

SL GREEN REALTY CORP
Form 8-K
April 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):

April 29, 2011 (April 27, 2011)

SL GREEN REALTY CORP.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND
(STATE OF INCORPORATION)

1-13199
(COMMISSION FILE NUMBER)

13-3956775
(IRS EMPLOYER ID. NUMBER)

420 Lexington Avenue
New York, New York

10170
(ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(212) 594-2700
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

Summary

On April 27, 2011, SL Green Realty Corp. (the "Company") reported funds from operations, or FFO, of \$142.8 million, or \$1.75 per diluted share, for the quarter ended March 31, 2011, compared to \$85.0 million, or \$1.07 per diluted share, for the same quarter in 2010.

Net income attributable to common stockholders totaled \$80.9 million, or \$1.01 per diluted share, for the quarter ended March 31, 2011, compared to \$15.1 million, or \$0.19 per diluted share, for the same quarter in 2010.

Operating and Leasing Activity

For the first quarter of 2011, the Company reported revenues and EBITDA of \$334.3 million and \$211.9 million, respectively, an increase of 33.3 percent and 52.3 percent compared to \$250.9 million and \$139.1 million, respectively, for the same period in 2010.

Same-store GAAP net operating income on a combined basis increased by 2.3 percent to \$168.1 million for the first quarter of 2011 when compared to the same quarter in 2010, with the consolidated properties increasing by 2.0 percent to \$131.7 million and the unconsolidated joint venture properties increasing 3.6 percent to \$36.4 million.

Occupancy for the Company's stabilized Manhattan portfolio at March 31, 2011 was 94.9 percent as compared to 94.0 percent for the same period in the previous year. During the quarter, the Company signed 66 leases in its Manhattan portfolio totaling 577,083 square feet. Nine leases totaling 149,540 square feet represented office leases that replaced previous vacancy, while 45 office leases comprising 416,043 square feet had average starting rents of \$50.15 per rentable square foot, representing a 10.6 percent increase over the previously fully escalated rents on the same office spaces. The average lease term on the Manhattan office leases signed in the first quarter was 8.4 years and average tenant concessions were 3.2 months of free rent with a tenant improvement allowance of \$29.13 per rentable square foot. Leases totaling 714,133 square feet commenced during the first quarter, of which 559,552 square feet represented office leases that had average starting rents of \$48.20 per rentable square foot, representing a 0.9 percent increase over the previously fully escalated rents on the same office spaces.

Occupancy for the Company's Suburban portfolio was 86.3 percent at March 31, 2011. During the quarter, the Company signed 38 leases in the Suburban portfolio totaling 141,930 square feet. Eight leases and 27,476 square feet represented office leases that replaced previous vacancy, while 26 office leases comprising 101,023 square feet had average starting rents of \$33.50 per rentable square foot, representing a 0.1 percent increase over the previously fully escalated rents on the same office spaces. The average lease term on the Suburban office leases signed in the first quarter was 5.9 years and average tenant concessions were 4.8 months of free rent with a tenant improvement allowance of \$15.20 per rentable square foot. Leases totaling 152,566 square feet commenced during the first quarter, of which 109,051 square feet represented office leases that had average starting rents of \$33.50 per rentable square foot, representing a 3.2 percent decrease over the previously fully escalated rents on the same office spaces.

Significant leases that were signed during the first quarter included:

- New lease/early renewal with GNYHA Management Corp. for 15 years for 111,320 square feet at 555 West 57th Street;
- New 10-year lease with NY State Office of General Services for 89,514 square feet at 100 Church Street;

- Early renewal/new lease with ABN AMRO Holdings USA LLC for 11 years for 31,515 square feet at 100 Park Avenue;
- Early renewal with Miller Tabak & Co. for 10 years for 29,000 square feet at 331 Madison Avenue; and
- New lease with Student Loan Corp. for five years for 18,765 square feet at 750 Washington Boulevard, Stamford, Connecticut.

Marketing, general and administrative, or MG&A, expenses for the quarter ended March 31, 2011 were \$20.0 million, or 6.0 percent of total revenues, compared to \$18.4 million, or 7.3 percent of total revenues, for the quarter ended March 31, 2010.

Real Estate Investment Activity

In January 2011, the Company purchased City Investment Fund's 49.9% interest in 521 Fifth Avenue, thereby assuming full ownership of the building. The transaction valued the consolidated interest at approximately \$245.7 million. Subsequent to the end of the quarter, in April 2011, the Company refinanced the property with a new \$150.0

million 2-year mortgage which carried a floating rate of interest of 200 basis points over the 30-day LIBOR and exercised its right to acquire the fee interest in the property for \$15.0 million.

In January 2011, the Company acquired a 48.9% interest in the newly renovated 741,500 square foot 3 Columbus Circle, New York. The acquisition was accomplished through a recapitalization that included a \$138.7 million equity investment by the Company, a portion of which was in the form of SL Green Operating Partnership Units, and a bridge loan provided by the Company and Deutsche Bank. Subsequent to the end of the quarter, in April 2011, the joint venture refinanced the bridge loan and replaced it with a \$260.0 million 5-year mortgage with the Bank of China, which carries a floating rate of interest of 210 basis points over the 30-day LIBOR, at which point the Company and Deutsche Bank were repaid. The joint venture has the ability to increase the mortgage by \$40.0 million based on meeting certain performance hurdles. The Company believes the property is now fully capitalized for all costs necessary to complete the redevelopment and lease-up of the building and a marketing and leasing campaign has recently been launched.

In March 2011, the Company entered into an agreement to sell its 359,000 square foot property located at 28 West 44th Street for \$161.0 million. This transaction is expected to close during the second quarter of 2011 and is subject to customary closing conditions.

In April 2011, the Company acquired SITQ's entire interest in 1515 Broadway, thereby consolidating full ownership of the building.

Financing and Capital Activity

In 2011, the Company, along with SL Green Operating Partnership, entered into at-the-market equity offering programs (the "ATM Programs") to sell \$525.0 million of its common stock. As of April 27, 2011, the Company had sold 4,199,099 shares of its common stock through the ATM Programs for aggregate proceeds of approximately \$311.0 million (\$306.3 million after related expenses).

In March 2011, the Company unencumbered 100 Church Street, New York, by repaying the \$139.7 million mortgage securing the property. This mortgage, which carried an effective interest rate of 5.1%, was scheduled to mature in January 2013.

In January 2011, the Company repaid its \$84.8 million, 5.15% unsecured notes at par on the maturity date.

Debt and Preferred Equity Investment Activity

The Company's debt and preferred equity investment portfolio totaled \$579.3 million at March 31, 2011, a decrease of 39.9 percent, or \$384.5 million, from December 31, 2010. During the first quarter, the Company purchased and originated new debt investments totaling \$104.0 million, which are directly collateralized by commercial office properties, and received \$490.3 million of proceeds from investments that were sold, redeemed or repaid. The debt and preferred equity investment portfolio had a weighted average maturity of 3.4 years as of March 31, 2011 and had a weighted average yield for the quarter ended March 31, 2011 of 7.5%, exclusive of loans with a net carrying value of \$102.3 million, which are on non-accrual status.

In March 2011, the Company sold its debt investments in 280 Park Avenue, New York, to a newly formed 50/50 joint venture with Vornado Realty Trust. The Company realized \$38.7 million of additional income upon the sale, which is included in preferred equity and investment income for the first quarter. The joint venture also assumed \$30 million of the Company's floating rate financing which matures in June 2016 and carried a weighted average interest rate for the

quarter of 1.20%.

Dividends

During the first quarter of 2011, the Company declared quarterly dividends on its outstanding common and preferred stock as follows:

- \$0.10 per share of common stock, which were paid on April 15, 2011 to stockholders of record on the close of business on March 31, 2011; and
- \$0.4766 and \$0.4922 per share on the Company's Series C and D Preferred Stock, respectively, for the period January 15, 2011 through and including April 14, 2011, which were paid on April 15, 2011 to stockholders of record on the close of business on March 31, 2011, and reflect regular quarterly dividends, which are the equivalent of annualized dividends of \$1.9064 and \$1.9688, respectively.

NON-GAAP Supplemental Financial Measures

Funds from Operations (FFO)

FFO is a widely recognized measure of REIT performance. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or

that interpret the NAREIT definition differently than we do. The revised White Paper on FFO approved by the Board of Governors of NAREIT in April 2002 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITS, particularly those that own and operate commercial office properties. We also use FFO as one of several criteria to determine performance-based bonuses for members of our senior management. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs, providing perspective not immediately apparent from net income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), as an indication of our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Company presents earnings before interest, taxes, depreciation and amortization (EBITDA) because the Company believes that EBITDA, along with cash flow from operating activities, investing activities and financing activities, provides investors with an additional indicator of the Company's ability to incur and service debt. EBITDA should not be considered as an alternative to net income (determined in accordance with GAAP), as an indication of our financial performance, as an alternative to net cash flows from operating activities (determined in accordance with GAAP), or as a measure of our liquidity. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) is calculated by adding income taxes, loan loss reserves and our share of joint venture depreciation and amortization to EBITDA.

Same-Store Net Operating Income

The Company presents same-store net operating income on a cash and GAAP basis because the Company believes that it provides investors with useful information regarding the operating performance of properties that are comparable for the periods presented. For properties owned since January 1, 2010 and still owned at the end of the current quarter, the Company determines GAAP net operating income by subtracting property operating expenses and ground rent from recurring rental and tenant reimbursement revenues. Cash net operating income (Cash NOI) is derived by deducting straight line and free rent from, and adding tenant credit loss allowance to, GAAP net operating income. Same-store net operating income is not an alternative to net income (determined in accordance with GAAP) and same-store performance should not be considered an alternative to GAAP net income performance.

Forward-looking Statement

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this report are forward-looking statements. All forward-looking statements speak only as of the date of this report. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or transactions of the Company to be materially

different from any future results, performance, achievements or transactions expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors relate to, among others, the strength of the commercial office real estate markets in the New York metro area, reduced demand for office space, unanticipated increases in financing and other costs, competitive market conditions, unanticipated administrative costs, divergent interests from or the financial condition of our joint venture partners, timing of leasing income, general and local economic conditions, interest rates, capital market conditions, tenant bankruptcies and defaults, the availability and cost of comprehensive insurance, including coverage for terrorist acts, environmental, regulatory and/or safety requirements, and other factors, all of which are beyond the Company's control. Additional information or factors that could affect the Company and the forward-looking statements contained herein are included in the Company's filings with the Securities and Exchange Commission. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

SL GREEN REALTY CORP.
STATEMENTS OF OPERATIONS-UNAUDITED
(Amounts in thousands, except per share data)

| | Three Months Ended March 31, | |
|--|------------------------------|------------|
| | 2011 | 2010 |
| Revenue: | | |
| Rental revenue, net | \$ 228,970 | \$ 192,211 |
| Escalations and reimbursement revenues | 30,275 | 30,093 |
| Preferred equity and investment income | 67,828 | 20,379 |
| Other income | 7,249 | 8,198 |
| Total revenues | 334,322 | 250,881 |
| Equity in net income from unconsolidated joint ventures | 8,206 | 15,376 |
| Loss on early extinguishment of debt | — | (113) |
| Expenses: | | |
| Operating expenses | 60,300 | 56,786 |
| Ground rent | 7,834 | 7,821 |
| Real estate taxes | 40,067 | 36,972 |
| Loan loss and other investment reserves, net of recoveries | — | 6,000 |
| Transaction related costs | 2,434 | 1,058 |
| Marketing, general and administrative | 20,021 | 18,398 |
| Total expenses | 130,656 | 127,035 |
| Earnings Before Interest, Depreciation and Amortization (EBITDA) | 211,872 | 139,109 |
| Interest expense, net of interest income | 65,073 | 56,787 |
| Amortization of deferred financing costs | 3,806 | 2,295 |
| Depreciation and amortization | 63,497 | 55,525 |
| Loss on investment in marketable securities | 127 | 285 |
| Net income from Continuing Operations | 79,369 | 24,217 |
| Net income from Discontinued Operations | 737 | 1,917 |
| Purchase price fair value adjustment | 13,788 | — |
| Net income | 93,894 | 26,134 |
| Net income attributable to noncontrolling interests | (5,462) | (3,939) |
| Net income attributable to SL Green Realty Corp. | 88,432 | 22,195 |
| Preferred stock dividends | (7,545) | (7,116) |
| Net income attributable to common stockholders | \$ 80,887 | \$ 15,079 |
| Earnings Per Share (EPS) | | |
| Net income per share (Basic) | \$ 1.02 | \$ 0.19 |
| Net income per share (Diluted) | \$ 1.01 | \$ 0.19 |
| Funds From Operations (FFO) | | |
| FFO per share (Basic) | \$ 1.76 | \$ 1.07 |
| FFO per share (Diluted) | \$ 1.75 | \$ 1.07 |
| Basic ownership interest | | |

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| | | |
|---|--------|--------|
| Weighted average REIT common shares for net income per share | 79,401 | 77,823 |
| Weighted average partnership units held by noncontrolling interests | 1,805 | 1,502 |
| Basic weighted average shares and units outstanding for FFO per share | 81,206 | 79,325 |
| Diluted ownership interest | | |
| Weighted average REIT common share and common share equivalents | 79,838 | 78,258 |
| Weighted average partnership units held by noncontrolling interests | 1,805 | 1,502 |
| Diluted weighted average shares and units outstanding | 81,643 | 79,760 |

SL GREEN REALTY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share data)

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|---|----------------------------------|-------------------------|
| Assets | | |
| Commercial real estate properties, at cost: | | |
| Land and land interests | \$1,974,994 | \$1,750,220 |
| Buildings and improvements | 5,754,193 | 5,840,701 |
| Building leasehold and improvements | 1,520,150 | 1,286,935 |
| Property under capital lease | 12,208 | 12,208 |
| | 9,261,545 | 8,890,064 |
| Less accumulated depreciation | (953,993) | (916,293) |
| | 8,307,552 | 7,973,771 |
| Assets held for sale, net | 104,808 | — |
| Cash and cash equivalents | 234,009 | 332,830 |
| Restricted cash | 107,835 | 137,673 |
| Investment in marketable securities | 64,440 | 34,052 |
| Tenant and other receivables, net of allowance of \$13,807 and \$12,981 in 2011 and 2010, respectively | 26,314 | 27,054 |
| Related party receivables | 3,653 | 6,295 |
| Deferred rents receivable, net of allowance of \$29,832 and \$30,834 in 2011 and 2010, respectively | 223,552 | 201,317 |
| Debt and preferred equity investments, net of discount of \$19,866 and \$42,937 and allowance of \$58,211 and \$61,361 in 2011 and 2010, respectively | 579,287 | 963,772 |
| Investments in and advances to unconsolidated joint ventures | 916,600 | 631,570 |
| Deferred costs, net | 180,712 | 172,517 |
| Other assets | 693,604 | 819,443 |
| Total assets | \$11,442,366 | \$11,300,294 |
| Liabilities and Equity | | |
| Mortgages and other loans payable | \$3,280,084 | \$3,400,468 |
| Revolving credit facility | 500,000 | 650,000 |
| Senior unsecured notes | 1,018,674 | 1,100,545 |
| Accrued interest and other liabilities | 150,895 | 38,149 |
| Accounts payable and accrued expenses | 123,728 | 133,389 |
| Deferred revenue/gain | 294,634 | 307,678 |
| Capitalized lease obligation | 17,060 | 17,044 |
| Deferred land lease payable | 18,318 | 18,267 |
| Dividend and distributions payable | 14,563 | 14,182 |
| Security deposits | 43,196 | 38,690 |
| Liabilities related to assets held for sale | 121,635 | — |
| Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities | 100,000 | 100,000 |
| Total liabilities | 5,682,787 | 5,818,412 |
| Commitments and contingencies | — | — |

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| | | |
|---|--------------|--------------|
| Noncontrolling interests in operating partnership | 143,756 | 84,338 |
| Equity | | |
| SL Green Realty Corp. stockholders' equity | | |
| 7.625% Series C perpetual preferred shares, \$0.01 par value, \$25.00 liquidation preference, 11,700 issued and outstanding at both March 31, 2011 and December 31, 2010, respectively | 274,022 | 274,022 |
| 7.875% Series D perpetual preferred shares, \$0.01 par value, \$25.00 liquidation preference, 4,000 issued and outstanding at both March 31, 2011 and December 31, 2010, respectively | 96,321 | 96,321 |
| Common stock, \$0.01 par value 160,000 shares authorized, 84,336 and 81,675 issued and outstanding at March 31, 2011 and December 31, 2010, respectively (inclusive of 3,411 and 3,369 shares held in Treasury at March 31, 2011 and December 31, 2010, respectively) | 844 | 817 |
| Additional paid-in capital | 3,836,453 | 3,660,842 |
| Treasury stock-at cost | (306,170) | (303,222) |
| Accumulated other comprehensive loss | (13,011) | (22,659) |
| Retained earnings | 1,207,504 | 1,172,963 |
| Total SL Green Realty Corp. stockholders' equity | 5,095,963 | 4,879,084 |
| Noncontrolling interests in other partnerships | 519,860 | 518,460 |
| Total equity | 5,615,823 | 5,397,544 |
| Total liabilities and equity | \$11,442,366 | \$11,300,294 |

SL GREEN REALTY CORP.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(Amounts in thousands, except per share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2011 | 2010 |
| FFO Reconciliation: | | |
| Net income attributable to common stockholders | \$80,887 | \$15,079 |
| Add: | | |
| Depreciation and amortization | 63,497 | 55,525 |
| Discontinued operations depreciation adjustments | 676 | 1,527 |
| Joint venture depreciation and noncontrolling interest adjustments | 6,234 | 8,770 |
| Net income attributable to noncontrolling interests | 5,462 | 3,939 |
| Loss on equity investment in marketable securities | — | 285 |
| Less: | | |
| Purchase price fair value adjustment | 13,788 | — |
| Depreciation on non-rental real estate assets | 213 | 172 |
| Funds from Operations | 142,755 | 84,953 |
| Transaction related costs(1) | 2,434 | 1,058 |
| Funds from Operations before transaction related costs | \$145,189 | \$86,011 |

(1) Includes the Company's share of joint venture transaction related costs.

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2011 | 2010 |
| Earnings before interest, tax, depreciation and amortization (EBITDA): | \$211,872 | \$139,109 |
| Add: | | |
| Marketing, general & administrative expense | 20,021 | 18,398 |
| Net operating income from discontinued operations | 2,254 | 4,356 |
| Loan loss and other investment reserves | — | 6,000 |
| Transaction related costs | 2,434 | 1,058 |
| Less: | | |
| Non-building revenue | (67,500) | (22,147) |
| Loss on early extinguishment of debt | — | 113 |
| Equity in net income from joint ventures | (8,206) | (15,376) |
| GAAP net operating income (GAAP NOI) | 160,875 | 131,511 |
| Less: | | |
| Net operating income from discontinued operations | (2,254) | (4,356) |
| GAAP NOI from other properties/affiliates | (26,905) | 1,948 |
| Same-Store GAAP NOI | \$131,716 | \$129,103 |

SL GREEN REALTY CORP.
SELECTED OPERATING DATA-UNAUDITED

| | March 31, | | | |
|--|-----------|------|---------|------|
| | 2011 | | 2010 | |
| Manhattan Operating Data: (1) | | | | |
| Net rentable area at end of period (in 000's) | 22,324 | | 24,259 | |
| Portfolio percentage leased at end of period | 94.9 | %(2) | 94.0 | %(2) |
| Same-Store percentage leased at end of period | 93.7 | % | 92.1 | % |
| Number of properties in operation | 30 | | 30 | |
| | | | | |
| Office square feet leased during quarter (rentable) | 703,023 | | 501,321 | |
| Average mark-to-market percentage-office | 0.9 | % | (5.1 |)% |
| Average starting cash rent per rentable square foot-office | \$48.20 | | \$45.00 | |

(1) Includes wholly owned and joint venture properties.

(2) Excludes 100 Church Street, which the Company took ownership of in January 2010.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SL GREEN REALTY CORP.

/s/ James Mead
James Mead
Chief Financial Officer

Date: April 29, 2011