

SL GREEN REALTY CORP
Form 8-K
April 24, 2013

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 24, 2013 (April 23, 2013)

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))
-

Item 8.01. Other Events.**Summary**

On April 23, 2013, SL Green Realty Corp. (the Company) reported funds from operations, or FFO, of \$109.2 million, or \$1.16 per diluted share, for the quarter ended March 31, 2013, compared to \$99.3 million, or \$1.10 per diluted share, for the same quarter in 2012. Exclusive of the items listed below, which were recognized in the first quarter, normalized FFO for the quarter ended March 31, 2013 is calculated as follows:

| | Per Diluted Share |
|--|------------------------------|
| <u>Normalized FFO Reconciliation:</u> | |
| FFO (1) | \$ 1.16 |
| Charges related to 1515 Broadway refinancing | 0.20 |
| Gain on the sale of 50% interest in mezzanine investment | (0.14) |
| Normalized Funds From Operations (2) | \$ 1.22 |

(1) See page 9 for a reconciliation of net income available to common stockholders to FFO.

(2) There were no similar items in the first quarter of 2012.

Net income attributable to common stockholders totaled \$18.9 million, or \$0.21 per diluted share, for the quarter ended March 31, 2013, compared to \$25.3 million, or \$0.29 per diluted share, for the same quarter in 2012.

Operating and Leasing Activity

For the first quarter of 2013, the Company reported revenues and operating income of \$370.0 million and \$195.8 million, respectively, compared to \$339.1 million and \$182.2 million, respectively, for the same period in 2012.

Same-store cash NOI on a combined basis increased by 4.4 percent to \$181.7 million for the quarter ended March 31, 2013 as compared to the same period in 2012. Consolidated property same-store cash NOI increased by 4.8 percent to \$157.5 million and unconsolidated joint venture property same-store cash NOI increased 2.0 percent to \$24.2 million.

Occupancy for the Company's stabilized, same-store Manhattan portfolio at March 31, 2013 was 94.3 percent compared to 94.0 percent at March 31, 2012 and 94.3 percent at December 31, 2012.

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During the quarter, the Company signed 55 office leases in its Manhattan portfolio totaling 585,454 square feet. Twenty-seven leases totaling 122,780 square feet represented office leases that replaced previous vacancy, and 28 office leases comprising 462,674 square feet, which had been occupied within the prior twelve months, had average starting rents of \$54.94 per rentable square foot, representing a 0.7 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 5.4 years and average tenant

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concessions were 2.2 months of free rent with a tenant improvement allowance of \$20.73 per rentable square foot.

During the quarter, 536,101 square feet of office leases commenced in the Manhattan portfolio, 129,746 square feet of which represented office leases that replaced previous vacancy, and 406,355 square feet of which had been occupied within the prior twelve months, represented office leases that had average starting rents of \$57.06 per rentable square foot, representing a 4.3 percent increase over the previously fully escalated rents on the same office spaces.

Occupancy for the Company's Suburban portfolio was 80.2 percent at March 31, 2013, compared to 81.3 percent at December 31, 2012.

During the quarter, the Company signed 36 office leases in the Suburban portfolio totaling 305,916 square feet. Twelve leases totaling 88,674 square feet represented office leases that replaced previous vacancy, and 24 office leases comprising 217,242 square feet, which had been occupied within the prior twelve months, had average starting rents of \$30.04 per rentable square foot, representing a 0.8 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 8.3 years and average tenant concessions were 4.9 months of free rent with a tenant improvement allowance of \$20.79 per rentable square foot.

During the quarter, 225,072 square feet of office leases commenced in the Suburban portfolio, 74,975 square feet of which represented office leases that replaced previous vacancy, and 150,097 square feet of which had been occupied within the prior twelve months, represented office leases that had average starting rents of \$32.51 per rentable square foot, representing a 0.7 percent decrease over the previously fully escalated rents on the same office spaces.

Significant leases that were signed during the first quarter included:

- Early renewal and expansion on 150,865 square feet with Eisner, LLP for 3.3 years at 750 Third Avenue;
- New lease on 58,854 square feet with Viacom International, Inc. for 5.0 years at 1515 Broadway;
- Early renewal on 43,294 square feet with WPP Group USA, Inc. for 6.3 years at 100 Park Avenue;
- New lease on 30,030 square feet with The Federative Republic of Brazil for 10.3 years at 220 East 42nd Street;
- New lease on 67,145 square feet with Xylem Inc. for 10.8 years at 1100 King Street, Westchester County, NY; and
- Early renewal and expansion on 38,252 square feet with Kaufman Borgeest & Ryan LLP for 9.8 years at 200 Summit Lake Drive, Westchester County, NY.

Marketing, general and administrative, or MG&A, expenses for the quarter ended March 31, 2013 were \$21.1 million, or 4.9 percent of total revenues including the Company's share of joint venture revenue compared to \$20.2 million, or 5.2 percent for the quarter ended March 31, 2012.

Real Estate Investment Activity

In March 2013, the Company, with a joint venture partner, acquired two vacant residential buildings in Williamsburg, Brooklyn for \$54.9 million. The properties, which are above a retail condominium already owned by the Company, consist of 72 newly constructed apartment units and 12 townhouses. Simultaneously, the joint venture closed on a \$22.0 million, 5-year first mortgage loan which bears interest at 225 basis points over the 30-day LIBOR.

Debt and Preferred Equity Investment Activity

The Company's debt and preferred equity investment portfolio totaled \$1.4 billion at March 31, 2013. During the first quarter, the Company purchased and originated new debt and preferred equity investments totaling \$198.9 million, inclusive of 550 Madison Avenue, all of which are collateralized by New York City commercial office properties, and recorded \$121.4 million of principal reductions from investments that were sold or repaid. The debt and preferred equity investment portfolio had a weighted average maturity of 1.9 years as of March 31, 2013 and had a weighted average yield during the quarter ended March 31, 2013 of 10.6 percent.

During the first quarter the Company sold a 50 percent interest in a mezzanine loan secured by interests in 5 Times Square, Manhattan, generating \$57.8 million of proceeds to the Company, inclusive of \$12.9 million of additional income recorded in the first quarter.

Financing and Capital Activity

In February 2013, the Company closed on a \$900 million first mortgage refinancing of 1515 Broadway. The new 12-year, 3.93 percent fixed rate mortgage financing replaced the former \$775 million mortgage loan. The refinancing follows the April 2012 renewal by Viacom of 1.6 million square feet at the office tower through 2031. In conjunction with the refinancing, the Company paid a prepayment penalty of \$7.6 million, or \$0.08 per diluted share, to the providers of the previous mortgage loan and recorded a non-recurring charge of \$10.9 million, or \$0.12 per diluted share, for unamortized deferred financing costs associated with the previous mortgage loan.

Dividends

During the first quarter of 2013, the Company declared quarterly dividends on its outstanding common and preferred stock as follows:

- \$0.33 per share of common stock, which was paid on April 15, 2013 to stockholders of record on the close of business on April 1, 2013;
- \$0.4766 per share on the Company's Series C Preferred Stock for the period January 15, 2013 through and including April 14, 2013, which was paid on April 15, 2013 to stockholders of record on the close of business on April 1, 2013, and reflects the regular quarterly dividend which is the equivalent of annualized dividend of \$1.9064 per share; and

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- \$0.40625 per share on the Company's Series I Preferred Stock for the period January 15, 2013 through and including April 14, 2013, which was paid on April 15, 2013 to stockholders of record on the close of business on April 1, 2013, and reflects the regular quarterly dividend which is the equivalent of annualized dividend of \$1.625 per share.

Non-GAAP Supplemental Financial Measures

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 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 its 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 the Company's cash needs, including its 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, 2012 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.

SL GREEN REALTY CORP.

CONSOLIDATED STATEMENTS OF INCOME-UNAUDITED

(Amounts in thousands, except per share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2013 | 2012 |
| Revenues: | | |
| Rental revenue, net | \$ 270,489 | \$ 260,762 |
| Escalation and reimbursement | 41,000 | 41,656 |
| Investment and preferred equity income | 52,708 | 26,338 |
| Other income | 5,774 | 10,377 |
| Total revenues | 369,971 | 339,133 |
| Expenses: | | |
| Operating expenses (including approximately \$4,150 (2013) and \$3,471 (2012) paid to related parties) | 73,633 | 73,254 |
| Real estate taxes | 53,688 | 51,480 |
| Ground rent | 10,990 | 8,806 |
| Interest expense, net of interest income | 81,336 | 80,137 |
| Amortization of deferred financing costs | 4,463 | 3,580 |
| Depreciation and amortization | 80,683 | 77,069 |
| Loan loss and other investment reserves, net of recoveries | | 564 |
| Transaction related costs | 1,358 | 1,056 |
| Marketing, general and administrative | 21,067 | 20,196 |
| Total expenses | 327,218 | 316,142 |
| Income from continuing operations before equity in net income of unconsolidated joint ventures, noncontrolling interests and discontinued operations | 42,753 | 22,991 |
| Equity in net income (loss) from unconsolidated joint ventures | 5,073 | (1,560) |
| Equity in net gain (loss) on sale of interest in unconsolidated joint venture/ real estate | | 7,260 |
| Gain (loss) on investment in marketable securities | (57) | |
| Gain (loss) on early extinguishment of debt | (18,513) | |
| Income from continuing operations | 29,256 | 28,691 |
| Net loss from discontinued operations | (32) | (161) |
| Gain on sale of discontinued operations | 1,113 | 6,627 |
| Net income | 30,337 | 35,157 |
| Net income attributable to noncontrolling interests in the operating partnership | (555) | (888) |
| Preferred unit distributions | (565) | (397) |
| Net (income) loss attributable to noncontrolling interests in other partnerships | (2,901) | (1,071) |
| Net income attributable to SL Green | 26,316 | 32,801 |
| Perpetual preferred stock dividends | (7,407) | (7,545) |
| Net income attributable to SL Green common stockholders | \$ 18,909 | \$ 25,256 |
| Earnings Per Share (EPS) | | |
| Net income per share (Basic) | \$ 0.21 | \$ 0.29 |
| Net income per share (Diluted) | \$ 0.21 | \$ 0.29 |
| Funds From Operations (FFO) | | |
| FFO per share (Basic) | \$ 1.16 | \$ 1.11 |
| FFO per share (Diluted) | \$ 1.16 | \$ 1.10 |
| Basic ownership interest | | |
| Weighted average REIT common shares for net income per share | 91,399 | 86,744 |
| Weighted average partnership units held by noncontrolling interests | 2,687 | 3,048 |
| Basic weighted average shares and units outstanding for FFO per share | 94,086 | 89,792 |

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Diluted ownership interest

| | | |
|---|--------|--------|
| Weighted average REIT common share and common share equivalents | 91,615 | 87,125 |
| Weighted average partnership units held by noncontrolling interests | 2,687 | 3,048 |
| Diluted weighted average shares and units outstanding | 94,302 | 90,173 |

SL GREEN REALTY CORP.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|---|----------------------------------|----------------------|
| Assets | | |
| Commercial real estate properties, at cost: | | |
| Land and land interests | \$ 2,886,099 | \$ 2,886,099 |
| Buildings and improvements | 7,452,347 | 7,389,766 |
| Building leasehold and improvements | 1,346,481 | 1,346,748 |
| Properties under capital lease | 47,179 | 40,340 |
| | 11,732,106 | 11,662,953 |
| Less accumulated depreciation | (1,461,775) | (1,393,323) |
| | 10,270,331 | 10,269,630 |
| Assets held for sale | | 4,901 |
| Cash and cash equivalents | 220,140 | 189,984 |
| Restricted cash | 130,233 | 136,071 |
| Investment in marketable securities | 22,994 | 21,429 |
| Tenant and other receivables, net of allowance of \$20,947 and \$21,652 in 2013 and 2012, respectively | 41,950 | 48,544 |
| Related party receivables | 11,133 | 7,531 |
| Deferred rents receivable, net of allowance of \$28,475 and \$29,580 in 2013 and 2012, respectively | 355,250 | 340,747 |
| Debt and preferred equity investments, net of discount of \$11,251 and \$13,572 and allowance of \$7,000 and \$7,000 in 2013 and 2012, respectively | 1,443,834 | 1,357,203 |
| Investments in and advances to unconsolidated joint ventures | 1,073,130 | 1,032,243 |
| Deferred costs, net | 252,018 | 261,145 |
| Other assets | 722,952 | 718,326 |
| Total assets | \$ 14,543,965 | \$ 14,387,754 |
| Liabilities | | |
| Mortgages and other loans payable | \$ 4,815,485 | \$ 4,615,464 |
| Revolving credit facility | 30,000 | 70,000 |
| Term loan and senior unsecured notes | 1,732,588 | 1,734,956 |
| Accrued interest and other liabilities | 73,666 | 73,769 |
| Accounts payable and accrued expenses | 143,812 | 159,598 |
| Deferred revenue/gain | 322,317 | 321,764 |
| Capitalized lease obligation | 43,404 | 37,518 |
| Deferred land lease payable | 19,750 | 20,897 |
| Dividend and distributions payable | 37,737 | 37,839 |
| Security deposits | 49,803 | 46,253 |
| Liabilities related to assets held for sale | | 136 |
| Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities | 100,000 | 100,000 |
| Total liabilities | 7,368,562 | 7,218,194 |
| Commitments and contingencies | | |
| Noncontrolling interests in the operating partnership | 220,174 | 212,907 |
| | 47,550 | 47,550 |

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Series G preferred units, \$0.01 par value, \$25.00 liquidation preference, 1,902 issued and outstanding at both March 31, 2013 and December 31, 2012, respectively

Series H preferred units, \$0.01 par value, \$25.00 liquidation preference, 80 issued and outstanding at both March 31, 2013 and December 31, 2012, respectively

2,000 2,000

Equity

SL Green Realty Corp. stockholders' equity

Series C perpetual preferred shares, \$0.01 par value, \$25.00 liquidation preference, 7,700 issued and outstanding at both March 31, 2013 and December 31, 2012, respectively

180,340 180,340

Series I perpetual preferred shares, \$0.01 par value, \$25.00 liquidation preference, 9,200 issued and outstanding at both March 31, 2013 and December 31, 2012, respectively

221,932 221,965

Common stock, \$0.01 par value 160,000 shares authorized, 95,201 and 94,896 issued and outstanding at March 31, 2013 and December 31, 2012, respectively (inclusive of 3,646 shares held in Treasury at both March 31, 2013 and December 31, 2012, respectively)

953 950

Additional paid-in capital

4,697,528 4,667,900

Treasury stock-at cost

(322,858) (322,858)

Accumulated other comprehensive loss

(26,117) (29,587)

Retained earnings

1,665,468 1,701,092

Total SL Green Realty Corp. stockholders' equity

6,417,246 6,419,802

Noncontrolling interests in other partnerships

488,433 487,301

Total equity

6,905,679 6,907,103

Total liabilities and equity

\$ 14,543,965 \$ 14,387,754

SL GREEN REALTY CORP.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(Amounts in thousands, except per share data)

| | Three Months Ended | |
|--|--------------------|-----------|
| | 2013 | 2012 |
| FFO Reconciliation: | | |
| Net income attributable to common stockholders | \$ 18,909 | \$ 25,256 |
| Add: | | |
| Depreciation and amortization | 80,683 | 77,069 |
| Discontinued operations depreciation adjustments | 7 | 14 |
| Joint venture depreciation and noncontrolling interest adjustments | 7,527 | 9,141 |
| Net income attributable to noncontrolling interests | 3,456 | 1,959 |
| Less: | | |
| Gain on sale of discontinued operations | 1,113 | 6,627 |
| Equity in net gain (loss) on sale of joint venture interest | | 7,260 |
| Depreciation on non-rental real estate assets | 245 | 267 |
| Funds from Operations | \$ 109,224 | \$ 99,285 |

| | Consolidated Properties | | SL Green's share of | | Combined | |
|--|-------------------------|------------|-------------------------------|-----------|--------------------|------|
| | Three Months Ended | | Unconsolidated Joint Ventures | | Three Months Ended | |
| | March 31, | | March 31, | | March 31, | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Operating income and | | | | | | |
| Same-store NOI | | | | | | |
| Reconciliation: | | | | | | |
| Income from continuing operations before equity in net income of unconsolidated joint ventures, noncontrolling interests and discontinued operations | \$ 42,753 | \$ 22,991 | \$ | \$ | | |
| Equity in net income (loss) from joint ventures | 5,073 | (1,560) | 5,073 | (1,560) | | |
| Depreciation and amortization | 80,683 | 77,069 | 16,012 | 16,056 | | |
| Interest expense, net of interest income | 81,336 | 80,137 | 19,542 | 23,420 | | |
| Amortization of deferred financing costs | 4,463 | 3,580 | 2,362 | 627 | | |
| Gain (loss) on early extinguishment of debt | (18,513) | | | | | |
| Operating income | \$ 195,795 | \$ 182,217 | \$ 42,989 | \$ 38,543 | | |
| Marketing, general & administrative expense | 21,067 | 20,196 | | | | |

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| | | | | | | | |
|--|-------------------|-------------------|------------------|------------------|-------------------|-------------------|--|
| Net operating income from discontinued operations | (26) | 545 | | | | | |
| Loan loss and other investment reserves, net of recoveries | | 564 | | | | | |
| Transaction related costs | 1,358 | 1,056 | | 161 | | | |
| Non-building revenue | (53,152) | (30,890) | (3,661) | (3,635) | | | |
| Equity in net (income) loss from joint ventures | (5,073) | 1,560 | | | | | |
| (Gain) loss on early extinguishment of debt | 18,513 | | | | | | |
| Net operating income (NOI) | 178,482 | 175,248 | 39,328 | 35,069 | \$ 217,810 | \$ 210,317 | |
| Net operating income from discontinued operations | 26 | (545) | | | 26 | (545) | |
| NOI from other properties/affiliates | (6,417) | (4,941) | (13,538) | (10,255) | (19,955) | (15,196) | |
| Same-Store NOI | \$ 172,091 | \$ 169,762 | \$ 25,790 | \$ 24,814 | \$ 197,881 | \$ 194,576 | |
| Ground lease straight-line adjustment | 1,888 | 172 | | | 1,888 | 172 | |
| Straight-line and free rent | (13,279) | (17,470) | (1,132) | (740) | (14,411) | (18,210) | |
| Rental income FAS 141 | (3,168) | (2,125) | (491) | (375) | (3,659) | (2,500) | |
| Same-store cash NOI | \$ 157,532 | \$ 150,339 | \$ 24,167 | \$ 23,699 | \$ 181,699 | \$ 174,038 | |

SL GREEN REALTY CORP.

SELECTED OPERATING DATA-UNAUDITED

| | 2013 | March 31, | 2012 |
|---|----------|-----------|---------|
| Manhattan Operating Data: (1) | | | |
| Net rentable area at end of period (in 000 s) | 24,282 | | 23,757 |
| Portfolio percentage leased at end of period | 94.2% | | 93.9% |
| Same-Store percentage leased at end of period | 94.3% | | 94.0% |
| Number of properties in operation | 36 | | 33 |
| Office square feet where leases commenced during quarter (rentable) | 536,101 | | 734,218 |
| Average mark-to-market percentage-office | 4.3% | | 31.4% |
| Average starting cash rent per rentable square foot-office | \$ 57.06 | \$ | 69.81 |

(1) Includes wholly-owned and joint venture properties.

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 24, 2013