

SL GREEN REALTY CORP
Form 10-Q
August 04, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-13199 (SL Green Realty Corp.)

Commission File Number: 33-167793-02 (SL Green Operating Partnership, L.P.)

SL GREEN REALTY CORP.
SL GREEN OPERATING PARTNERSHIP, L.P.
(Exact name of registrant as specified in its charter)

SL Green Realty Corp.	Maryland	13-3956755
SL Green Operating Partnership, L.P.	Delaware	13-3960938
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

420 Lexington Avenue, New York, NY 10170
(Address of principal executive offices—Zip Code)

(212) 594-2700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

SL Green Realty Corp. Yes No SL Green Operating Partnership, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

SL Green Realty Corp. Yes No SL Green Operating Partnership, L.P. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

SL Green Realty Corp.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting

Edgar Filing: SL GREEN REALTY CORP - Form 10-Q

company)

SL Green Operating Partnership, L.P.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if a
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

SL Green Realty Corp. Yes No SL Green Operating Partnership, L.P. Yes No

As of August 1, 2016, 100,319,785 shares of SL Green Realty Corp.'s common stock, par value \$0.01 per share, were outstanding. As of August 1, 2016, 1,497,718 common units of limited partnership interest of SL Green Operating Partnership, L.P. were held by non-affiliates. There is no established trading market for such units.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2016 of SL Green Realty Corp. and SL Green Operating Partnership, L.P. Unless stated otherwise or the context otherwise requires, references to "SL Green Realty Corp.," the "Company" or "SL Green" mean SL Green Realty Corp. and its consolidated subsidiaries; and references to "SL Green Operating Partnership, L.P.," the "Operating Partnership" or "SLGOP" mean SL Green Operating Partnership, L.P. and its consolidated subsidiaries. The terms "we," "our" and "us" mean the Company and all the entities owned or controlled by the Company, including the Operating Partnership. The Company is a Maryland corporation which operates as a self-administered and self-managed real estate investment trust, or REIT, and is the sole managing general partner of the Operating Partnership. As a general partner of the Operating Partnership, the Company has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Operating Partnership.

As of June 30, 2016, the Company owned 95.7% of the outstanding general and limited partnership interest in the Operating Partnership and noncontrolling investors held, in aggregate, a 4.3% limited partnership interest in the Operating Partnership. The Company also owns 9,200,000 Series I Preferred Units of the Operating Partnership. We refer to these interests as the noncontrolling interests in the Operating Partnership.

The Company and the Operating Partnership are managed and operated as one entity. The financial results of the Operating Partnership are consolidated into the financial statements of the Company. The Company has no significant assets other than its investment in the Operating Partnership. Substantially all of our assets are held by, and our operations are conducted through, the Operating Partnership. Therefore, the assets and liabilities of the Company and the Operating Partnership are substantially the same.

Noncontrolling interests in the Operating Partnership, stockholders' equity of the Company and partners' capital of the Operating Partnership are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership not owned by the Company are accounted for as noncontrolling interests, within mezzanine equity, in the Company's and the Operating Partnership's consolidated financial statements.

We believe combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report results in the following benefits:

- Combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- Combined reports eliminate duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the Company's disclosure applies to both the Company and the Operating Partnership; and
- Combined reports create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Note 11, Noncontrolling Interests on the Company's Consolidated Financial Statements;
 - Note 12, Stockholders' Equity of the Company;
 - Note 13, Partners' Capital of the Operating Partnership;

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of the Company and the Operating Partnership, respectively, in order to establish that the Chief Executive Officer and the Chief Financial Officer of the Company, in both their capacity as the principal executive officer and principal financial officer of the Company and the principal executive officer and principal financial officer of the general partner of the Operating Partnership, have made the requisite certifications and that the Company and the Operating Partnership are compliant with Rule 13a-15 and Rule 15d-15 of the Securities Exchange Act of 1934, as amended.

SL GREEN REALTY CORP. AND SL GREEN OPERATING PARTNERSHIP, L.P.
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>FINANCIAL STATEMENTS</u>	<u>4</u>
	FINANCIAL STATEMENTS OF SL GREEN REALTY CORP.	
	Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015	<u>4</u>
	Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (unaudited)	<u>6</u>
	Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (unaudited)	<u>8</u>
	Consolidated Statement of Equity for the six months ended June 30, 2016 (unaudited)	<u>9</u>
	Consolidated Statements of Cash Flows for the three and six months ended June 30, 2016 and 2015 (unaudited)	<u>10</u>
	FINANCIAL STATEMENTS OF SL GREEN OPERATING PARTNERSHIP, L.P.	
	Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015	<u>12</u>
	Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (unaudited)	<u>14</u>
	Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (unaudited)	<u>16</u>
	Consolidated Statement of Capital for the six months ended June 30, 2016 (unaudited)	<u>17</u>
	Consolidated Statements of Cash Flows for the three and six months ended June 30, 2016 and 2015 (unaudited)	<u>18</u>
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>20</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>57</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>80</u>
<u>Item 4.</u>	<u>Controls and Procedures (SL Green Realty Corp. and SL Green Operating Partnership, L.P.)</u>	<u>81</u>
PART II.	OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>82</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>82</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>82</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>82</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>83</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>84</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>85</u>
	<u>Signatures</u>	<u>86</u>

Table of Contents

PART I

ITEM 1.

SL Green Realty Corp.

Consolidated Balance Sheets

(in thousands, except per share data)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Commercial real estate properties, at cost:		
Land and land interests	\$4,108,821	\$4,779,159
Building and improvements	9,362,614	10,423,739
Building leasehold and improvements	1,435,255	1,431,259
Properties under capital lease	47,445	47,445
	14,954,135	16,681,602
Less: accumulated depreciation	(2,166,059)	(2,060,706)
	12,788,076	14,620,896
Assets held for sale	39,642	34,981
Cash and cash equivalents	276,226	255,399
Restricted cash	166,905	233,578
Investments in marketable securities	39,339	45,138
Tenant and other receivables, net of allowance of \$18,728 and \$17,618 in 2016 and 2015, respectively	57,551	63,491
Related party receivables	13,059	10,650
Deferred rents receivable, net of allowance of \$22,917 and \$21,730 in 2016 and 2015, respectively	443,981	498,776
Debt and preferred equity investments, net of discounts and deferred origination fees of \$14,329 and \$18,759 in 2016 and 2015, respectively	1,357,181	1,670,020
Investments in unconsolidated joint ventures	1,126,486	1,203,858
Deferred costs, net	256,303	239,920
Other assets	979,474	850,939
Total assets	\$17,544,223	\$19,727,646
Liabilities		
Mortgages and other loans payable, net	\$5,524,110	\$6,881,920
Revolving credit facility, net	277,420	985,055
Term loan and senior unsecured notes, net	2,060,690	2,308,478
Accrued interest payable	36,378	42,406
Other liabilities	243,011	168,477
Accounts payable and accrued expenses	189,690	196,213
Deferred revenue	384,145	399,102
Capital lease obligations	41,751	41,360
Deferred land leases payable	2,236	1,783
Dividend and distributions payable	80,555	79,790
Security deposits	68,199	68,023
Liabilities related to assets held for sale	7	29,000
	100,000	100,000

Junior subordinated deferrable interest debentures held by trusts that issued trust preferred securities

Total liabilities 9,008,192 11,301,607

4

Table of Contents

SL Green Realty Corp.
 Consolidated Balance Sheets
 (in thousands, except per share data)

	June 30, 2016 (unaudited)	December 31, 2015
Commitments and contingencies	—	—
Noncontrolling interests in Operating Partnership Preferred units	486,452	424,206
	302,460	282,516
Equity		
SL Green stockholders' equity:		
Series I Preferred Stock, \$0.01 par value, \$25.00 liquidation preference, 9,200 issued and outstanding at both June 30, 2016 and December 31, 2015	221,932	221,932
Common stock, \$0.01 par value, 160,000 shares authorized and 100,164 and 100,063 issued and outstanding at June 30, 2016 and December 31, 2015, respectively (including 87 shares held in treasury at June 30, 2016 and December 31, 2015)	1,003	1,001
Additional paid-in-capital	5,466,593	5,439,735
Treasury stock at cost	(10,000) (10,000)
Accumulated other comprehensive loss	(16,558) (8,749)
Retained earnings	1,655,320	1,643,546
Total SL Green stockholders' equity	7,318,290	7,287,465
Noncontrolling interests in other partnerships	428,829	431,852
Total equity	7,747,119	7,719,317
Total liabilities and equity	\$ 17,544,223	\$ 19,727,646

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SL Green Realty Corp.
Consolidated Statements of Operations
(unaudited, in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues				
Rental revenue, net	\$416,809	\$304,226	\$762,416	\$607,555
Escalation and reimbursement	48,616	41,407	94,227	82,376
Investment income	44,214	45,191	98,951	87,260
Other income	107,975	18,250	117,464	28,182
Total revenues	617,614	409,074	1,073,058	805,373
Expenses				
Operating expenses, including \$6,667 and \$10,129 in 2016 and \$4,472 and \$8,189 in 2015 of related party expenses	75,324	70,114	154,844	146,891
Real estate taxes	62,124	56,286	123,798	112,009
Ground rent	8,307	8,086	16,615	16,274
Interest expense, net of interest income	89,089	75,746	183,761	151,553
Amortization of deferred financing costs	7,433	5,952	15,365	12,567
Depreciation and amortization	425,042	199,565	604,350	307,902
Transaction related costs	2,115	3,067	3,394	4,210
Marketing, general and administrative	24,484	23,200	48,516	48,664
Total expenses	693,918	442,016	1,150,643	800,070
(Loss) income from continuing operations before equity in net income from unconsolidated joint ventures, equity in net gain on sale of interest in unconsolidated joint venture/real estate, gain on sale of real estate, net, depreciable real estate reserves, loss on sale of investment in marketable securities and loss on early extinguishment of debt	(76,304)	(32,942)	(77,585)	5,303
Equity in net income from unconsolidated joint ventures	5,841	2,994	15,937	7,024
Equity in net gain on sale of interest in unconsolidated joint venture/real estate	33,448	769	43,363	769
Gain on sale of real estate, net	196,580	—	210,353	—
Depreciable real estate reserves	(10,387)	—	(10,387)	—
Loss on sale of investment in marketable securities	(83)	—	(83)	—
Loss on early extinguishment of debt	—	—	—	(49)
Income (loss) from continuing operations	149,095	(29,179)	181,598	13,047
Net income (loss) from discontinued operations	—	—	—	427
Gain on sale of discontinued operations	—	—	—	12,983
Net income (loss)	149,095	(29,179)	181,598	26,457
Net income attributable to noncontrolling interests:				
Noncontrolling interests in the Operating Partnership	(5,586)	1,577	(6,508)	(166)
Noncontrolling interests in other partnerships	(3,435)	(6,626)	(5,409)	(12,553)
Preferred units distributions	(2,880)	(1,140)	(5,528)	(2,091)
Net income (loss) attributable to SL Green	137,194	(35,368)	164,153	11,647
Perpetual preferred stock dividends	(3,737)	(3,738)	(7,475)	(7,476)
Net income (loss) attributable to SL Green common stockholders	\$133,457	\$(39,106)	\$156,678	\$4,171

Table of Contents

SL Green Realty Corp.
Consolidated Statements of Operations
(unaudited, in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Amounts attributable to SL Green common stockholders:				
(Loss) income from continuing operations before purchase price fair value adjustment, gains on sale and discontinued operations	\$(77,056)	\$(39,846)	\$(76,947)	\$(9,467)
Equity in net gain on sale of interest in unconsolidated joint venture/real estate	32,058	740	41,634	740
Net income from discontinued operations	—	—	—	411
Gain on sale of discontinued operations	—	—	—	12,487
Gain on sale of real estate	188,410	—	201,964	—
Depreciable real estate reserves	(9,955)	—	(9,973)	—
Net income (loss) attributable to SL Green common stockholders	\$133,457	\$(39,106)	\$156,678	\$4,171
Basic earnings per share:				
(Loss) income from continuing operations before purchase price fair value adjustment, gains on sale and discontinued operations	\$(0.77)	\$(0.40)	\$(0.77)	\$(0.10)
Equity in net gain on sale of interest in unconsolidated joint venture/real estate	0.32	0.01	0.42	0.01
Gain on sale of discontinued operations	—	—	—	0.13
Gain on sale of real estate	1.88	—	2.02	—
Depreciable real estate reserves	(0.10)	—	(0.10)	—
Net income (loss) attributable to SL Green common stockholders	\$1.33	\$(0.39)	\$1.57	\$0.04
Diluted earnings per share:				
(Loss) income from continuing operations before purchase price fair value adjustment, gains on sale and discontinued operations	\$(0.77)	\$(0.40)	\$(0.77)	\$(0.10)
Equity in net gain on sale of interest in unconsolidated joint venture/real estate	0.32	0.01	0.42	0.01
Gain on sale of discontinued operations	—	—	—	0.13
Gain on sale of real estate	1.88	—	2.01	—
Depreciable real estate reserves	(0.10)	—	(0.10)	—
Net income (loss) attributable to SL Green common stockholders	\$1.33	\$(0.39)	\$1.56	\$0.04
Dividends per share	\$0.72	\$0.60	\$1.44	\$1.20
Basic weighted average common shares outstanding	100,134	99,579	100,093	98,994
Diluted weighted average common shares and common share equivalents outstanding	104,792	99,579	104,533	103,423

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SL Green Realty Corp.
 Consolidated Statements of Comprehensive Income
 (unaudited, in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income (loss)	\$149,095	\$(29,179)	\$181,598	\$26,457
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on derivative instruments, including SL Green's share of joint venture net unrealized (loss) gain on derivative instruments	257	2,250	(7,315)	(3,430)
Change in unrealized gain (loss) on marketable securities	354	(1,304)	(869)	(654)
Other comprehensive income (loss)	611	946	(8,184)	(4,084)
Comprehensive income (loss)	149,706	(28,233)	173,414	22,373
Net income (loss) attributable to noncontrolling interests and preferred units distributions	(11,901)	(6,189)	(17,445)	(14,810)
Other comprehensive income (loss) attributable to noncontrolling interests	53	(42)	375	158
Comprehensive income (loss) attributable to SL Green	\$137,858	\$(34,464)	\$156,344	\$7,721

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SL Green Realty Corp.
 Consolidated Statement of Equity
 (unaudited, in thousands, except per share data)

	SL Green Realty Corp. Stockholders								
	Common Stock					Accumulated			
	Series I Preferred Stock	Shares	Par Value	Additional Paid- In-Capital	Treasury Stock	Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2015	\$221,932	99,976	\$1,001	\$5,439,735	\$(10,000)	\$ (8,749)	\$1,643,546	\$431,852	\$7,719,317
Net income							164,153		