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SL Green Realty Corp. (SLG)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you, everybody, for joining us, and welcome to SL Green Realty Corp.'s Second Quarter 2022 Earnings Results Conference Call. This conference call is being recorded. At this time, the company would like to remind listeners that during the call, management may make forward-looking statements. You should not rely on forward-looking statements as predictions of future events as actual results and events may differ from any forward-looking statements that management may make today.

All forward-looking statements made by management on this call are based on their assumptions and beliefs as of today. Additional information regarding the risks, uncertainties and other factors that could cause such differences to appear are set forth in the risk factors and MD&A sections of the company's latest Form 10-K and other subsequent reports filed by the company with the Securities and Exchange Commission.

Also during today's conference call, the company may discuss non-GAAP financial measures as defined by Regulation G under the Securities Act. The GAAP financial measure most directly comparable to each non-GAAP financial measure discussed and a reconciliation of the differences between each non-GAAP financial measures and the comparable GAAP financial measures can be found on both the company's website at www.slgreen.com by selecting the press release regarding the company's second quarter 2022 earnings and in our supplemental information filed with our current report on Form 8-K relating to our second quarter 2022 earnings.

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

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

Marc Holliday

Chairman & Chief Executive Officer, SL Green Realty Corp.

Thank you. And good afternoon, everyone. Appreciate you joining us all today. I hope you're somewhere cool this afternoon, but mostly I hope you're in your office with your colleagues, listening in for this today as we are all here at SL Green each and every day, five days a week, doing what we do and what helped us achieve or what we got done in this quarter. And I want to say how pleased I truly am with the company's achievements during this recent quarter and throughout this year. Everybody has been working really, really hard to get done as much as we possibly can towards our long-term goals and objectives for the year.

It's been a volatile and challenging environment to navigate as we emerge from this most unusual two-year period, which required us really to write a new playbook to address the unprecedented restrictions and the unprecedented nature of this market. And I feel that we did so thoughtfully, skillfully, and we hope that those results of the first half will continue throughout the second half as we continue to outperform within our market. The same-store portfolio now sits at 92% leased after 1.1 million square feet of office leases that we signed year-to-date. And we have a current and active pipeline of another 1.1 million square feet of leases and transactions, which we will be working tirelessly to convert to close deals between now and yearend. While SL Green's second quarter closed leasing transactions was below average, this is not to be unexpected due to the front loaded activity we had in the first quarter, which followed a lot of activity we had in Q4 2021 and a precursor to what we hope will be back to our average levels for Q3 and Q4. So, there is a level of cyclicality to how and when we can time these releases, but we feel as we sit here today, we're on track.

And while Midtown Manhattan leasing velocity in Q2 was down, it was just down 4% below first quarter levels, however, it also represented a 33% year-over-year increase and 81% of Midtown leasing took place in Class A buildings. Tenant demand is shifting. As some of the big technology tenants, which expanded rapidly, have pulled back as they adapt to new workforce patterns, but financial firms continue to be very active in this market. In fact, the finance sector, which represented only about a third of the overall leasing activity in the prior two years during the pandemic, this finance sector accounted for half of all leases signed in Q2, and it also accounts for a disproportionate amount of our pipeline that I mentioned earlier. So we're happy to see that that sector is taking up a little bit of slack for the technology sector as they digest the space they've taken over the many recent years.

We're also seeing a marked increase in tourists and proposals from small- to medium-sized tenants in buildings such as Graybar and 110 Green Street. And most notably, we believe that when tenants are faced with a market that gives them choices, there's going to be a flight to quality mainly within that 5- to 10-minute walk of major transportation and commutation hubs, and that plays into the strength of this well-located and highly improved SL Green portfolio. When you look past the headlines and take a closer look at the data, it points to some very positive trends within New York City that if current trajectory continues, will serve to restore equilibrium in this market. First and foremost, the jobs recovery in New York City continues at a robust pace much more so than average and much more than we've seen in prior years, as 51,000 jobs were added in April and May, of which 21,000 jobs were categorized as office using. And hot off the presses today, maybe an hour ago or so, it appears that New York City added another 22,000 jobs in June as we inch closer to restoring 100% of pre-pandemic employment levels. In fact, through May, office using jobs were 92% recovered from early 2020, and overall employment was about 77% recovered through May, and both of those numbers will now improve as a result of the data that just came out today. So that's good news.

Also, space utilization in our portfolio, which we began tracking throughout pandemic as looking at physical occupancy as a percentage of pre-pandemic physical occupancy, July, this month represents our best month of physical occupancy in over two years with weekly portfolio averages reaching close to 45%, and that's adjusted to 55% when looking at the peak days of Tuesday, Wednesday and Thursday, and it's July and it's hot. So, we do expect those numbers to improve markedly in September and thereon out through the end of the year.

There's – again, looking at data in terms of the performance of our all-important financial sector, Wall Street member firms on the NYSE reported in the first quarter $7.7 billion of profits. And while that was down measurably from Q1 2021, that's coming off of a record quarterly profit in 2021. But the $7.7 billion, to put it into more of what I'll call normal context, is far better than the five-year pre-pandemic average of $5.6 billion. And so, while a lot of comparisons will be made to 2021 financial performance, including big bank, big five banks, net income results for the quarter, it's all measured to pretty much record years in 2020 and 2021. But when you look at normalized years for New York City, the financial sector is still generating profits off of the trading volatility that is serving to somewhat mitigate these lower banking and advisory fees. And we do still see a lot of activity coming – leasing activity and expansion activity coming out of the financial sector. So that's – that I think is very good news and we can talk more about that in the Q&A.

Tourism is another bright spot. Visitors to New York City, which had peaked at over 60 million pre-pandemic or as low as 30 million during pandemic, are now 85% recovered, and that's with fairly relatively low participation from international visitors, which are expected to rebound in 2023, at which point full recovery is expected next year. And that's consistent with what we basically had discussed in our December investor meeting in terms of expectations, because that drives so much in terms of retail expenditures and hotel nights and boost this economy in many ways. And I think SUMMIT is fully reflective of this pent-up demand and energy that we see in New York City right now is we welcomed yesterday, this was Wednesday in July, 6,400 customers to SUMMIT

One Vanderbilt. And we will celebrate our 1 millionth customer next week well ahead of original expectations and achieved on a fairly limited operating schedule that we've maintained since October 21, 2021. So we're only nine months into it and we're going to have a nice celebration next week when the 1 millionth customer walks through our turnstiles.

It's for all these reasons and many more that we continue to have the confidence and conviction of our business plan in New York City, that's not to say it's without challenges. The capital markets are more difficult now than they've been in a long time, primarily driven by a dearth of debt capital. But this is a market where reputation, relationship and record come into play. And there's a diversion of people who can get things done and people who're going have a harder time getting things done. And I think 450 Park, which just closed I think in the past few weeks or past month, is as good a proxy as any for what our capabilities are in this market to acquire, I think one most exceptionally located commercial assets in all of New York City on 57th and Park further expanding our Park Avenue presence at a basis we found very attractive and then demonstrated our ability to capitalize that deal with 75% brand-new fresh equity in this market environment and close an acquisition loan with one of our relationship and corporate lenders on terms that were really pretty much dead on underwriting. So, that is, I think, just a demonstration of what this platform can do, what we expect we will continue to do throughout this market as more opportunities arise.

100 Church refinancing on a different level tells the same story, and that also closed in the second quarter. So, more on that from Matt, but all-in-all, it's a challenging market, but we rise to the challenge. It's a market that I think has a lot of headline overhang right now. But I do think there is a lot of good news out there in the market directionally that we can build upon throughout the rest of this year into next year, and that will help New York recover because this recovery was never expected to be immediate. We expected this to be a multiyear recovery into 2023, maybe even to 2024. But the point is we're heading in the right direction and portfolio is in great shape, and we're going to keep our full attention on the task at hand and try and deliver for our shareholders.

So now, I want to turn it over to Matt DiLiberto who's got a little bit more commentary on the financial results.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Thank you, Marc. We are certainly very pleased with the results we posted for both the second quarter and the first half of 2022, as the portfolio and the platform overall performed well, and FFO for the first six months exceeded our internal projections. This performance keeps us on track to meet our 2022 normalized FFO guidance range, which we issued last December of $6.70 to $7 a share while trending towards the lower-end of that range, as we see the impact of rising interest rates on floating rate debt, and the effect of our recent shift in capital allocation, which prioritizes capital for the repayment of debt and enhancing liquidity, while also funding the relatively small equity needs of our development and redevelopment projects.

In the second quarter, our reported FFO of $1.87 a share included a mark-to-market charge of about $0.09, related to a marketable securities investment. As a reminder, these kinds of marks, up or down, are not included in our normalized FFO guidance. Excluding the effect of that charge, FFO of $1.96, beat consensus estimates pretty handily, due primarily to the timing of certain items that were included in our initial guidance. We don't guide by quarter, so we understand the Street can't accurately predict when these items will hit.

We also recognized $4.7 million or $0.07 a share of unbudgeted fees related to the acquisition of 450 Park Avenue and $5 million, also $0.07 a share of unbudgeted fees related to the resolution of our Crowne Plaza investment. These are in addition to other fee income streams that our platform regularly generates by managing properties and projects and capital activities on behalf of our partners or third-party assignments like special service in troubled loan situations. We hear and we read that these fees are lower-quality earnings, which has always kind of baffled us. This is real money being made oftentimes without any incremental capital investment. It's in cash and therefore it is real earnings. These income streams also verify and enhance the value of our platform as others pay us for our expertise. There clearly isn't any platform value in our share price. And finally, it provides additional scale to what is already a huge platform as we get additional insights into what is happening in the market, as well as an exponential expansion of our business relationships. As such, we will continue to look for opportunities to generate more, not less, of this ancillary income, particularly through the expansion of our asset management strategy.

Another positive in the quarter, G&A expense was lower than our original budget, which is a trend that we expect will continue for the balance of the year as we expect to reduce G&A by $3 million to $4 million below our initial guidance. On a full-year basis, these positives helped to offset the dilutive impact of several things we've been highlighting for the last few months. Most notably, the effect of interest rates, which we all know are expected to continue to move higher over the balance of the year and into 2023, particularly for us, the effect of rising LIBOR and SOFR.

It's true, historically, the forward curves are not very accurate, but we need to be prudent and make decisions as if they are. When we provided our initial FFO guidance, LIBOR is expected to average just 38 basis points during the year and end the year at 75 basis points, while SOFR is expected to average 27 basis points and end the year at 66 basis points, then stress those expectations by another 50 basis points to project interest expense that's consistent with our past practice. And that cushion clearly not enough, as LIBOR is now projected to end the year at 3.78% and SOFR at 3.51%, a 300-basis-point increase by the end of the year and over $2 billion of floating rate debt.

So to mitigate the effect of those rising interest rates on earnings and especially cash flow while further enhancing the balance sheet, we have pivoted our capital allocation strategy to prioritize debt repayment, particularly corporate unsecured debt. The easiest way to generate immediate liquidity for this initiative is to reduce share repurchases and DPE originations. This was evidenced in the second quarter, where for the first time in recent memory, we did not originate any new debt and preferred equity investments, nor did we repurchase any shares. Instead, we used this retained liquidity to pay down our corporate credit facility.

We're also looking out further in the year for efficient debt repayment. Our current plan, which is a shift from original guidance, is to repay a $300 million bond maturity at its open date in September, ideally using the proceeds from asset sales. And then refinance a separate $500 million bond maturity with a short duration bank or bond financing that allows us to repay the principal when we receive almost $600 million in November of 2023 from our partners at One Madison at TCO, the project.

This strategy shift is not an indication that we don't still view share repurchases, debt and preferred equity and other potential investment opportunities in the market as attractive. As you saw with 450 Park, we will still invest capital into growing the business accretively, especially in the asset management model. And obviously the share price is extremely cheap. I hear the term stupid cheap, but that probably doesn't even scratch the surface as we now trade at the equivalent value of just a handful of our assets and a shocking 50-plus-percent discount to the Street's NAV, not ours, which we know is a conservative view of value. But in the current environment, we feel this capital allocation pivot is the most prudent path for right now.

All told, as I said at the opening, FFO remains on track to be within our 2022 normalized FFO guidance range of $6.70 and $7 a share, while continuing to trend towards the lower-end of the range, which I indicated in our first quarter call.

In the real estate portfolio, just looking at a few of the other goals we set out for ourselves, our same-store cash NOI growth of 7.8% for the first half of the year was generally in line with our projections and we always anticipated the trend to be lower over the balance of the year, ending somewhere between 4% and 5%. Having just completed a full re-budgeting of the portfolio that projects a slightly slower pace of leasing in the same-store portfolio as well as some incremental pressure on operating expenses, particularly utilities, we remain optimistic that we can still achieve same store cash NOI growth of 4% this year.

The slower pace of leasing also had an effect on a reported same-store leased occupancy, which at 92% as of the end of the second quarter, was about 1% below our projections. And while we have a substantial pipeline, as Marc alluded to earlier, and of course, incredible faith in the talents of Steve Durels and his team, being that far behind at this point in the year makes our goal of 94.3% a very challenging goal, to say the least. That said, on an overall basis with 1 million square foot leased through June and that significant pipeline, our goal of 2 million square feet of total Manhattan leasing remains intact and appears achievable.

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

Yeah. Thanks. So with that, we'll open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And I show our first question comes from the line of Alexander Goldfarb from Piper Sandler. Please go ahead.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey. Good morning, or is should say good afternoon. Two questions. Actually, Marc, let me start with the big picture one and then I'll hit Matt with guidance. Marc, just today, there was that news item that Governor Hochul had finalized or approved initially the Penn Station redevelopment with one of your fellow REITs. And just thinking about big office development subsidized with tax financing coming to New York in the next several years potentially, is this – do you think this is a replay of what happened with the far West side where there was a lot of tax incentive financing that weighed on the market? And also, do you think that Grand Central is going to be recipient of any similar tax incentive financing to sort of replace some of the older buildings and upgrade the office stock around Grand Central?

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

A

Okay. Well, Alex, yeah, it's a good question. I think it's a question we'll dive into further throughout the year and at the end of the year as more of the details emerge from the plan. But I think there's some parallels and I think there're some differences. It's good for New York City to have a dramatically improved Penn Station, and that is a true public asset in a way that I think is differentiated from some of the other subsidized developments throughout the years and throughout the city. This is something that is badly needed for the millions and millions of commuters that come through Penn Station and Amtrak and Jersey Transit, and there has to be and should be an improved experience. And this is something that's been on the drawing board for like decades. So, the fact that something will happen there, I think is net-net a positive for the city.

How that's going to get financed is still something, as I said, where I think details need to emerge. And whether that's going to be funded predominantly from state funds or what the contribution will be from some of the buildings in and around the areas that are being up-zoned to allow for tax payments to be directed into certain funds that would be for public realm improvement and others. In spirit, it makes sense. But we never are big fans of subsidized development. No particular pointedness to Penn Station, I just think that it's – when you pick and choose areas, there're winners and losers, and you have to compete against that. And since our portfolio is – our office portfolio is 100% unsubsidized and the development we did at One Vanderbilt, One Madison is also unsubsidized. It makes us have to work that much harder and have the buildings compete that much better in order to compete against the subsidies.

So, I think it's a challenge, but I also think that there may be a fair amount of residential and non-commercial uses that may come out of that, which could be interesting, especially if it can – if it has big affordability components, which I think could be – make a lot of sense. I think it's a much better use of subsidy when it's pointed towards affordability uses and that may or hopefully will be some portion of what's coming out of this Penn Station redevelopment. And it's going to take – this is something that'll be I presume over a very long period of time, I can't imagine full build-out of these 10 or so sites would occur inside of a decade. So, having measured growth over time to allow for a city that is net-net growing, I think is a good thing. And we need to have new product. We need to have new product for tenants that are growing and want to have new state-of-the-art space. I think the market has proven there is a deep demand for that and it's a very expensive city to build within.

So, let's see how the details fall out. Let's hope they fall out in a way that is measured so that whatever the addition to inventory is, it's a responsible amount delivered every year over, as I said, I would think 10 years or more, but that's just me projecting. And let's hope there are some mixed uses in there to make for a pretty lively 24/7 improved Penn Station sub-district that if done the right way and I believe [indiscernible] (00:26:35) certainly and the others there can do it and have demonstrated they can do it the right way and will do it the right way could be a real net-net addition and advantage for New York.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

And Matt, a question on the guidance, the state of the mortgage market, where it's tough to get mortgages on anything but like sort of the top tier, how does that impact your guys ability to sell assets as far as buyers to get funding? And also, on the DPE book for those holders of your DPE to get financing to pay you off, how does that impact your debt paydown thoughts for the balance of the year?

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

A

Sure. So, I'll lead off and I'll probably ask Andrew to add a little market color. The market – the financing market is clearly being very selective. Marc alluded to that in speaking about the financings that we got done, the 450 Park financing and an upsized financing on 100 Church, that was almost twice the size of the mortgage that was maturing. Those are really landmark kind of financings in this environment. CMBS market is pretty much seized up. You have to turn to banks and banks are being selective about the sponsorship and the buildings on which they'll lend. We feel good about that. It sets us up well. We also don't have a lot of maturities upcoming, so it's nice to be able to get those things done and now just target corporate maturities that we have. And I spoke about our pivot when it comes to corporate financings. The corporate bond market is similar to CMBS market. It's very choppy. And we want to take some of those bonds out. So, I think that we have a good path to get an asset sale or two done to pay off the $300 million of bonds. And if we can't find another $500 million, then we'll refinance those bonds short duration to pay them off when we get proceeds in next year from One Madison.

Andrew, do you want to add anything on the market?

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

Well, Alex, I mean it's just really figuring out when the CMBS market is going to return to liquidity. There's really very little new issue right now, and it sounds like bond buyers are on the sidelines watching interest rates, watching the dollar and watching all these various financial factors that have nothing to do with sort of the underlying credit of the real estate. So, balance sheet lenders are ruling the day, and I think they're taking advantage of it and getting historically relatively good pricing, which is bringing capital to that market and that's fueling some of the transactions we've seen to date. But to have a fully functioning market, we do need that CMBS market back. So we're anxious to see where it settles out.

Alexander Goldfarb
Analyst, Piper Sandler & Co.
Q

Thank you.

Operator: Thank you. And I show our next question comes from the line of Jamie Feldman from Bank of America. Please go ahead.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

Great. Thank you. And good afternoon. I want to go back to your leasing comments. I guess first is the 1.1 million square foot leasing pipeline. Can you talk about how that breaks out large tenant versus small tenant? And I guess to tie into that, your comments on small- to medium-size picking up, love to hear more color on what you're seeing there.

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

Sure. So, like what we've seen in the overall market, approximately 46% of our pending leases are with financial service tenants. So I guess no surprise with that. The good news with that is that our product that we have in the marketplace is the right product for the tenants that are out there searching for space. Of the 1.1 million square feet, 948,000 square feet, and this is a particularly good news relative to what Marc and Matt were seeing earlier about meeting our targets, our leases that are out either out for signature or leases that are in active negotiation as opposed to simply term sheets being negotiated. And then we've got another over 200,000 square feet of term sheets, which we think have a good sense – a good chance of converting over to a lease. And then what's not in those numbers are a wide array of other early-stage proposals that were entertaining but are not yet advanced enough that we felt confident enough to say that it would qualify to meet our pipeline standard.

A wide range of size of tenants from very large to small and so, no – not skewed for one size of tenant in any way, shape or form. The good news I think that we're seeing today and then sort of developed over the past maybe 45, 60 days, is we're finally starting to see those small- and mid-sized commodity building tenants come back into the market. I've always used Graybar building as a good barometer of that because of the diversity of types of tenants and the size of the tenants. And we're more active at Graybar today than we have been any time in the past 12 months. So, I think the reason for that as the big guys start to return to the city to work from their office, the smaller tenants are following in their trail. They require less time to make their real estate decision. So it's natural to expect that as the big guys start to reenter their office space, the smaller ones are going to follow suit and that's leading to real estate decisions why we're seeing those smaller- to mid-sized commodity type transactions come to the forefront. So, I view that as very encouraging news and hope that we'll see more traction as the year progresses.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

Helpful. Thanks. I guess just...

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

Jamie, you there?

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

Must have been the second question. That's one you got.

Do we have another question, operator?

Operator: Yes. I show our next question comes from the line of Michael Griffin from Citi. Please go ahead.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.
Q

Hi. It's Michael Bilerman here with [ph] Chris (00:33:03). Marc, on this acceleration of an expansion of the asset management strategy and I recognize it's a challenging and volatile environment. But just taking your comments about the stock, I think DiLiberto talked about super cheap and where the stock is. Is there any opportunity to dramatically accelerate the shift of the company by looking at your existing assets and just bringing a substantial number of your partners in and effectively solving all of this at once, right, solving the balance sheet, solving where the stock is, and accelerating the asset management strategy, effectively taking the company private, but sticking it public in being an asset management company. Is that at all the thought process for today?

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

Well, I mean, if I understand the question, I think the expansion and growth of a true asset management platform within the public company that we set for the benefit of shareholders and management is the direction we're headed. I don't know how expedited it is, because these are big, high-profile assets and even in volatile markets, it's hard to really get the right assets in the right locations at the right price. It's like I got to all come together. So, there are other new asset targets we have that we think are perfect for this program, but I'd measure them in 1 to 2, not 5 to 10 as we say today. So I think this is a program that will grow over time as we get traction, and expand our universe and – of joint venture partners, which we are doing. So...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.
Q

Yeah. I was thinking about it...

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

Yes.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. I was thinking about it from the perspective of like you think about for 450 Park Avenue, and I recognize the value you invested and the opportunity that it provides the company. But there was new equity put out which obviously could have been used for debt repayment, share repurchase or DPE investment. So, I was thinking more or so rather than going out and pushing new equity out which would require a sale, why not just leverage as you have over your long duration. And if this is really the new strategy, take as many of your assets than you've already done, One Madison and OVA, take more of them, raise the capital, buy back your shares that you've been doing, you bought back 35% of your share base...

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

A

Yeah.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

...more so than REITs, and just completely accelerated because your stock is so – like you're in this really difficult spot with a really low cost of capital or high cost of capital, right. Low stock price, high cost of debt. You have too much debt that you want to repay. How do you sort of dig your way out of this, basically?

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

A

Yeah. I don't – I mean, we don't feel the – what you're describing, internally we feel like we've got a lot of liquidity...

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

A

The balance sheet doesn't...

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

A

Yeah. I mean, I don't – we don't feel under balance sheet pressure. We've got over $1 billion of liquidity. We don't have much in the way of maturities. Matt's got the game plan articulated for how we're going to handle some of the unsecured bonds that come up I think this year primarily. We've got – so, I think that the only difference in what we're doing and maybe what you're saying is the – there's no [indiscernible] (00:36:45) urgency we feel that we have to take. I'm not sure it would be in our interest to act with that kind of speed. I mean, we've been into markets and we average into markets. So, we're going to average, as the stock is down and as the stock recovers, we're by no means signaling that we're not going to continue with the stock buyback program.

I think what Matt said both in his prepared remarks and on the call last time was that we are simply taking a moment in time to sort of reallocate and over-allocate to some near-term debt reduction which I think is primarily unsecured bonds as we then continue with our program of stock buybacks and development and redevelopment opportunities, and money into highly accretive asset management. So, I don't think you're going to see us on a hyper-accelerated basis, if that's the question. I understand...

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

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

A

...why that may sound enticing, and I'm not that rejecting that. I'm just saying that's not the plan we're on right now. The plan we're on is to take a very measured approach here and just accomplish the goals on the timelines we've set out which we think is the right way to do it.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. I was just thinking about where the stock is today and trying to take advantage of that opportunity to...

[indiscernible] (00:38:20)

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

A

The stock price – we're driven by the business plan. The stock price is going to be where it's going to be today, 6 months from now, 12 months from now and we have to execute into that. And we're opportunistic as you know. But I just don't think you're going to see us change that business plan which we think is the right plan for the assets and our long-term program that we have to develop an asset management company to take advantage of this moment in time which we expect to benefit from in due course. That's all I'm saying.

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Q

Okay. All right. I appreciate the color, Marc.

Operator: Thank you. And I show our next question comes from the line of Steve Sakwa from Evercore ISI. Please go ahead.

Steve Sakwa
Analyst, Evercore ISI

Q

Yeah. Thanks. Good afternoon. I guess I just wanted a little bit more color or thoughts around kind of the tech leasing. I know, Marc, you sort of talked about the slowdown and we've seen a lot of announcements out of a lot of the big tech firms on kind of hiring freezes, real slowdown in hiring. And we've even heard some of those large companies really stopping their tenant build-out on leases that they've taken. And I'm just curious if you have any concerns about any of that space maybe returning to the sublease market over the next 6 to 12 months?

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

A

Well, look, right now, sublet margin in Midtown is around 3.4%, 4% of the overall availability. So, higher than average, but not by – I think by an unsustainable amount. And tenants today who have a preference for new product, Class A product, well-amenitized product, they want direct leases, they want term. And the sublet market is not the best avenue for those tenants. So, there's always that shadow availability space, but the 1.1 million square feet Steve talked about negotiating with, I don't think any of that has got an alternate deal teed up for sublet space. It's just not the right – it's a different kind of profile. So, on the one hand, we love to see the tech industry, which has been such a big contributory grower, keep growing. But on the other hand, the data from Department of Labor, I mean, the numbers are what the numbers are. And if it's showing sustained job growth, that would be, I think, over 70,000 jobs in New York City in three months, 51,000 April, May, and then numbers that are nuts, we have to delve into, but the gross number looks like 22,000 at the new – out of the state conjunculator if you will for New York City in June.

I mean, these are very healthy numbers. And we compare those statistically to past 2 years, past 5 years, past 10 years, these are big numbers. So if the growth is there regardless of what sector it's coming out of, New York benefits because New York is a diversified economy, thank God. I mean, it's finance, it's healthcare, it's professional, professional business and service, by the way, is fully recovered to pre-pandemic levels, fully recovered, 96% or something. So, tech may be a slower contributor, but we've other sectors we hope will take up the slack. And as long as there's overall growth in the market, then I think we're in relatively good shape. But sure, we'd love to see tech pick things back up after they take a pause.

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

A

Yeah. I'll just add to that that to put a couple of data points in front of here or commentary to share is that sublease space availability today is still 0.5 million square feet of availability less than it was at the depths of the pandemic. So, we went through three or four quarters where sublease space was coming off the market at a pretty rapid pace. Secondly is that the – from what we were told, accurate or not, but what we were told is that the announcement of the stoppage of the work for the big tech firm that you referred to was not unique in New York City, but was in five or six locations around the country, and really driven by their – them feeling a need to redesign exactly what they were planning to build as a result of addressing the right workplace strategy in order to accommodate and respond to bringing employees back to the office. So, whatever they had in the can to design, they felt maybe wasn't the right mix of design elements. They hit the pause button. They want to go through a redesign and they expect to then go back into the construction and build out that space, as opposed to putting it on the sublease market. Third is that although the big tech guys have announced some slowdown, there are still some tech requirements that are floating around in the market. So it's not as if it went to zero overnight.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Appreciate those comments. Maybe one from Matt, just a little more housekeeping, but – and you talked about kind of the other income and it was obviously a big surprise here in the quarter. Can you just help frame out what your expectations are for other income in the back half of the year, just so we're all kind of on the same page?

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

A

Sure, yeah. That's a lumpy line item because it's where we capture all these ancillary income streams, fee streams. So, it was larger in the quarter relative to other quarters and relative to our expectations because of those two items I mentioned. As I look out over the course of the third and fourth quarter, I see a drop-off in the third and a pick back up in the fourth. But, those are based on when, if there're special servicing deals, we get success fees, that's based on the successful resolution, if there're other deal-related fees that's based on when the deals close. So, I would expect to see a drop-off in third, pickup in fourth, but the timing could shift around.

Operator: Thank you. [Operator Instructions] I show our next question comes from the line of Tom Catherwood from BTIG. Please go ahead.

Thomas Catherwood
Analyst, BTIG LLC

Q

Excellent. Thank you. And good afternoon, everyone. Maybe for Matt or Andrew, thinking of your floating rate debt, how much of higher interest rate expenses due to rising rates would be offset by higher rates on your DPE book? And is there a lag between the recognition of those higher rates for your DPE positions?

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

A

You're right. I mean, we do have floating rate debt for equity positions. That balance has been shrinking though. I'm just grabbing the number, I think it's around $300 million or so of our DPE positions offset the $2 billion floating rate liabilities.

Thomas Catherwood
Analyst, BTIG LLC

Q

Got it. Thanks for that, Matt. And then one other just clean-up one, specifically thinking of the 7 Dey, occupancy continues to scale there, obviously above 76% as of the quarter-end. We kind of pencil out something north of $3 million quarterly in NOI off of that at stabilization, looks like you're running about a little bit less than half that. We know there's a lag in especially apartments between NOI rolling on an occupancy, but what are your current thoughts on when you start to get the bump from that increased occupancy or do you really need to lease up the commercial space as well to get there?

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

A

So, we have 7 Dey and 185 Broadway broken out separately, 7 Dey is the residential, 185 Broadway is the commercial. So, if you're looking at 7 Dey's occupancy, that is exclusively the residential. Remember, there we have two components. We have market component and an affordable component. The market component is 100% leased. The affordable component is not. That's a very long process to get that component leased.

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

A

But we'll be by yearend.

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

A

But yeah, we will be by yearend. So, if you're looking at when is a stable cash flowing year for the residential component, you should look at 2023.

Thomas Catherwood
Analyst, BTIG LLC

Q

Excellent. Thanks, guys.

Operator: Thank you. And I show our next question comes from the line of John Kim from BMO Capital Markets. Please go ahead.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thank you. Good afternoon. Marc, you talked about the dearth of debt capital in the market today and [indiscernible] (00:47:34) environment. Can you talk about what the impact would be on cap rates for office, because in the past cycle, owners could just refinance rather than sell assets?

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

A

Well, I mean, what typically happens in a model like this is, you just have very limited trades. There's no – cap rates got to be set by willing buyer, willing seller. And when you have a market where you've got well-capitalized, long-term ownership that appreciates the long-term value of the real estate it holds, if there's not enough acquisition capital or transactional capital that's out there that's priced at a level that can meet those expectations of the owners, then there's a view that will cap rates rise. And I would just say that you have a bit of a frozen market where just not many trades get done other than in situations that might be pressured. But those are not the normative, I would say, for the bulk of the assets. Half the inventory in New York City, commercial office inventory is owned by 10 to 12 very well-capitalized long-term owners that typically we've seen through the 90s or early 2000s, Great Recession, et cetera, ride these periods out, continue to improve the product and wait for the temporary nature of the debt markets to loosen up again, which they invariably do. So, I don't – there've been some trades. I know, resi trades in the 4%...

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

A

Resi where there's still a liquid financing market, you see a lot more trades.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

At what kind of cap rate?

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

A

19 Dodge Street Downtown, which was at a 4% cap rate. So...

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Right.

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

A

...resi is still seen trading in the four cap rate range. Commercials spend fewer and far between them but then some trades, 609 Fifth was a vacant office to condo trade, the Santander building is sort of a full redevelopment, but there's not really a full sort of market formed on the commercial sector.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. That's helpful. And Matt, on the other income, it doesn't look like there's been much of a contribution this quarter from SUMMIT despite the strong trust numbers that you reported. Are you still on track to deliver $20 million to $25 million of NOI this year? And if so, can you discuss some of the expenses that offset the NOI contribution?

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

A

So, Marc talked about SUMMIT performance. We are right on our numbers for the year. Remember, there's two components to that, there's the operator that flows through other income that I said in December and said again in the first quarter call that is a nominal contribution, a lot of the contributions from SUMMIT comes through NOI and it is coming through on our numbers.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you.

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

A

Thank you.

Operator: Thank you. I show our next question comes from the line of Jamie Feldman from Bank of America. Please go ahead.

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

Thanks. I guess just a follow-up to the last question. I mean, is there – are there assets out there that we should be watching that could trade soon or do you think it's going to be quiet for a while just based on the conversation you're seeing or having?

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

A

Well, I mean, there's always assets in the market and there's going to be trades even assets coming out of our structure finance portfolio into our own portfolio, so one notable deal in particular, so I mean there will be a market and there will be trades, yes.

Jamie Feldman
Analyst, BofA Securities, Inc.

Q

Okay. And in terms of like higher profile transactions, we should keep our eye out for price discovery. Is there anything you'd point to right now?

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

A

245 Park has a bid date of today.

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

A

Today.

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

So I'd call that pretty high profile, big and current, because I think it's a 5:00 PM deadline, if you want to get...

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

They're going to hang out, and Jamie, put your bid in.

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

...your bid in.

Jamie Feldman
Analyst, BofA Securities, Inc.
Q

Yeah. Okay. All right. Thank you.

Operator: Thank you. And I show our next question comes from the line of Vikram Malhotra from Mizuho Group. Please go ahead.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC
Q

Thanks so much. Good afternoon. So I just wanted to go back to the occupancy comment. You talked about the yearend targeted risk. But can you just maybe remind us what are the sort of known move-outs that would influence occupancy in the next – this year and maybe the next six months, and maybe give us a sense of where do you actually think occupancy will end up at yearend?

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

I think I said in my comments we're about 100 basis points behind through the first six months that carried through the end of the year, we end up at 93 instead of 94. Not a lot of big known move-outs coming in the portfolio. So, what we're really seeing is just a slower pace in that same-store portfolio. So, we want to differentiate, we set a 2 million square foot leasing target for the year, that's in the entirety of the portfolio. We're on track for that. We're a little behind in the same-store portfolio, which is just pace of leasing.

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

Any tenant that has a lease expiration between now and the end of next year, we've a very high degree of confidence that we have very good clarity as to what their intentions are. So, to the extent that they may be vacating our portfolio, it's already built into our numbers.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC
Q

So just on that point, if you could clarify, since you have a high degree of visibility, like next 12 months, including first half of next year, what percent of the expirations are sort of high visibility locked at this point in your mind?

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

Well, the high visibility move-outs, I think we've – some of them, we've known for quite a while, and there's 919, there's...

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

Debevoise.

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

Debevoise. But that...

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

...which we've leased 50% of that space already.

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

Yeah. Well, within the DPE portfolio, 245 Park as what baseball, right.

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

Yeah. Major League Baseball...

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

Major League Baseball. But that's – those are – I mean that stuff's been known I'd say for over a year at [indiscernible] (00:54:48). So – but yeah – and so we've identified all those spaces and are busy at work either re-tenanting the space to the extent we have possession or if not, some of these move-outs don't occur for two or three years. [indiscernible] (00:55:03) I think is a 2024 move-out.

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

Yeah.

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

So, it gives us a lot of time to program in redevelopment, which we're doing right now. Three buildings on Third Avenue, 885, 919 and 753. And then, in the future, probably next year in 2024, with our partners we'll take a look at [indiscernible] (00:55:25). So, I don't know that there's anything out there of note that we haven't previously discussed. I guess that's really the question.

Steve, is there anything you'd add?

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Okay.

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

A

No. I think – I don't think there's any big surprises between now and the next 18 months.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Okay. Okay. And then just maybe a broader question. You talked a little bit about in your opening remarks that tech has slowed down because they're adjusting, I guess, to changing work patterns. Financials are now a big part of the leasing. I just – why wouldn't sort of what technology firms are doing and how employees are working, why wouldn't that – why wouldn't other segments also start to say, hey, we also need to adapt our change or we lose people? Why wouldn't this become more broader? And then, how do you react in terms of maybe what you need to the product in terms of more CapEx or redevelopment that would change your mind on where you want to own geographically and not just within the city, but maybe other markets? What would that make you as you think about like the evolution of SL Green from here? Leaving aside asset-light, why wouldn't this just be a broader issue?

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

A

Well, I think the number one response we've had to the question of hybrid work model is the extraordinary efforts we've undertaken and continue to undertake to amenitize the portfolio in ways that we think really resonate with tenants and their employees. And that's not anecdotal, that's a verifiable feedback, if you will, as to the connection between what we're doing in terms of health and wellness and fitness and very elevated food and beverage program and conferencing and everything else, commutability, public realm improvements as connected to what tenants want in order to maximally incentivize their workforce back to the office and create environment – environments where they feel they're getting the most efficiency in production.

So, I mean that – but that's all like, we spent, I would say close to an hour on just that topic alone in December, talking about our plans that we've executed both in our new construction and throughout a good chunk of our portfolio and the positive response we've received to it. I think when you say, do we worry, about it or, however you phrased it, I personally think and no surprise here because I've made statements to this effect in the past. I think in the long run, it's a failed work model. And I think that whatever people, whatever firms are, experimenting with now, you go from one goalpost of five-day a week to another goalpost a three-day a week, and wherever that medium terms out in between, I don't know, but I don't – I'm not one of those who subscribe to the notion that companies are at that – their best when they're all in disparate locations connected only by videoconferencing.

And people may differ on that, they do, but we have a strong belief in that, at least I do. And I think a lot of other business leaders do too. And I think that pendulum swings one way, pendulum swings back the other, and I think over the long term, having – I think there's a heightened need to have a sense of community and centrality and a place companies can call home that are being developed today in ways that are, I think, far more extraordinary and far more inviting than they used to be pre-pandemic, which I think is ultimately a good thing. And I think it'll prove to be a winning strategy for most sectors, I can't say all sectors. But that'll have to – that's not something that's going to be decided in a month or two or a quarter or two, that's going to be something that I think companies will each decide what their sweet spot is. But most of the folks I talk with of our 800 tenants in our portfolio would agree that more togetherness, collaboration, mentoring, relationship building, business getting, et cetera is better done face-to-face and in-person than remotely, so. But that's just my feeling.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Fair enough. And just – sorry, just last clarification, Matt. You talked about using funds now proceeds to pay down or de-lever. Just what is the goal, like what is appropriate now in this environment over the next two years, where do you want leverage to be?

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

A

We have not set a leverage target, but we are prioritizing dollars towards unsecured debt repayment. We were comfortable with our leverage point before we got into a rising rate environment. So, this is much more an effort to retain cash flow, protect against rising rates, not a function of view that we had high leverage prior to rising rates.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you.

Operator: Thank you. And I show our next question comes from the line of Michael Lewis from Truist Securities. Please go ahead.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. Great. Thank you. My first question is about 625 Madison. So, I see that that ground rate reset they passed a few weeks ago. Could you just tell us kind of what the process is now that that day is behind us, and of course, what we really want to know is what the rank might be if you're able to give an idea of that or maybe what's assumed in guidance for that?

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

A

I think we've commented before, it's a subject of an ongoing arbitration/litigation. So can't really get into any details. The rent has not been set as of yet. So as a leaseholder, who're still paying the historical rent. There's been no reset. And we would expect that to get clarity over the next hopefully six to nine months. It hasn't – from our perspective, it hasn't been us holding up the process, it's been a little longer than we would have expected. But as a leaseholder, we're continuing to pay the historic or old rent.

We also...

Michael Lewis
Analyst, Truist Securities, Inc.

Q

So, guidance is...

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

A

Just recall you would – recall if you would that we also have a DPE position on the fee interest, which has a maturity of next year as well and that's all been previously disclosed. So there's really – there are two different yet related transactions there.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. So for guidance purposes for the back half of the year, there's no significant bump in the monthly rank included in guidance.

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

A

The good news is, I don't have to tell you, because it's mostly a capitalized property, so it doesn't affect FFO guidance.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. Great. And then for my second or my last question, this is sort of similar to a question you just answered. But along the lines of this flight for quality theme, you obviously own some great trophy assets like One Vanderbilt and One Madison and some others, but when you're the biggest office landlord in New York, you also have some buildings that are more, I guess, on average for lack of a better word. How do you think about the portfolio in that context? Do you think the bottom half of that portfolio, does it mean that in this environment much higher capital investment needs or maybe you sell things that otherwise you wanted? Or Steve talked a little bit about the Graybar building is kind of a barometer for this, but I'm kind of curious what we've learned through the pandemic and hybrid and all this stuff changes the way you think the portfolio should be put together. I think your average rent is kind of in the mid-60s. Do you think you need to change that going forward or not?

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

A

Well, I mean, we've been pursuing a very aggressive asset disposition strategy over the last seven years, really since 2015. And the focus of that strategy has been the – I guess, the assets you describe as sort of the bottom half of the portfolio. So, I think what we tried to show you in December is we have a portfolio now that is centrally located, prime locations and for most part amenitized, so ready to compete in today's leasing environment. I think we've been fairly ahead of this trend.

Sure, there's assets we own that we've stabilized so that the income profile doesn't show the kind of growth that other assets we own do. And generally, those are sort of our next sale candidates, if you will, so there's always assets we look at reducing our ownership interest in because there's capital out there that wants full returns and capital like ours that wants more higher opportunistic returns. But we're very happy with the way the portfolio sits today. And I don't think any of the trends in the market cause us to do like a wholesale, rescrub of the portfolio that's sort of been in process since we really haven't issued equity for seven years or so.

Michael Lewis
Analyst, Truist Securities, Inc.

Q

Okay. Thank you.

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

A

We're going to try and pick it up just a bit here because I – we're – we usually allocate about an hour. I know we have so many more questions, so I'm just going to see if we can try and – for the benefit of those that have been on and I'm sure you have to get on to other calls and things, try and pick up the pace just a bit we can.

Operator: Thank you, sir. I show our next question comes from the line of Omotayo Okusanya from Credit Suisse. Please go ahead.

Omotayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Yes. Good afternoon. One very quick one off the bat. Matt, other income for the quarter apart from the aforementioned item, you discussed the fee income and things like that. It seems – still seems a little bit high relative to one Q. So, curious if there were any other items in that other income line this quarter?

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

A

Again, we generate, a growing stream of ancillary fee income, servicing management, construction management. So, what was a historical recurring number each quarter has grown to something closer to $8 million to $10 million a quarter. On top of that, we have things that come in upon successful resolution or completion. And in this quarter on top of the two things that I highlighted in the press release, we had the final recognition of a construction management fee at a project that we sold a year or two ago. That was projected in our guidance. It was unclear when we would get it. We completed the project in the second quarter, and so we were able to recognize it as about $4 million.

Omotayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. That's helpful. And then everyone has always kind of talked about people will eventually start coming back to the office. That's when a lot of the [indiscernible] (01:07:54) will start to make decisions about their real estate. It sounds like this tech company is doing some redesign based on that thesis. But I'm just kind of curious that are you starting to hear more from your tenants now about how they're kind of thinking about real estate longer term, just kind of given where they all with their employees coming back to the office or what have you?

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

A

Well, sure. I mean, the answer to that is the tenant's response is all over the board. I don't think anybody's found the perfect solution as to how they're going to manage a hybrid work environment or whether they're going to be 100% back in the office. What we consistently hear is tenants want their employees back to the office. They need to create a work environment that gives their employees a reason to want to be in the office, as opposed to simply giving their employees a mandate to be in the office.

You hear more commentary about things like it's touchpoints in an office. What that really means is employees may not have a necessarily an assigned seat all the time or not all the employees, but those employees that are more mobile, it counts just as much, whether they're working in the café or in the conference room or in the communal space, as opposed to in an office or a cubicle that – that's how architects are designing space to be more fluid and more group oriented as opposed to very structured designs type seating. But you see a lot more discussion about hospitality work environment and tenants obviously are levering off the improvements that landlords like us are making into the common areas of our building in order to make the whole building part of the work environment. So, not only amenitizing their space, but taking advantage of the amenities that we may be programming for the space.

Omotayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Q

Got you. Thank you.

Operator: Thank you. And I show our next question comes from the line of Anthony Powell from Barclays. Please go ahead.

Anthony F. Powell
Analyst, Barclays Capital, Inc.

Q

Hi. Good afternoon. The view that some have that a downturn or a recession in the economy could be positive for office space occupancy as people get back to work because they want to keep their job. Is that something that you see as likely or do you think the impact of people hiring less is going to be a larger force there?

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

A

Certainly makes sense to us. I do think we've heard the feedback that – from our tenants that they're getting the resistance they're getting to people returning to the office is hard to combat, because of the job market. So I think if you see that job market start to weaken a bit, some of that leverage may shift back to employees, but it's speculation.

Anthony F. Powell
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks. And how do you disclosed the least margin market in your portfolio, and I know other sectors talk about that quite a lot. But we're spreads down in the past few quarters, I just want to see if you have a view of what the lease mark-to-market is in your – let's say your non-One Vanderbilt type of a portfolio.

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

A

I'm a little unclear as to what you're asking, but if you're looking for something that looks at in-place rents versus what we think, you could mark the entire portfolio to today, We have that release expiration schedule somewhere, probably three quarters laid back in the supplemental.

Anthony F. Powell
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks. I'll check that out. Appreciate it.

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

A

Yeah.

Operator: Thank you. And I show our next question comes from the line of Ronald Kamdem from Morgan Stanley. Please go ahead.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Just two quick ones from me, on the leasing pipeline, the 1.1 million square feet. Maybe any color on the mark-to-market on those and just some trends would be helpful.

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

A

Yeah. It's – if every one of those deals make, then it's essentially a flat mark-to-market.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Right. And concessions are?

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

A

Concessions. I think, we haven't seen a material change in concessions probably in the past 12-plus months. I think TIs in in free rent leveled out 12 to 18 months ago. Time will tell as the economy gets stronger and the market strengthens as to whether those concessions come in and when that starts. But for the foreseeable future, we're not expecting any material change.

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

A

I think similar to the last question, if you see – if you do see a slowdown and a little less activity out there that could help construction pricing, which is – continues to be elevated and you could see those concessions come down as the price to complete space comes down, we would hope.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Helpful. And just – and my second one was just on [indiscernible] (01:13:07) clearly elevated vacancies, does that create an opportunity for – I know you guys have a co-working business, but how does that – how this environment play into that? Thanks.

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

A

Can you say the first part of that question, you broke up right in the middle, so.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Sorry about that. Just the elevated vacancy, does this create more opportunities for the co-working business?

[indiscernible] (01:13:29)

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

A

From our perspective, no, we're not seeing in the broader market more co-working leases being signed. And certainly, from our perspective, co-working is not a focus of what we're trying to attract that use in our portfolio.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Thank you. And I show our last question comes from the line of Nick Yulico from Scotiabank. Please go ahead.

Nicholas Yulico
Analyst, Scotiabank

Q

Thanks. I just want to go back to DPE book. I think you were saying, Matt, about potentially use some redemptions there to help fund debt payoff. And so, I guess I'm just wondering, at this point, should we assume that, the $440 million maturities by the end of the year are earmarked for other use and so we think about a DPE book next year that starts at a level that's down by $400 million, $500 million.

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

A

You should definitely assume that we end the year at a lower level. Whether we get repaid on all the maturities or extend them or work out some of the situation, we have yet to see the first...

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

A

$245 million, we're either getting repaid or we're...

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

A

Right, $245 million already in there, right. So there's something that's going to happen there that's immediately going to take that out of the maturities for this year. What I was referring to my commentary is actually originations – repayments originations for the first half of the year that we already put towards debt repayment because we probably would have otherwise originated something in the second quarter and we didn't. But yeah, I would expect by the end of the year our balance will be significantly lower.

Nicholas Yulico
Analyst, Scotiabank

Q

Okay. But just from like an earnings standpoint, if we think about it, I mean using that book to pay off debt maturities, I mean, there's some earnings dilution from that. And I think even what you said about pushing out the $500 million on a short-term basis, even you refinance that today, that's at a much higher rate than what you're paying. So, I'm just trying to – just want to sure that we're understanding from a starting into next year you have some of these dilutive issues to deal with on the balance sheet we should be thinking about from a modeling standpoint.

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

A

That's exactly right. The things I highlight in my commentary as affecting 2022 will certainly affect 2023. Rising rates, less DPE origination being the largest.

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

A

As contrasted against a lot of the development pipeline that starts to roll onto the books into earnings.

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

A

Right. And more fee income.

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

A

And that will get both ends of the spectrum, because we have delivery of stabilized incomes from One Vanderbilt, from 7 Dey, completion of One Madison and the 760 Madison Retail project which is a substantial retail lease we have with Armani. So, I mean, we got to look at the whole picture, but, yes, I think as it relates to DPE, the balance is expected to be down year-over-year.

Nicholas Yulico
Analyst, Scotiabank

Q

Thank you.

Operator: Thank you. This concludes our Q&A session. At this time, I'd like to turn the call back over to Marc Holliday, Chairman and CEO, for closing remarks.

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

Am I on?

Yeah. No, no – for anyone that's still on, which I imagine is the hardy few, thank you for listening in all the way through. And enjoy the rest of the summer. And we look forward to another catch-up call in three months, hopefully with good news and more in the direction for New York City's recovery. Thank you.

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