13-Sep-2022

SL Green Realty Corp. (SLG)

Bank of America Global Real Estate Conference

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Camille Bonnel
Analyst, BofA Securities, Inc.

Jeffrey Spector
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Camille Bonnel
Analyst, BofA Securities, Inc.

My name is Camille Bonnel. I am the office and industrial analyst of the BofA US REIT team. I'm joined here today by Jeff Spector, who heads our team, as well as [ph] Rachel Hu (00:00:16). And we welcome you to our afternoon session, roundtable session with senior management of SL Green. From SL Green, we are joined today by Andrew Mathias, who's in the middle, as President; Matt DiLiberto, CFO, on his right; Steven Durels, on Andrew's left; and finally, Andrew Mehr, to my left, Corporate Finance.

So, we're asking management to start off by introducing the company and providing an operational update for the first 5 to 10 minutes, and then we'll open it up to questions.

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

Sure. Sure. Thank you. Good afternoon, everybody. I'm Andrew Mathias, as Camille said. Yeah, I think there's been a lot of positivity coming out of the Labor Day weekend around New York City. We feel occupancy in the buildings up pretty materially, physical occupancy, after the long weekend and coming out of the summer, a lot more return-to-office momentum among our tenant base. We'll see what the physical occupancy numbers show. We were up last week and expect this week to be even heavier based on commuter lots and informal surveys we've done so far.

We've had some very notable events at the company in the last month or so, starting with the sale of an interest in The Lipstick Building to Memorial Sloan Kettering. That was a great sign of strength for the sale market at $725 a foot, $300 million in net proceeds to the company. And then two announcements on the acquisition front. We exited bankruptcy as the owner of 245 Park Avenue, took an unfortunate detour into bankruptcy that was unexpected, delayed, but sort of got through it, and we've retaken control of the asset and look forward to improving that asset and monetizing asset and sort of reintroducing it to the market as an asset with a well-capitalized owner, which it hasn't had for the last five years and hasn't gotten the tenant interest it should have given its location with the ownership structure it had in place.

And then 5 Times Square, where we had a mezzanine investment, we recapitalized basically the entire debt stock there, wound up converting our debt into an equity interest and then raised significant additional institutional equity into the deal, which will be used to completely recapitalize that building. Ernst & Young was the main headquarters tenant there. They decamped from the building. We'll be amenitizing that building, retenanting that building in partnership with RXR, Scott Rechler and his team, and a new equity stock that has given us the time on the debt side and the flexibility on the equity side to do a complete redevelopment of that asset.

So, two very exciting new projects in the pipeline for us. And I'll turn it over to Matt to talk about some balance sheet and financial status update.

Matthew J. DiLiberto

Chief Financial Officer, SL Green Realty Corp.

Sure. Thanks, Andrew. Andrew highlighted the sale of a 400,000-square-foot condominium within 885 Third, The Lipstick Building. That was a sale that we've been working on. It's actually a lease and a sale, so a little bit of both, a deal of 400,000 feet of vacant space at $725 a foot. The proceeds of which went immediately to repay $300 million of bonds. So we've been talking about $800 million of bond maturities we have this year and our strategies for those. There is not an efficient opportunity to go back into the bond market to reissue, so we aren't. We paid off $300 million of bonds with those proceeds. Those happened on September 1. And the $500 million of bond maturities that we have coming up in October, we will refinance in the bank market, not the bond market.

On the rate side, not new news here. Rates continued to rise. The forward curve continues to move higher, including this morning, so we went ahead and tackled forward swaps. We had maturing swaps into 2023. We executed $750 million of forward starting swaps in the last few weeks at a blended rate of 2.75%, which is somewhere between 75 basis points and 100 basis points tighter than where you would execute them today. So, good execution and also takes a lot of risk, the movement of rates off the table.

So, executing on exactly the plan of enhanced liquidity, debt repayment and mitigating interest rate risk, and hoping to – that was our priority of capital allocation for the last several months and looking forward to the opportunity to generate incremental capital to go back into share buybacks as well.

QUESTION AND ANSWER SECTION

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Matt, just to confirm that...

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

A

Yeah.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

...seeing 2023 now, 2023 is locked in?

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

A

No. So, what I'm saying is we had $750 million of maturing swaps. So, it's fixed rate swaps that were burning off. Those would have flipped to floating. We forward swapped those to address the maturing swaps. So, it's $750 million for $750 million. Mitigating significantly the floating rate debt, we still have other floating rate debt, by design.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Okay. You should have said floating rate debt. But you're saying you still have other [ph] floating (00:06:17)...

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

A

...floating rate debt.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

...debt exposure in 2023?

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

A

Yes.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

You do?

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

A

Yes. Yeah. Our target is somewhere between 15% to 20% float on things like construction financing. Now, oftentimes, those float, they have caps in place but we don't believe that fixed rate financing, everything is the most efficient use of capital. We do believe strategic use of floating rate debt is important. And when you're doing debt that has flexibility for repayment, that's often floating, so you can't fix that. And so, we'll maintain, as I said, 15% to 20% floating rate debt.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Steve, if you had any comments on the leasing market before we get into questions.

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

A

Yeah. It's – listen, we're – it's still a very challenged leasing market, but there are some positive signs out there. August was a big headline month for total velocity, where monthly average leasing is – in Manhattan, has been 2.2 million square feet per month. August was 2.6 million square feet. But in that number driven by half a dozen big leases that – over 100,000 square feet. We've seen that all year long, that really for the past year-and-a-half or so that big guys have been in the market, certainly, the top end of the market, everybody's heard about now, it's consistently been very active and we're seeing rents appreciate in better-quality buildings. But I think the new news is we're starting to see some early signs of life in the commodity markets. That lower-priced part of the market, whether it's smaller tenants, call it, sort of under 20,000-square-foot-type tenant are more tour activity, more proposals coming through the door. Leases that are starting to get signed.

We need that part of the market to really come back to life to get stronger velocity in the overall marketplace. And I think there's some logic to that as more people return to the office, the smaller tenants could wait to the bitter end because they need less time to ramp up to make a deal. But now that they're seeing the bigger tenants sign leases start to bring their employees back in the office, smaller to midsized tenants will follow. So they're still on the cusp for the longer time, but now they got to follow in and they're starting to come into the market in a more meaningful way than we saw at the beginning of the year.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:08:51) investor calls, I mean, I guess, consensus has felt the return to the office, like, were there. Was there really a change? I know [ph] our bank (00:09:03) is coming out with a formal plan. So I feel like, just at Bank of America, that will implement some change and – but Andrew and you have both commented on that return to work as a catalyst. Like, would you argue against that comment and say it's not really a fair comment? Like, we're not exact – on the return to work, we're still building that and there's still steps [indiscernible] (00:09:32).

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

A

Yeah. I would say we're definitely still building to it. I mean, there has been a market shift in the commentary from business leaders, starting within our tenant base that, I would say, was most notable probably starting in July, where the – really the discussion changed. The broker feedback, the tenants that we're talking to, certainly the leaders from the big tenants where the commentary was – handcuffs are off, I'm going to start to tell my people I want them back in the office. Now...

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

I think we saw Apple and Goldman Sachs were sort of the bellwethers in technology and finance.

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

A

Yeah. And having said that, I think every company has got their own plan, and I don't think there's a consensus as to yet what it fully means as far as how much flexibility, how much work from home. But the mood has shifted and the commentary from the leaders were all saying, I want them back in the office, whether that's three days or five days. But it is still TBD.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

And the comments on the commodity tenant, that space, I guess, can you talk about that a little bit. [indiscernible] (00:10:50) that that really – there was an uptake in August specifically. I know we're just out of the gates out of Labor Day but, right, if you can talk about that as well.

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

A

Well, the uptick in August was the overall leasing, right? So that's all classes in all parts of Manhattan. But more granular, what we're seeing in our portfolio is that commodity part of the market. So, call it, the under $75 a foot price points. The smaller tenants that are under 15,000 or 20,000 square feet. That part of the market has been slow for the past year. It seemed that it had more life middle of last year, but then through most of 2022, it was noticeably slower than the better-quality part of the market.

But the logic there why we're seeing them come back into the marketplace is because they are smaller tenants, they don't need a year or year-and-a-half rent [indiscernible] (00:11:55) real estate decision. They need three to six months. So as they're following the bigger tenants, as they bring their employees back into the office, the smaller guys would say, okay, me too, I need to be in the office in order to be competitive, in order to service my clients, in order to show my thanks and, therefore, they're starting to make those decisions.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

In the conversations that you're having with these smaller tenants, are they coming to you? Like, how this quality play into the discussions you're having with regards to these tenants?

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

A

How does holiday...

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Quality.

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

A

Quality, oh. Well, I think, by far, the majority of them all want to reinvent their workplace. So they want a different kind of workplace than they had pre-COVID. So what that generally translates into is a healthier building, a healthier workspace, more space per employee, more flexibility on the layouts, the kinds of space that they build, more communal space, more amenities, more technology. So it's – they're – they have an eye towards reinventing the workplace, leaning towards a hospitality kind of vibe and giving their employees a reason to wants to be in the office as opposed to just living off the mandate that you must be in the office.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

We saw the August headline and we put together a call last week with Frank at Colliers to talk about it, and we did a really good job talking about the demand and had some similar comments to you. And we asked him is this an inflection point? He said, we can't say that because there's just so much supply. But you really need above average historical leasing finance. But from your seat, would you say that you do feel like August was an inflection point or still too early to determine?

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

A

I think it's – I don't think one month is enough time to fully determine. I think a good indicator is our pipeline right now. It is larger than it was when we last shared it with people during our earnings call. We're at 1.1 million square feet. So I think we're up a couple hundred thousand square feet from where we were a month or two ago, and that's driven by a pretty wide diversity of types of businesses and size of deals. It's not dependent upon just one big deal to drive our numbers.

So if that holds and those deals get converted over to leases, then, yeah, I think we're – that will tell you that we're in good spot, because we need a pipeline consistently over 1 million square feet, really feel like we're starting to chip away at vacancy.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

And how were you feeling in those negotiations? Like, any stabilization in terms of [indiscernible] (00:15:04)?

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

A

I think it's been fairly stable over the past year. I think TIs and free rents leveled out at a high point, mind you. But they leveled out last year. I think, free rent as well. So, it's sort of 14 to 15 months of free rental and a new tenant coming in [ph] for raw (00:15:28) space on a long-term lease. TIs anywhere between $100 to $130, $140 a foot depending on the price point and type of building. But that's where it was last year as well. And I think the good news is rents never really went down dramatically. Maybe it went down 5% for the weaker buildings, but the better-quality building hold their face rents. And in the better-quality buildings, we're slowly pushing rents up.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Your portfolio, the assets you have, how many do you think still need to, let's say, refresh and/or are they at this point up to the standards that tenants are looking?

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

A

We've got a couple of significant redevelopment programs underway right now. Andrew mentioned 5 Times Square. There's a $40 million amenity component going into that building. It's a full floor. I think it's going to be probably the best amenity space in the city. On top of that, there'll be at least a half, maybe a full floor of conferencing space that will bring in an operator that'll be revenue generating-type space.

750 Third Avenue is undergoing a $50 million repositioning right now, which I think is going to be really a game changer for that building. We're already seeing proposals come across the doorstep today. As soon as we start – got out in the market and [indiscernible] (00:17:06) with our plan what is good marketing material, whereas we were dead quiet all through last year on that building. As we sit here today, we've got four or five real proposals on the table.

So, 919 is just finishing up a repositioning. It's a lighter touch. But maybe we've got three or four buildings that need some level of modest amenitization. But by and large, our portfolio is in good shape. The mechanical systems have been upgraded. The HVAC systems have been upgraded to provide better air filtration. Lobbies were all in good shade. Our portfolio, I think, is stronger today than at any point, I believe, in the 25-year history of the company.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Heard earlier that lending to office remains tough. What about all the private landlords in New York City, like, what's happening to them? And what's going to happen, like, how long is that going to take to shake out?

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

A

A lot of loan extensions. So, I mean, I think for the best sponsors, credit is definitely still available. And for lesser capitalized sponsors or sponsors without the deep bank relationships, the securitized markets are still quite expensive. So, that's been – generally, it used to be the cheaper option. And today, it's the more expensive option. Don't know how long that'll last based on demand for those bonds and rates and other factors. But definitely, deep banking relationships are a big competitive advantage today in the market.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Can you comment just where, like, an unsecured 10-year bond would be going up today?

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

A

We don't do 10-year unsecureds, so – but I'll give you one frame of reference when I said we're not interested in the bond markets. We're a little unique, a lot unique in a lot of ways. But when it comes to bonds, 10-year fixed rate bonds don't provide us the flexibility in our capital stack that we want. So, it's not interesting to us. But we did consider, as I talked about maturing bonds this year, about issuing new bonds in some sort of short-duration callable floater structure. I would have seen that somewhere – [ph] 200 over SOFR (00:19:27) early in the year. It's probably close to double that now, which is double spread, on top of the base rate that's gone up 300 basis points. So, it would have been a – 2.5% is now a 6%, 7%, 8%, yeah. [indiscernible] (00:19:43)

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Talking about smaller tenants. I guess, what's the latest on tech leasing awarding plans? Is that reopened at all or, I don't know, where that stands?

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

A

No. I think tech guys, by and large, are on the sidelines right now. [indiscernible] (00:20:07) on leasing over the last couple of years. What we're seeing right now is this is being driven by the financial services. Primarily, it's the big driver in the market. But we're also seeing other industries like law firms are in the markets, governments, education, healthcare, accounting firms, business services-type businesses. But technology, to some degree, but not nearly as much as it was. And where it's particularly slow are the media companies, so advertising firms, and that type are, I would say, are very clever.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

[audio gap] (00:20:49-00:21:02)

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

A

I think we've got really good clarity on anybody that's rolling between now and probably even into 2024, quite frankly, that we have – when we've built our budgets for 2022 and now we're in the process of building our budgets for 2023, I think we've got a very good sense as to who's staying and who's going, certainly, on the larger tenants. And there have been no real surprises to date.

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

A

I think you can look at those buildings where we're making large capital investments and that's generally in advance of a tenant – a large tenant who's made a decision like in the case of 919 Third, Debevoise Plimpton (sic) [Debevoise & Plimpton] (00:21:42) lease comes up, they're moving to a new building. So, we embarked on a large capital improvement program in that building while they're still in tenancy before we have to sort of bring the space fully to market.

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

A

And we've pre-let 50% of that [ph] role (00:22:01) in advance of them exiting the building.

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

A

Because of the size of the tenants and the time it takes in Manhattan to build out space, you have pretty good visibility for large tenants years in advance.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:22:15)

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

A

[ph] We were in (00:22:18) the same shoes...

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

A

[indiscernible] (00:22:19)

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

A

We just follow Andrew...

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

A

Right. We switched to sneakers after Andrew broke both his Achilles. We had to change our whole dress code.

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

A

[indiscernible] (00:22:31)

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

A

Right, exactly.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

So maybe back on supply, though, I'm sure in the next couple of years, we'll be reading a lot about supply, how should we be thinking about [indiscernible] (00:22:44) on downtown versus midtown.

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

A

Midtown East is relatively light on the supply pipeline. You have a couple of projects on the board, not much under construction at the moment. Hudson Yards still – in the Midtown West still has space available. But it's only competitive with Midtown East for certain types of tenants. And Midtown South, other than One Madison, you have one other large redevelopment ongoing, but that's pretty much it.

So, we're generally in markets that have the biggest moats in terms of new construction. And I don't think, given financing rates and sort of the availability of equity, that we'll be looking at a lot of new supply in Midtown East, that's not sort of currently capitalized.

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

A

Yeah. I think what – the interesting thing is going to be able to watch is how much large-scale redevelopment takes place. And it will be a market of have and have nots so that you have the more forward thinking owners that are well capitalized, that have the ability to take existing products and reposition it with large-scale redevelopment. And that will create a gulf between a 400-million-square-foot market, it'll create a large population of buildings that are increasingly irrelevant. And then you'll have a segregated group of better-quality buildings but not new construction. And our portfolio sits within that better group. And that's good for us because the world is migrating to the better-quality buildings, even with new construction.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Saw you last in May during our New York City tour, talked about the relationship building [indiscernible] (00:24:44) a lot of different trips and travels. Can you talk about some of those trips and who you're meeting with and how did those meetings go.

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

A

Well, I mean, 450 Park which we closed in June was capitalized with a group of Korean capital and a group of Israeli capital together in that deal. So that gives you a sense of the reach we need to have to capitalize deals as efficiently as we do. And the interest in New York that continues to come in from sort of all points in the globe. The next couple of months we'll be on the road back to Korea, back to the Middle East. Domestically, Texas and a couple of other states. We continue to see a lot of interest in New York City, in the debt, the liquidity, the size and the scale that they don't really have access to in other markets. So there does continue to be an enormous amount of interest in people's – I would say, their trepidation about New York coming out of COVID or in terms of the return to work. It's probably less pronounced outside of the country than it is domestically.

People are – I mean, Europe is pretty much back in the office. Most of the places we go are pretty much back in the office.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Times Square, I guess, if we could talk about that. [indiscernible] (00:26:23) Matt the other day, asked him some questions. Just to say, I thought it was a very impressive deal. I don't know if we've provided all color on that to the audience really to understand, like, how that mezza piece got converted to equity and then [indiscernible] (00:26:40) please go ahead.

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

A

Yeah, yeah, yeah. No. So, it was a great outcome for that asset. For those who don't know the asset, it sits in just south of Times Square, direct connectivity to Times Square subway system – subway station developed by Boston Properties back in 2000, 2001, was the headquarters of Ernst & Young. We had a mezzanine position on it. And through a lot of effort in partnership with Scott, recapitalized the entire property, got the debt stack to stay in place on existing terms and we convert our $139 million mezzanine position into about 32% equity ownership interest.

We put in zero incremental dollars and Scott and his partners put in $300 million more of equity to do the redevelopment and lease-up. That is a building where Roku signed its headquarters lease back in January. And we have a redevelopment – well, Scott, under his ownership previously, had already started the redevelopment and we are going to amp that up, including the amenity package that Steve talked about.

I don't know if it's best in the city because One Vanderbilt is pretty good but...

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

Best new one.

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

It's best new one, okay.

Jeffrey Spector
Analyst, BofA Securities, Inc. Q

And leasing [indiscernible] (00:28:03)

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

We're in charge of leasing.

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

We're in charge of leasing RXR's operations.

Jeffrey Spector
Analyst, BofA Securities, Inc. Q

I guess, do you see more of these type of opportunities for SL Green over the coming years? I mean, really, a great deal but I know that [indiscernible] (00:28:21) so...

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

The mezz program is dwindling only because...

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

It's two equity conversions in a matter of couple of weeks.

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

We're now originating a lot of new dollars. We've got additional payoffs over the summer of a couple of different positions as well.

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

Yeah. So, we're going to end the year around $675 million balance, which for us is historically low, and the bulk of that is in a position over at 625 Madison, which is about a third of that entire balance. So, we believe it's a very beneficial business in a whole host of ways. It does generate meaningful earnings and it gives us a great deal of intelligence on the market.

So, we're going to continue to underwrite deals and then elect after we underwrite to do them or not. Our capital allocation strategy has been towards enhanced liquidity and debt repayment. That was why we pulled back a bit on the originations. But like I've said, with share buybacks, we would hope to be back originating new debt deals, too.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:29:23)

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

A

[ph] Fives time of about (00:29:27) $1,700 a foot post renovation. A lot of that's allocated though to the retail of that building as well. We had the former [ph] Champs (00:29:35) space, the current Red Lobster space. Big signage, high-value retailer.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

And can you talk to the next steps you're taking to grow your asset management platform.

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

A

That's the global travels that Andrew referred to, 245 Park. We now have the next asset to roll exactly into our asset management strategy. It's an ideal asset.

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

A

We have 100% of the asset now.

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

A

We have 100%...

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

A

We'll be looking to sell down the equity in that asset.

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

A

Right. That stock is stayed in place at a very attractive rate through June of 2027, so fresh five years and we'll immediately take that out for a joint venture.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Over the next 5 years, let's say, or 10 years, like, is there a certain terms of generating fees [indiscernible] (00:30:27) core business. Is there a certain goal or split or just naturally going to occur that you'll keep increasing a steady asset management fees?

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

A

I think it's just the size of the transaction, the amount of capital they require. So naturally leads us to that investment management business and we'll try to retain as much as we can of the building while also making sure we have capital to allocate all these various opportunities. And if the leverage point needs to continue to drift down, it'll require more equity to send us out for more JV partners. But I think it's going to be more market based than any kind of plan about trying to produce a certain percentage of FFO from fees versus equity.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

There's a lot of talk on office to res conversions. Is that an opportunity for SL Green [ph] in Boston (00:31:23)?

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

A

It could be if the state and the city are able to come up with the tax incentive programs, which have been in place for the last couple of decades. And currently, there is not a affordable housing program in New York. The state decided to discontinue the affordable New York program, and they haven't put something in its place, although there's a lot of discussion, a lot of talk. And I think people maybe realized given there's zero starts for affordable housing since they killed the program that they need to rethink, the reintroducing something because you really can't economically sort of a business venture create affordable housing without some kind of tax incentive in New York given the cost structures. I think you very well may see new programs introduced. There's discussions ongoing, and I think those programs could definitely incentivize developers to convert unused commercial to residential.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

I think we're almost out of time. I don't know if there was any other questions from the audience, I don't know if there's anything you felt like you nearly missed from the conversations. We do have just three quick rapid fire questions. Do you think that we – from your conversations recently, anything we missed that you wanted to talk about? Is there anything else from the audience?

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

A

It's doing great. We're pushing about 8,000 people a day through there now. We really saw an amp up in August tourists. And it's funny I was just talking to somebody earlier, we are seeing a lot of repeat customers, which is unique. We kind of theorized that that would be the case. You'd have much more local attendance and repeat customers than traditional observation experiences. We have a fair amount of tourism, but Asian tourism is almost non-existent. Local tourism is up and it's repeat business. So, it's going really well.

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

A

That's basically max capacity [ph] mark. We can't (00:33:34)...

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

A

Yeah.

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

A

[indiscernible] (00:33:36)

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

A

Yeah.

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

A

It's – yeah.

Jeffrey Spector
Analyst, BofA Securities, Inc.

Q

Great. Camille, you want to go and do the rapid fire?

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Sure. So, we have three rapid-fire questions that we're asking everyone. The first one is, which of the following is the greatest macro challenge facing US public REITs today? A, risk of higher rates; B, risk of recession; or C, the rise of private equity's inaugurated REITs.

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

A

A.

Camille Bonnel
Analyst, BofA Securities, Inc.

Q

Okay. And two, which of the following is the greatest sector-specific risk? Labor issues, one; two, supply; or three, liquid capital markets?

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

A

I would say two, but...

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

A

So two, two or three.

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

A

Two or three.

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

Two or three, two-and-a-half.

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

Not one.

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

Not one.

Camille Bonnel Q
Analyst, BofA Securities, Inc.

Perfect. And lastly, are you seeing any signpost of weakening demand? It's a yes or no.

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

From REIT investors or – yes.

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

No.

Camille Bonnel
Analyst, BofA Securities, Inc.

Thank you.

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

Thank you.