

SL GREEN REALTY CORP
Form 10-Q
August 11, 2014

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, 2014

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	13-3956775
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, New York 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 Web site, 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

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

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

SL Green Realty Corp.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting 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 Exchange Act).

SL Green Realty Corp. YES NO SL Green Operating Partnership, L.P. YES NO

The number of shares outstanding of SL Green Realty Corp.'s common stock, \$0.01 par value, was 95,599,482 as of July 31, 2014. As of July 31, 2014, 876,199 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, 2014 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.

The Company owns 96.47% of the outstanding general and limited partnership interest in the Operating Partnership. The Company also owns 9,200,000 Series I Preferred Units of the Operating Partnership. As of June 30, 2014, noncontrolling investors held, in aggregate, a 3.53% limited partnership interest in 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 partners' capital in the Operating Partnership's consolidated financial statements and as noncontrolling interests, within mezzanine equity, in the Company'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 Interest on the Company's Consolidated Financial Statements;

Note 12, Stockholders' Equity of the Company;

Note 13, Partners' Capital of the Operating Partnership;

Note 15, Accumulated Other Comprehensive Loss of the Company; and

Note 16, Accumulated Other Comprehensive Loss 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.

(i)

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>	
	FINANCIAL STATEMENTS OF SL GREEN REALTY CORP.	
	<u>Consolidated Balance Sheets as of June 30, 2014 (unaudited) and December 31, 2013</u>	<u>5</u>
	<u>Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013 (unaudited)</u>	<u>7</u>
	<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013 (unaudited)</u>	<u>9</u>
	<u>Consolidated Statement of Equity for the six months ended June 30, 2014 (unaudited)</u>	<u>10</u>
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 (unaudited)</u>	<u>11</u>
	FINANCIAL STATEMENTS OF SL GREEN OPERATING PARTNERSHIP, L.P.	
	<u>Consolidated Balance Sheets as of June 30, 2014 (unaudited) and December 31, 2013</u>	<u>13</u>
	<u>Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013 (unaudited)</u>	<u>15</u>
	<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013 (unaudited)</u>	<u>17</u>
	<u>Consolidated Statement of Capital for the six months ended June 30, 2014 (unaudited)</u>	<u>18</u>
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 (unaudited)</u>	<u>19</u>
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>21</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>56</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>79</u>
<u>Item 4.</u>	<u>Controls and Procedures (SL Green Realty Corp. and SL Green Operating Partnership, L.P.)</u>	<u>79</u>
PART II	OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>81</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>81</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>81</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>81</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>81</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>81</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>82</u>
	<u>Signatures</u>	<u>83</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SL Green Realty Corp.

Consolidated Balance Sheets

(in thousands, except per share data)

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Commercial real estate properties, at cost:		
Land and land interests	\$3,466,587	\$3,032,526
Building and improvements	8,843,315	7,884,663
Building leasehold and improvements	1,390,004	1,366,281
Properties under capital lease	27,445	50,310
	13,727,351	12,333,780
Less: accumulated depreciation	(1,769,428)	(1,646,240)
	11,957,923	10,687,540
Assets held for sale	339,809	—
Cash and cash equivalents	308,103	206,692
Restricted cash	157,225	142,051
Investment in marketable securities	39,912	32,049
Tenant and other receivables, net of allowance of \$20,026 and \$17,325 in 2014 and 2013, respectively	51,844	60,393
Related party receivables	8,915	8,530
Deferred rents receivable, net of allowance of \$27,616 and \$30,333 in 2014 and 2013, respectively	354,388	386,508
Debt and preferred equity investments, net of discounts and deferred origination fees of \$14,633 and \$18,593 in 2014 and 2013, respectively, and allowance of \$1,000 in 2013	1,547,808	1,304,839
Investments in unconsolidated joint ventures	971,926	1,113,218
Deferred costs, net	300,043	267,058
Other assets	679,840	750,123
Total assets	\$16,717,736	\$14,959,001
Liabilities		
Mortgages and other loans payable	\$5,939,176	\$4,860,578
Revolving credit facility	—	220,000
Term loan and senior unsecured notes	2,127,206	1,739,330
Accrued interest payable and other liabilities	128,730	114,622
Accounts payable and accrued expenses	164,215	145,889
Deferred revenue	223,394	263,261
Capitalized lease obligations	20,635	47,671
Deferred land leases payable	1,044	22,185
Dividend and distributions payable	53,193	52,255
Security deposits	65,166	61,308
Liabilities related to assets held for sale	193,375	—
Junior subordinated deferrable interest debentures held by trusts that issued trust preferred securities	100,000	100,000
Total liabilities	9,016,134	7,627,099

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

Commitments and contingencies	—	—
Noncontrolling interests in the Operating Partnership	379,805	265,476
Preferred Units	49,550	49,550

5

Table of Contents

SL Green Realty Corp.

Consolidated Balance Sheets (cont.)

(in thousands, except per share data)

	June 30, 2014 (unaudited)	December 31, 2013
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, 2014 and December 31, 2013	221,932	221,932
Common stock, \$0.01 par value, 160,000 shares authorized and 99,188 and 98,563 issued and outstanding at June 30, 2014 and December 31, 2013, respectively (including 3,601 and 3,570 shares held in Treasury at June 30, 2014 and December 31, 2013, respectively)	993	986
Additional paid-in-capital	5,085,965	5,015,904
Treasury stock at cost	(320,152	) (317,356)
Accumulated other comprehensive loss	(6,196	) (15,211)
Retained earnings	1,797,580	1,619,150
Total SL Green stockholders' equity	6,780,122	6,525,405
Noncontrolling interests in other partnerships	492,125	491,471
Total equity	7,272,247	7,016,876
Total liabilities and equity	\$16,717,736	\$14,959,001

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

Table of Contents

SL Green Realty Corp.

Consolidated Statements of Income

(unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Rental revenue, net	\$285,234	\$262,743	\$551,755	\$518,560
Escalation and reimbursement	39,529	38,747	79,912	78,551
Investment income	39,714	46,731	93,798	99,439
Other income	22,750	5,723	37,331	11,015
Total revenues	387,227	353,944	762,796	707,565
Expenses				
Operating expenses, including \$4,450 and \$7,861 (2014) and \$3,953 and \$7,842 (2013) of related party expenses	70,675	68,611	144,160	139,780
Real estate taxes	53,267	51,749	108,583	104,203
Ground rent	8,040	7,930	16,073	16,058
Interest expense, net of interest income	78,611	79,551	156,330	157,860
Amortization of deferred financing costs	5,500	4,229	9,357	8,681
Depreciation and amortization	94,838	81,577	184,217	160,200
Transaction related costs, net of recoveries	1,697	1,706	4,171	3,085
Marketing, general and administrative	23,872	21,514	47,128	42,582
Total expenses	336,500	316,867	670,019	632,449
Income from continuing operations before equity in net income (loss) from unconsolidated joint ventures, equity in net gain (loss) on sale of interest in unconsolidated joint venture/real estate, purchase price fair value adjustment, loss on sale of investment in marketable securities and loss on early extinguishment of debt	50,727	37,077	92,777	75,116
Equity in net income (loss) from unconsolidated joint ventures	8,619	(3,761)	) 14,748	1,313
Equity in net gain (loss) on sale of interest in unconsolidated joint venture/real estate	1,444	(3,583)	) 106,084	(3,583)
Purchase price fair value adjustment	71,446	(2,305)	) 71,446	(2,305)
Loss on sale of investment in marketable securities	—	(8)	) —	(65)
Loss on early extinguishment of debt	(1,028)	) (10)	) (1,025)	) (18,523)
Income from continuing operations	131,208	27,410	284,030	51,953
Net income from discontinued operations	4,389	3,838	8,178	8,519
Gain on sale of discontinued operations	114,735	—	114,735	1,113
Net income	250,332	31,248	406,943	61,585
Net income attributable to noncontrolling interests:				
Noncontrolling interests in the Operating Partnership	(8,645)	) (244)	) (13,374)	) (799)
Noncontrolling interests in other partnerships	(1,843)	) (3,004)	) (3,333)	) (5,905)
Preferred units distribution	(565)	) (565)	) (1,130)	) (1,130)
Net income attributable to SL Green	239,279	27,435	389,106	53,751
Preferred stock redemption costs	—	(12,160)	) —	(12,160)
Perpetual preferred stock dividends	(3,738)	) (6,999)	) (7,475)	) (14,406)

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

Net income attributable to SL Green common stockholders	\$235,541	\$8,276	\$381,631	\$27,185
Amounts attributable to SL Green common stockholders:				
Income from continuing operations	\$50,346	\$10,268	\$91,361	\$23,549
Purchase price fair value adjustment	68,909	(2,240	) 69,027	(2,239)
Equity in net gain (loss) on sale of interest in unconsolidated joint venture/real estate	1,393	(3,482	) 102,492	(3,481)
Net income from discontinued operations	4,233	3,730	7,901	8,275
Gain on sale of discontinued operations	110,660	—	110,850	1,081
Net income attributable to SL Green common stockholders	\$235,541	\$8,276		