

SL GREEN REALTY CORP
Form 8-K
August 07, 2012

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):

August 7, 2012 (July 25, 2012)

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)

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(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))
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Item 8.01. Other Events.

On July 25, 2012, SL Green Realty Corp. (the Company) reported funds from operations, or FFO, of \$179.0 million, or \$1.92 per diluted share, for the quarter ended June 30, 2012, compared to \$92.9 million, or \$1.08 per diluted share, for the same quarter in 2011. The results reflect additional cash income of \$67.9 million, or \$0.73 per diluted share, equivalent to profit, from the recapitalization of 717 Fifth Avenue in the second quarter of 2012. Net income attributable to common stockholders totaled \$103.0 million, or \$1.14 per diluted share, for the quarter ended June 30, 2012, compared to \$526.5 million, or \$6.26 per diluted share, for the same quarter in 2011.

Operating and Leasing Activity

For the second quarter of 2012, the Company reported revenues and operating income of \$349.0 million and \$266.8 million, respectively, compared to \$298.7 million and \$162.7 million, respectively, for the same period in 2011.

Same-store NOI on a combined basis increased by 1.8 percent to \$199.5 million for 2012, after giving consideration to 1515 Broadway and 521 Fifth Avenue as consolidated properties, as compared to 2011. Consolidated property same-store NOI increased by 1.0 percent to \$169.2 million and unconsolidated joint venture property same-store NOI increased 6.9 percent to \$30.3 million.

Same-store cash NOI on a combined basis increased by 5.3 percent to \$178.9 million for 2012, after giving consideration to 1515 Broadway and 521 Fifth Avenue as consolidated properties, as compared to 2011. Consolidated property same-store cash NOI increased by 4.8 percent to \$151.3 million and unconsolidated joint venture property same-store cash NOI increased 8.3 percent to \$27.6 million.

Occupancy for the Company's stabilized, same-store Manhattan portfolio at June 30, 2012 was 93.2 percent as compared to 93.4 percent at June 30, 2011. During the quarter, the Company signed 50 office leases in its Manhattan portfolio totaling 2,251,230 square feet. Eleven leases totaling 42,174 square feet represented office leases that replaced previous vacancy, and 39 office leases comprising 2,209,056 square feet had average starting rents of \$52.63 per rentable square foot, representing a 1.3 percent increase over the previously fully escalated rents on the same office spaces, which was largely driven by the 1.6 million square foot lease with Viacom International Inc. at 1515 Broadway and the renewal of the City of New York for 372,521 square feet at 100 Church. The average lease term on the Manhattan office leases signed in the second quarter was 15.1 years and average tenant concessions were 8.2 months of free rent with a tenant improvement allowance of \$49.29 per rentable square foot.

During the quarter, 1,955,729 square feet of office leases commenced in the Manhattan portfolio, 70,537 square feet of which represented office leases that replaced previous vacancy, and 1,885,192 square feet of which represented office leases that had average starting rents of \$50.18 per rentable square foot, representing a 0.1 percent increase over the previously fully escalated rents on the same office spaces.

Occupancy for the Company's Suburban portfolio was 86.0 percent at June 30, 2012, as compared to 86.4 percent at June 30, 2011. Excluding One Court Square, which was sold subsequent to the end of the quarter, the Company's Suburban portfolio occupancy would be 82.4 percent at June 30, 2012, as compared to 82.9 percent at June 30, 2011.

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During the quarter, the Company signed 23 office leases in the Suburban portfolio totaling 239,110 square feet. Six leases totaling 22,388 square feet represented office leases that replaced previous vacancy, and 17 office leases comprising 216,722 square feet had average starting rents of \$25.69 per rentable square foot, representing a 18.9 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 5.1 years and average tenant concessions were 8.4 months of free rent with a tenant improvement allowance of \$12.87 per rentable square foot.

During the quarter 216,559 square feet of office leases commenced in the Suburban portfolio, 7,450 square feet of which represented office leases that replaced previous vacancy, and 209,109 square feet of which represented office leases that had average starting rents of \$25.25 per rentable square foot, representing a 20.1 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:

- Early renewal and expansion on 1.6 million square feet with Viacom International Inc. for 15.3 years at 1515 Broadway bringing the total remaining lease term to 19 years;
- Early renewal on 372,521 square feet with The City of New York Law and Business for 20.4 years at 100 Church Street;
- Early renewal and expansion on 87,677 square feet with Cohen & Steers, Inc. for 10 years at 280 Park Avenue;
- New lease on 36,823 square feet with Yext, Inc. for 7.7 years at One Madison Avenue;
- Early renewal on 112,584 square feet with Fuji Film Holdings America Corp. for 6.3 years at 200 Summit Lake Drive, Westchester, NY; and
- Early renewal on 46,032 square feet with Nomura Holdings for 5.8 years at 1100 King Street, Westchester, NY.

Marketing, general and administrative, or MG&A, expenses for the quarter ended June 30, 2012 were \$20.7 million, or 5.1 percent of total revenues including the Company's share of joint venture revenue compared to \$22.5 million, or 6.4 percent for the quarter ended June 30, 2011.

Real Estate Investment Activity

In June 2012, the Company acquired the 215,000 square-foot mixed-use office and retail building located at 304 Park Avenue South for \$135.0 million, or \$628 per square foot. The property was acquired with approximately \$102.0 million of cash and \$33.0 million in operating partnership units of SL Green Operating Partnership, L.P. (the Operating Partnership).

In April 2012, the Company, along with its joint venture partner Jeff Sutton, sold 379 West Broadway for \$48.5 million, resulting in a gain of \$6.5 million.

In July 2012, the Company, along with its joint venture partner, sold One Court Square for a gross sale price of \$481.1 million. The transaction included the assumption by the purchaser of \$315.0 million of existing debt.

Debt and Preferred Equity Investment Activity

The Company's debt and preferred equity investment portfolio totaled \$982.2 million at June 30, 2012. During the second quarter, the Company purchased and originated new debt and preferred equity investments totaling \$71.3 million, all of which are directly collateralized by New York City commercial office properties, and received \$7.1 million of principal reductions from investments that were sold or repaid. In addition, the Company reclassified a first mortgage position, which is collateralized by an office property in London, into real estate held-for-sale as the property is being marketed for sale through a receiver controlled by the Company. The Company recognized additional income of \$4.7 million in the quarter as a result of this reclassification. The debt and preferred equity investment portfolio had a weighted average maturity of 2.8 years as of June 30, 2012 and had a weighted average yield for the quarter ended June 30, 2012 of 9.3 percent, exclusive of loans with a net carrying value of \$25.1 million, which are on non-accrual status.

Financing and Capital Activity

In June 2012, the Company, along with its joint venture partner Jeff Sutton, recapitalized the retail condominium at 717 Fifth Avenue in a transaction that included: a refinancing with a ten-year, \$300.0 million, 4.45 percent fixed-rate mortgage and a twelve-year, \$290.0 million, 9.0 percent fixed-rate mezzanine loan; the reduction by the

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Company of its interest to 10.92 percent; and the redemption of \$31.7 million of Series E preferred units of the Operating Partnership.

In April 2012, the Company closed on a seven-year \$775.0 million mortgage at 1515 Broadway. This mortgage bears interest at 285 basis points over the 90-day LIBOR and replaces the previous \$447.2 million mortgage that was scheduled to mature in 2014.

In June 2012, the Company closed on a ten-year \$230.0 million mortgage at 100 Church Street. This mortgage bears a fixed rate of interest of 4.675 percent.

In July 2012, the Company redeemed all 4,000,000 outstanding shares of its 7.875% Series D Cumulative Redeemable Preferred Stock on July 13, 2012 at a redemption price of \$25.00 per share of preferred stock plus \$0.4922 in accumulated and unpaid dividends on such preferred stock through July 14, 2012.

In the second quarter of 2012, the Company sold 1.0 million shares of common stock for aggregate gross proceeds of \$79.6 million (\$78.4 million of net proceeds after related expenses). In 2012 to date, the Company sold 3.9 million shares of common stock for gross proceeds of \$304.6 million (\$301.1 million of net proceeds after related expenses). The Company's existing at-the-market equity offering program has \$45.4 million of remaining sales capacity.

Dividends

During the second quarter of 2012, the Company declared quarterly dividends on its outstanding common and preferred stock as follows:

- \$0.25 per share of common stock, which was paid on July 13, 2012 to stockholders of record on the close of business on July 2, 2012; and
- \$0.4766 per share on the Company's Series C Preferred Stock for the period April 15, 2012 through and including July 14, 2012, which was paid on July 13, 2012 to stockholders of record on the close of business on June 30, 2012, and reflects the regular quarterly dividend which is the equivalent of annualized dividend of \$1.9064 per share.

Funds from Operations (FFO)

FFO is a widely recognized measure of REIT performance. The Company computes 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 the Company does. The revised White Paper on FFO approved by the Board of Governors of NAREIT in April 2002, and subsequently amended, defines FFO as net

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income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring, sales of properties and real estate related impairment charges, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company presents FFO because it considers it an important supplemental measure of the Company's 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. The Company also uses FFO as one of several criteria to determine performance-based bonuses for members of its 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 the Company's financial performance or to cash flow

from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund our cash needs, including the Company's ability to make cash distributions.

Same-Store Net Operating Income, Same-Store Cash Net Operating Income and Related Measures

The Company presents same-store net operating income, same-store cash net operating income, same-store joint venture net operating income, same-store joint venture cash net operating income because the Company believes that these measures provide investors with useful information regarding the operating performance of properties that are comparable for the periods presented. For properties owned since January 1, 2011 and still owned in the same manner at the end of the current quarter, the Company determines same-store net operating income by subtracting same-store property operating expenses and ground rent from same-store recurring rental and tenant reimbursement revenues. Same-store cash net operating income is derived by deducting same-store straight line and free rent from, and adding same-store tenant credit loss allowance to, same-store net operating income. Same-store joint venture net operating income and same-store joint venture cash net operating income are calculated in the same manner as noted above, but includes just the Company's pro-rata share of the joint venture net operating income. None of these measures is 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 Statements

The preliminary information and estimates set forth above 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. You should not place undue reliance on such preliminary information and estimates because they may prove to be materially inaccurate. The preliminary information and estimates have not been compiled or examined by our independent auditors and they are subject to revision as we prepare our financial statements as of and for the quarter ended June 30, 2012, including all disclosures required by GAAP and as our auditors conduct their audit of these financial statements. While we believe that such preliminary information and estimates are based on reasonable assumptions, actual results may vary, and such variations may be material. Factors that could cause our preliminary information and estimates to differ from the indications presented below include, but are not limited to, additional adjustments in the calculation of, or application of accounting principles for, the financial results for the quarter ended June 30, 2012, and accounting changes required by GAAP or the Internal Revenue Code.

SL GREEN REALTY CORP.

CONSOLIDATED STATEMENTS OF INCOME-UNAUDITED

(Amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues:				
Rental revenue, net	\$ 267,691	\$ 238,635	\$ 528,505	\$ 465,655
Escalation and reimbursement	41,584	34,994	83,247	65,269
Investment and preferred equity income	33,448	15,144	59,786	79,823
Other income	6,282	9,932	16,659	17,180
Total revenues	349,005	298,705	688,197	627,927
Expenses:				
Operating expenses (including approximately \$4,729 and \$8,188 (2012) and \$3,498 and \$6,613 (2011) paid to affiliates)	68,919	62,395	142,188	122,698
Real estate taxes	52,569	43,975	104,067	84,042
Ground rent	8,890	7,813	17,696	15,647
Interest expense, net of interest income	82,327	68,173	162,464	132,439
Amortization of deferred financing costs	3,553	2,684	7,133	6,483
Depreciation and amortization	77,812	65,539	154,895	129,036
Loan loss and other investment reserves, net of recoveries		1,280	564	(1,870)
Transaction related costs	1,970	1,217	3,121	3,651
Marketing, general and administrative	20,721	22,454	40,917	42,475
Total expenses	316,761	275,530	633,045	534,601
Income from continuing operations before equity in net income of unconsolidated joint ventures, noncontrolling interests and discontinued operations	32,244	23,175	55,152	93,326
Equity in net income from unconsolidated joint ventures	70,890	2,184	69,330	10,390
Equity in net gain on sale of interest in unconsolidated joint venture/ real estate	9,534		16,794	
Purchase price fair value adjustment		475,102		488,890
Loss on investment in marketable securities		(6)		(133)
Depreciable real estate reserves, net of recoveries	5,789		5,789	
Gain on early extinguishment of debt		971		971
Income from continuing operations	118,457	501,426	147,065	593,444
Net income from discontinued operations		1,676	(78)	3,549
Gain on sale of discontinued operations		46,085	6,627	46,085
Net income	118,457	549,187	153,614	643,078
Net income attributable to noncontrolling interests in the operating partnership	(3,421)	(11,925)	(4,309)	(13,776)
Preferred unit distributions	(565)		(962)	
Net income attributable to noncontrolling interests in other partnerships	(3,887)	(3,259)	(4,958)	(6,869)
Net income attributable to SL Green	110,584	534,003	143,385	622,433
Preferred stock dividends	(7,544)	(7,545)	(15,089)	(15,089)
Net income attributable to SL Green common stockholders	\$ 103,040	\$ 526,458	\$ 128,296	\$ 607,344
Earnings Per Share (EPS)				
Net income per share (Basic)	\$ 1.15	\$ 6.30	\$ 1.45	\$ 7.44
Net income per share (Diluted)	\$ 1.14	\$ 6.26	\$ 1.45	\$ 7.40

Funds From Operations (FFO)

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FFO per share (Basic)	\$	1.93	\$	1.09	\$	3.05	\$	2.82
FFO per share (Diluted)	\$	1.92	\$	1.08	\$	3.03	\$	2.81

Basic ownership interest

Weighted average REIT common shares for net income per share		89,789		83,578		88,265		81,632
Weighted average partnership units held by noncontrolling interests		3,193		1,912		3,121		1,858
Basic weighted average shares and units outstanding for FFO per share		92,982		85,490		91,386		83,490

Diluted ownership interest

Weighted average REIT common share and common share equivalents		90,158		84,098		88,645		82,137
Weighted average partnership units held by noncontrolling interests		3,193		1,912		3,121		1,858
Diluted weighted average shares and units outstanding		93,351		86,010		91,766		83,995

SL GREEN REALTY CORP.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Commercial real estate properties, at cost:		
Land and land interests	\$ 2,872,122	\$ 2,684,626
Buildings and improvements	7,311,351	7,147,527
Building leasehold and improvements	1,316,523	1,302,790
Property under capital lease	12,208	12,208
	11,512,204	11,147,151
Less accumulated depreciation	(1,269,979)	(1,136,603)
	10,242,225	10,010,548
Assets held for sale	91,574	76,562
Cash and cash equivalents	256,799	138,192
Restricted cash	138,493	86,584
Investment in marketable securities	23,502	25,323
Tenant and other receivables, net of allowance of \$20,826 and \$16,772 in 2012 and 2011, respectively	32,728	32,107
Related party receivables	7,793	4,001
Deferred rents receivable, net of allowance of \$31,343 and \$29,156 in 2012 and 2011, respectively	315,700	281,974
Debt and preferred equity investments, net of discount of \$22,601 and \$24,996 and allowance of \$41,050 and \$50,175 in 2012 and 2011, respectively	982,209	985,942
Investments in and advances to unconsolidated joint ventures	1,014,042	893,933
Deferred costs, net	249,147	210,786
Other assets	784,901	737,900
Total assets	\$ 14,139,113	\$ 13,483,852
Liabilities		
Mortgages and other loans payable	\$ 4,861,463	\$ 4,314,741
Revolving credit facility	80,000	350,000
Senior unsecured notes	1,173,769	1,270,656
Accrued interest and other liabilities	114,003	126,135
Accounts payable and accrued expenses	140,910	142,428
Deferred revenue/gain	352,151	357,193
Capitalized lease obligation	17,148	17,112
Deferred land lease payable	18,721	18,495
Dividend and distributions payable	30,126	28,398
Security deposits	47,463	46,367
Liabilities related to assets held for sale	62,792	61,988
Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities	100,000	100,000
Total liabilities	6,998,546	6,833,513
Commitments and contingencies		
Noncontrolling interests in the operating partnership	279,685	195,030
Series G preferred units, \$0.01 par value, \$25.00 liquidation preference, 1,902 issued and outstanding at June 30, 2012	47,550	
Series H preferred units, \$0.01 par value, \$25.00 liquidation preference, 80 issued and outstanding at June 30, 2012 and December 31, 2011, respectively	2,000	2,000

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 June 30, 2012 and December 31, 2011, respectively	274,022	274,022
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