. So, the rents were kept low or they were netted down by concessions. But then on the other hand if you look at deals in our higher price point buildings, One Vanderbilt in particular, where the rents ranged between anywhere between $135 to $220-plus a square foot, you would expect the concessions to be disproportionately high relative to given the high level of rents that we're achieving in the building.

So, I think we have to – to properly answer the question, we'd really have to slice and dice the portfolio for you to say what are we doing on renewals? What are we doing on commodity buildings? What are we doing on the high price point? And where a lot of our recent leasing has been done particularly at One Vanderbilt with big rents and appropriate concession packages that can skew the numbers that you see in any particular quarter.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

What...

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

A

And I'm just going to add to what Steve said. So, $57 is not on the full 350,000 square feet that was done. That's just on the mark to market leasing which is only 180,000 square feet of the 350,000 square feet. On the full, 350,000 square feet, 330,000 square feet of that is at a $65 rent and the remainder is at One Vanderbilt, which is excluded from the number and it's in the range that Steve was talking about well into...

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

A

So, I just want to repeat, [ph] that's an important (00:43:31). Forget about mark-to-market is its own world of subcategory of the leasing. But if we're talking about 300,000 square feet, it include One Vanderbilt. If we're talking about 350,000 square feet of leasing, which was the question what was the blended rent on the 350,000 square feet?

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

A

It's going to be around $70 a [ph] foot (00:43:50).

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

A

$70. So, I think what you have there is just a little bit of a mixing and matching, apples and oranges, that's what – word I was looking for. Apples and oranges, where you're looking at the rent on a subset of 350,000 square feet not the entire 350,000 square feet. And, boy, you stood me up because I was saying wow how [indiscernible] (00:44:09) that low either. So, I had Matt, pull it. It looks like that actually the blend on that 350,000 square feet was $70. And that's – I'm not saying that that's, your question remains what's that trend and where rents headed and everything. But I don't want to leave the call with the impression that our average rent for the quarter was $57.

Derek Johnston
Analyst, Deutsche Bank Securities, Inc.

Q

Right. Thank you. Very, very helpful.

Operator: Your next question comes from the line of Vikram Malhotra with Morgan Stanley. Please proceed with your question.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Good afternoon thanks for taking the questions. Matt maybe just first one you talked a lot about obviously the One Vanderbilt leasing has gone well, 90% target. Can you remind us what the GAAP FFO contribution is for this year and how should we – what we should anticipate for the next? I think it was about $30 million this year if I'm not wrong. But if you give us more color on that that'll be really helpful given your 90% target?

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

A

Yeah. Just bear with me one second, I know the GAAP NOI our share for One Vanderbilt was about $7 million for the first quarter and I think your recollection is about right about $30 million thereabouts for the full year on a GAAP basis. Obviously on a cash basis, it's going to be significantly lower. It was negative for the first quarter because a lot of the tenants are in free rent periods when they move in and the leases we're executing now won't even be an occupancy until into 2022.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

So, then giving your comment on 2022, does the GAAP contribution kind of more than double?

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

A

I'm going to stay away from 2022 numbers until sometime in December, it is typical. But it is a substantial increase, yes.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just – I know somewhere on the call, there was a reference that there are few distressed opportunities maybe that pertain to the DPE book. But given your bullish commentary over the next, call it 18 months and longer term, I'm kind of wondering how you think about opportunities, acquisition opportunities [ph] let's for the (00:46:25) more call it value-add or troubled asset given there are a few, but isn't there just a short window before fundamentals really turn according to you. And so, I'm just sort of wondering is there an opportunity for you to deploy more capital, get more aggressive given where we are in the cycle?

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

A

Well there's a couple of ways to answer that. First, we did acquire, I guess, within the past six months, The Lipstick Building at – that was something that came through our DPE book. The prior ownership and lenders to that ownership, unfortunately, there was hundreds and hundreds of millions of subordinate equity, [ph] David do you (00:47:10) remember how much...

David Schonbraun
Chief Investment Officer, SL Green Realty Corp.

A

Not on top of my head...

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

A

You know...

David Schonbraun
Chief Investment Officer, SL Green Realty Corp.

A

...a couple of $100 million.

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

A

A few $100 million of subordinate equity that we were senior to and have now taken possession of that asset, which I think is one of the more notable and attractive assets were at a basis we're comfortable with, we're executing a significant upgrade and repositioning of that asset, which I don't think it's been undertaken since it was built in the 80s. And where I look at that is as an addition to the portfolio coming out of this period of time for sure. That's one.

Two, I'd say one of the biggest opportunities which we invest heavily in is our own stock. That generally tends to be more attractive than almost anything that we come across, not always but just usually. And we did I think $1.5 million.

David Schonbraun
Chief Investment Officer, SL Green Realty Corp.

A

Yeah. It's just that $100 million worth...

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

A

$100 million worth in the first quarter. You might see those, our projections were that for the full year closer to...

David Schonbraun
Chief Investment Officer, SL Green Realty Corp.

A

Our goal for the year, yeah $400 million.

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

A

So, that obviously leaves quite a bit more to do assuming we stick with that plan, which for the moment we are on that plan and that's how we're going to deploy a lot of the net proceeds which we spoke about earlier. And there are new opportunities on top of that the most compelling of which we think is new development. I think given my commentary earlier about the rent premiums, if you will, for the best assets in the best locations. At this moment and frankly for the past two years, we view development as a better approach than buying and repositioning existing generally, its' – like just a world class asset, like a Lipstick. And that is something we're, we still believe deeply. And so, new development, our own stock and kind of rifle shot opportunities like, like Lipstick are ways in which we are taking advantage of this market.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much. Just one more if I could quickly clarify. You did a big street retail lease at Soho. It's one of probably the larger leases I've seen in a while. How did that deal come about and maybe you could clarify roughly at grade what was the per foot rent?

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

A

It's, it's 5,000 feet a grade. There were actually two tenants competing for the space. It's – the space is all currently occupied by a furniture store and another retailer. And this was leased in advance of their expirations. 110 Green is on the best block in Soho, both really for retail and for office. And [ph] it was (00:50:16) – the space is still very desirable. So, I think it was a very successful execution. We got very good security package and it's a great luxury tenant for the block. So, we were pleased to get it done.

Vikram Malhotra
Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much.

Operator: My next question comes from the line of Peter Abramowitz with Jefferies. Please proceed with your question.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Yes. Thank you. I just want to ask you about the lease negotiations, heard some anecdotal evidence about just needing to be more flexible in working with tenants. So, what are tenants looking for, I guess, in terms of lease flexibility, whether it's options to decide how much space they take [ph] probably (00:51:10) through the lease or possible termination options, midway through the lease. Any color you can give on that would be helpful?

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

A

Sure. I don't think it's a – what we're seeing is what we always see when there's a big disruption in the market and where tenants feel that they've got some added leverage in a competitive environment, which is they want as much flexibility as they can get. And that generally, I would say, from what we're experiencing right now is mostly about growth, where tenants are coming in and saying they want right of first offer positions or they want a fixed date expansion options. In some cases, slightly shorter terms, but I don't want to be misleading on that, that's in some cases. We're writing plenty of deals right now that are 15 and 20 years in duration. But flexibility is mostly what they talk about and in the world of flexibility, I'd say, it's more oriented towards growth as opposed to termination options. Not to say that they don't look for rights to shed part of their space midterm or cancel. But three out of four tenants are – fight very hard to make sure they have a clear path for future expansion.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay. Thanks, Steve. And then one more just kind of a macro question. I guess in the last cycle and kind of lead up before the pandemic, a lot of office using job growth in the city and a lot of the net absorption as well is kind of driven by the tech sector, even though it's – still compared with some other markets not a huge part of the market. Just curious what's kind of your outlook for office using job growth. Anything about the pandemic on the other side of it that kind of changes those dynamics over the next few years.

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

A

It's not. So, Marc said in his opening remarks, we said it back in January and it's been reiterated. Office using job growth is expected – in the city is expected to return to pre-pandemic levels meaning all the jobs that were lost are regained by the end of 2021. The job growth has accelerated from January into February into March. Technology is part of that. Private sector job growth is 100,000 jobs and office using jobs has accelerated from the 20s, the mid-20s. So, that is why we feel confident about the return of demand for office spaces because we are seeing. It's not a projection anymore. We are seeing the return of office using jobs.

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

A

There were about 156,000 office jobs lost. About 30% of those have been regained through March. I expect April will continue that trend. The city believes and we have no reason to doubt that all of those jobs will be returned by year end. If not, it seems like it would be early 2022 in any case. So, the bottom line is we should be back hopefully to what prior pandemic levels were about 1.5 million office using jobs. And I would think sometime end of 2021 or in 2022, we'll be back to those levels. And then hopefully growing from there, I mean the idea isn't just to get back, the idea is to get back and exceed like we have in prior downturns. And we think that the environment is right for that to happen for all the reasons we laid out early on.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. Thank you.

Operator: Your next question comes from the line of Nick Yulico with Scotiabank. Please proceed with your question.

Nicholas Yulico
Analyst, Scotiabank

Q

Thanks. I just want to go back to this topic of work from home and the hybrid workforce. And Marc you said that you thought employers will experiment with hybrid probably be limited in practice at first and then less prevalent. But I mean you clearly have a view that even before talking about office using jobs coming back and somehow those jobs are still going to be taking up the same amount of office space in the city. And, I guess, I'm wondering why you think that's the case because even pre-COVID, there were firms that are already talking about changing their workplace in terms of making it more flexible, reducing real estate footprints. And even during the pandemic, we've seen some examples of firms who were starting to move to unassigned seating because they're of the view that employees are not going to be back in the office five days a week. So, you may have more space per desk, but you're not going to have more space per employee because employees may share desk. So, I guess I'm wondering with those factors being in play here, maybe it's not every company who's willing to do that. What is your insight here about that not being a problem because implicitly you're saying it's not going to be a problem, I guess.

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

A

No I don't think it is. Hoteling or hot seats, whatever you want to call it, this is not a new concept. This is a concept that's been around, I mean, for years and years and years. There is like nothing, I know people look at this and say, oh my God COVID.

Nicholas Yulico
Analyst, Scotiabank

Q

[indiscernible] (00:56:54) the plan, I mean...

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

A

Yeah. I mean it's got a new name hybrid. I mean who cares about the new name. It's called whatever it's called. It's called you have a ratio of more than one employee per seat. Some firms manage to 1.1, some to 1.2, bigger firms tend to utilize what I call hot seating, but you call it anything you want, more than others. So, my comments about the future is incremental to what existed pre-pandemic, because I look at that as kind of the established baseline and the question in my mind is do I think C0OVID is going to greatly increase that ratio and I don't think it will be because most of the firms that I have spoken with are talking about the kind of flexibility that might allow for up to one or two days of work from home. And that's at most for most of the big firms. When you are only doing that kind of rotation once or twice a week, you really can't downsize the desk count, the seat count that efficiently. In order to really [ph] downsize (00:58:13), you got to go to a four or five day week work from home and then you can obviously get tremendous efficiency. But the moment somebody is in the office four days a week and they're home one day a week, that's their desk, that's there – they're not hot seating that desk because the math doesn't work if you have five people coming four days a week and they're taking random one day a week off and you can't plan for that one day. It becomes a very complicated set to manage.

So, part of it is – I don't think it's as easy as it sounds to make that work because when people are there 80% of the time, there being the office, they need it, whatever it is, a desk, a cubicle, a workspace or an office. And so on the leasing that we've done since COVID and I guess we've done since COVID almost 2 million square feet, right. We did 1.3 million square feet last year and 500,000 square feet this year, so 1.8 million square feet. We have not seen the kind of reductions that I read about and a lot of these leases we're signing right now are 10-, 15-year leases.

So people are thinking about it and I think people will do it not so much from a management of real estate but more from a in consideration of the workforce as something that contributes towards in their eyes some form of live work balance. The only problem is as I see and this is my own personal opinion is that live work balance comes at a cost of productivity and efficiency.

I mean God knows we could not have done anything close to what we've accomplished over the last 18 months if we were work from home. There's just no way. I mean maybe some firms can, we couldn't. It's impossible knowing just how much we get done as a group. And I think that when I speak to the business leaders they all sort of acknowledge, yeah, we're at our best when we're together.

So, it's not an optimal situation. It's more of a concession, I would say, where businesses are considering working, let's call it, hybrid workforce into place. But I just don't see it yet as a trend that's resulting in significant downsizing of space. And as you mentioned, there is the offsetting concern that the packing together of workers is – there's a de-densification that is definitely working into floor plans. It's very arithmetic. A five foot workstation is now six foot, a six foot is seven foot, and seven foot is eight foot. And those are big changes. When you go from just adding a foot or two to a workstation that dramatically changes the density of a floor, especially in open plan floor. And we are – that I am seeing a lot of de-densification. We're also seeing a lot of – more amenitization of space, which works its way into the total square footage per worker when you're working more amenity into space.

So, I don't want to dismiss the concept that no there – because of COVID there will be firms that will experiment with work from home. But that's a different statement than what I think that's going to do to the real estate footprint.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. that's helpful. Thank you, Marc. I guess just a follow-up on that is – I mean as you look at the – I mean in many cases it feels like firms are just kind of waiting until they have to make a decision on this. And that's when the lease renewal is coming up or they're planning to move – or that you planning to expand, right? And we just think about your portfolio on the lease expirations that are coming up this year – in next couple of quarters, is that when you're starting to learn about this impact meaning that in many cases we don't really know how tenants are going to behave. You're just kind of learning about this impact as the renewals are coming up. And how is that – are you gaining any new insights as this process is going along?

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

A

Well, I don't think we have to wait around for future expirations to understand what tenants are doing. We've done a lot of leasing over the past period through the pandemic period and certainly into the first four months of this year. So, we have a very good sense as to what they are and are not doing and I think we've said it a couple of times in this call which is tenants are providing a little more space to provide more amenities. They are providing a little more flexibility to employees. But the headline example is that I think you may be focusing on when you talk about gigantic firms that incorporate a more flexible or hybrid work environment into their world is not necessarily the rule of thumb for everybody. If you look around Manhattan and you see businesses that are 1,000 square feet or 25,000 square feet, those tenants probably aren't thinking anything in terms of hot desking or anything that impacts their real estate decision. In those people's mindset, hybrid simply means I work some of the time mobile, I work some of the time in my office. And at the end of the day, I'm just working a whole lot more because I have the flexibility to do so whether that's at home or in the office or at the Starbucks cafe. And I think from a manager's perspective allowing their employees that latitude, that's really the core shift of what we're seeing employers talk about where they don't get all bent out of shape because their employee is a day from home as opposed to five days in the office. And I think you got to sort of bifurcate between guys that really do true hot disking and the majority of the world that really don't just provide a little more flexibility. Andrew, do you want to add to that?

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

A

Well said, Steve.

Nicholas Yulico
Analyst, Scotiabank

Q

All right. Thank you everyone. Appreciate it.

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

Okay. Well, thank you everyone for calling in and the great thing is we'll be back in three months and we'll be able to share with you results, which obviously we have a fair degree of confidence in and we think we're going to have a good second quarter, we're off to a great start. And we hope to carry the momentum through June into July and look forward to speaking with you then.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.