

SL GREEN REALTY CORP
Form 8-K
July 27, 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):

July 27, 2011 (July 26, 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
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

10170
(ZIP CODE)

(212) 594-2700

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(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))
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Item 8.01. Other Events

Summary

On July 26, 2011, SL Green Realty Corp. (the Company) reported funds from operations, or FFO, of \$92.9 million, or \$1.08 per diluted share, for the quarter ended June 30, 2011, compared to \$81.5 million, or \$1.02 per diluted share, for the same quarter in 2010.

Net income attributable to common stockholders totaled \$526.5 million, or \$6.26 per diluted share, for the quarter ended June 30, 2011, compared to \$137.0 million, or \$1.75 per diluted share, for the same quarter in 2010. The per share increase was primarily due to a gain on the sale of 28 West 44th Street of \$0.54 per diluted share and a purchase price fair value adjustment on the acquisition of our partner's interest in 1515 Broadway of \$5.52 per diluted share in 2011 compared to a gain on sale of \$1.59 per diluted share in 2010.

Operating and Leasing Activity

For the second quarter of 2011, the Company reported revenues and operating income of \$300.7 million and \$164.7 million, respectively, an increase of 19.5 percent and 21.8 percent compared to \$251.6 million and \$135.2 million, respectively, for the same period in 2010.

Same-store GAAP NOI on a combined basis increased by 2.6 percent to \$174.4 million for the second quarter of 2011, after giving consideration to 1515 Broadway and 521 Fifth Avenue as consolidated properties, as compared to the same quarter in 2010. Consolidated property NOI increased by 2.8 percent to \$147.5 million and unconsolidated joint venture property NOI increased 1.3 percent to \$26.9 million.

Occupancy for the Company's same-store Manhattan portfolio, excluding 100 Church Street, at June 30, 2011 was 94.9 percent as compared to 94.5 percent for the same period in the previous year. During the quarter, the Company signed 56 office leases in its Manhattan portfolio totaling 453,173 square feet. Thirteen leases totaling 112,246 square feet represented office leases that replaced previous vacancy, while 43 office leases comprising 340,927 square feet had average starting rents of \$54.44 per rentable square foot, representing a 0.3 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 second quarter was 8.6 years and average tenant concessions were 1.9 months of free rent with a tenant improvement allowance of \$41.12 per rentable square foot. Of the 359,583 square feet of office leases which commenced during the second quarter, 157,391 square feet represented office leases that replaced previous vacancy, while 202,192 square feet represented office leases that had average starting rents of \$59.91 per rentable square foot, representing a 6.5 percent increase over the previously fully escalated rents on the same office spaces.

Occupancy for the Company's Suburban portfolio was 86.4 percent at June 30, 2011. During the quarter, the Company signed 28 office leases in the Suburban portfolio totaling 152,961 square feet. Seven leases and 14,859 square feet represented office leases that replaced previous vacancy, while 21 office leases comprising 138,102 square feet had average starting rents of \$31.60 per rentable square foot, representing an 5.5 percent decrease over the previously fully escalated rents on the same office spaces. The average lease term on the Suburban office leases signed in the second quarter was 5.4 years and average tenant concessions were 3.4 months of free rent with a tenant improvement allowance of \$14.44 per rentable square foot. Of the 180,505 square feet of office leases which commenced during the second quarter, 18,996 square feet represented office leases that replaced previous vacancy, while 161,509 square feet represented office leases that had average starting rents of \$31.67 per rentable square foot, representing a 4.3 percent decrease over the previously fully escalated rents on the same office spaces.

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Significant leases that were signed during the second quarter included:

- New lease/early renewal with Rothstein Kass & Company for 12 years for 88,049 square feet at 1350 Avenue of the Americas;
- New lease with UN Women for 10 years for 73,595 square feet at 220 East 42nd Street;
- Early renewal and expansion with Adzinia Media Group for 4.4 years for 34,920 square feet at 1350 Avenue of the Americas;
- New lease with Wilk Auslander LLP for 10 years for 33,799 square feet at 1515 Broadway;
- Early renewal with Skadden, Arps, Slate, Meagher & Flom LLP for 7.4 years for 56,126 square feet at 360 Hamilton Avenue, White Plains, Westchester County; and
- Early renewal with Bank of America for 5 years for 24,445 square feet at Jericho Plaza, Long Island.

Marketing, general and administrative, or MG&A, expenses for the quarter ended June 30, 2011 were \$22.5 million, or 6.4 percent of total revenues including the Company's share of joint venture revenue, compared to \$18.4 million, or 5.7 percent of total revenues including the Company's share of joint venture revenue, for the quarter ended June 30, 2010.

Real Estate Investment Activity

In April 2011, the Company acquired the entire interest of SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ, in 1515 Broadway, thereby consolidating full ownership of the office building. The transaction valued the consolidated interests at \$1.234 billion and the Company assumed its pro-rata share of the \$458.8 million mortgage encumbering the property. This property, which was originally acquired by the joint venture in May 2002, was previously accounted for as an investment in unconsolidated joint ventures.

In May 2011, 280 Park Avenue equity partners Broadway Partners and Investcorp executed a recapitalization agreement with mezzanine debt holders the Company and Vornado. The recapitalization merged the parties' respective equity and debt positions to form a new ownership structure for the Class A office property and included funding for an approximate \$150 million repositioning and re-tenanting program. The recapitalization followed the formation of a 50/50 joint venture between Vornado and the Company that combined their mezzanine debt positions, which totaled \$400 million. That joint venture now holds a significant majority equity stake in the property.

In May 2011, the Company successfully converted a debt position in 110 East 42nd Street into a substantial ownership interest in the office condominium, along with control of the asset. In connection with this transaction, the Company modified its senior mezzanine loan on the property simultaneous with the modification of the underlying mortgage loan.

In May 2011, the Company sold its 359,000 square foot property located at 28 West 44th Street for \$161.0 million and realized a gain of \$46.1 million on the sale. The net sales proceeds were re-invested in a tax efficient manner.

Debt and Preferred Equity Investment Activity

The Company's debt and preferred equity investment portfolio totaled \$582.4 million at June 30, 2011, an increase of 0.5 percent, or \$3.1 million, from March 31, 2011. During the second quarter, the Company purchased and originated new debt investments totaling \$55.7 million, which are directly or indirectly collateralized by commercial office properties, and received \$35.5 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 June 30, 2011 and had a weighted average yield for the quarter ended June 30, 2011 of 7.4 percent, exclusive of loans with a net carrying value of \$85.9 million, which are on non-accrual status.

Financing and Capital Activity

In the second quarter of 2011, the Company sold approximately 3.3 million shares of common stock through ATM equity offering programs for aggregate gross proceeds of approximately \$262.0 million (\$258.1 million of net proceeds after related expenses). In 2011 to date, the Company

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has sold 6.7 million shares of its common stock through the ATM for aggregate gross proceeds of approximately \$525.0 million (\$517.1 million of net proceeds after related expenses). There is no additional capacity under these programs.

In April 2011, the Company refinanced 521 Fifth Avenue with a new \$150.0 million 2-year mortgage which carries a floating rate of interest of 200 basis points over the 30-day LIBOR. In connection with that refinancing, the Company acquired the fee interest in the property for \$15.0 million.

In May 2011, the Company repaid the \$108.3 million mortgage securing the property located at Landmark Square, Stamford, Connecticut in anticipation of a new mortgage financing in the second half of 2011. This mortgage was scheduled to mature in February 2012.

In June 2011, the Company, along with New York State Teachers Retirement System its joint venture partner, refinanced 919 Third Avenue with a new 12-year \$500.0 million mortgage which bears interest at a fixed rate of 5.116%. The new mortgage replaced the former 10-year, \$250 million loan, which carried a balance of \$219.9 million at payoff with a 6.867% interest rate which was scheduled to mature in August 2011.

In June 2011, the Company, along with Jeff Sutton, its joint venture partner, refinanced 1551/1555 Broadway when it closed on a new ten-year \$180.0 million mortgage which bears interest at a fixed rate of 5.10%. The new mortgage replaced the former \$127.4 million loan, which was scheduled to mature in October 2011.

In April 2011, the Company, along with The Moinian Group, its joint venture partner, refinanced the bridge loan on 3 Columbus Circle 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, the bridge loan lenders, were repaid. The joint venture has the ability to increase the mortgage by \$40.0 million based on meeting certain performance hurdles.

Dividends

During the second 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 July 15, 2011 to stockholders of record on the close of business on June 30, 2011; and
- \$0.4766 and \$0.4922 per share on the Company's Series C and D Preferred Stock, respectively, for the period April 15, 2011 through and including July 14, 2011, which were paid on July 15, 2011 to stockholders of record on the close of business on June 30, 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.

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 in the same manner 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.

SL GREEN REALTY CORP.

STATEMENTS OF OPERATIONS-UNAUDITED

(Amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenue:				
Rental revenue, net	\$ 240,585	\$ 193,252	\$ 469,555	\$ 385,462
Escalations and reimbursement revenues	34,994	28,655	65,269	58,749
Preferred equity and investment income	15,144	20,788	79,823	41,167
Other income	9,932	8,877	17,180	17,075
Total revenues	300,655	251,572	631,827	502,453
Equity in net income from unconsolidated joint ventures	2,184	10,005	10,390	25,381
Gain (loss) on early extinguishment of debt	971	(1,276)	971	(1,389)
Expenses:				
Operating expenses	62,406	52,748	122,710	109,531
Real estate taxes	43,975	37,194	84,042	74,166
Ground rent	7,813	7,679	15,647	15,501
Loan loss and other investment reserves, net of recoveries	1,280	4,985	(1,870)	10,985
Transaction related costs	1,217	4,104	3,651	5,162
Marketing, general and administrative	22,454	18,379	42,475	36,778
Total expenses	139,145	125,089	266,655	252,123
Operating Income	164,665	135,212	376,533	274,322
Interest expense, net of interest income	68,990	56,941	134,063	113,729
Amortization of deferred financing costs	2,690	1,571	6,496	3,867
Depreciation and amortization	65,539	55,373	129,036	110,898
Loss on investment in marketable securities	6		133	285
Net income from Continuing Operations	27,440	21,327	106,805	45,543
Net income from Discontinued Operations	560	2,403	1,298	4,320
Gain on sale of discontinued operations	46,085		46,085	
Equity in net gain on sale of joint venture interest		126,769		126,769
Purchase price fair value adjustment	475,102		488,890	
Net income	549,187	150,499	643,078	176,632
Net income attributable to noncontrolling interests	(15,184)	(5,916)	(20,645)	(9,855)
Net income attributable to SL Green Realty Corp.	534,003	144,583	622,433	