SL GREEN REALTY CORP
Form 10-K
February 28, 2011

Use these links to rapidly review the document


Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2010**

**OR**

o **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.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland**<br>(State or other jurisdiction of incorporation or organization) | **13-3956755**<br>(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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |
| 7.625% Series C Cumulative Redeemable Preferred Stock, $0.01 par value, | New York Stock Exchange |

| | |
|---|---|
| $25.00 mandatory liquidation preference<br>7.875% Series D Cumulative Redeemable<br>Preferred Stock, $0.01 par value,<br>$25.00 mandatory liquidation preference | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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. Yes ý No o

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). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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.

| | | | |
|---|---|---|---|
| Large accelerated filer ý | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller Reporting Company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

As of February 15, 2011, there were 78,931,227 shares of the Registrant's common stock outstanding. The aggregate market value of the common stock, held by non-affiliates of the Registrant (73,048,888 shares) at June 30, 2010 was $4.0 billion. The aggregate market value was calculated by using the closing price of the common stock as of that date on the New York Stock Exchange.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for its 2011 Annual Stockholders' Meeting to be to be filed within 120 days after the end of the Registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

**SL GREEN REALTY CORP.**
**FORM 10-K**
**TABLE OF CONTENTS**

**10-K PART AND ITEM NO.**

Table of Contents

**PART I**

## ITEM 1. BUSINESS

### General

SL Green Realty Corp. is a self-managed real estate investment trust, or REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. We were formed in June 1997 for the purpose of continuing the commercial real estate business of S.L. Green Properties, Inc., our predecessor entity. S.L. Green Properties, Inc., which was founded in 1980 by Stephen L. Green, our Chairman, had been engaged in the business of owning, managing, leasing, acquiring and repositioning office properties in Manhattan, a borough of New York City, or Manhattan. Reckson Associates Realty Corp., or Reckson, and Reckson Operating Partnership, L.P., or ROP, are subsidiaries of SL Green Operating Partnership, L.P., our operating partnership.

As of December 31, 2010, we owned the following interests in commercial office properties in the New York Metropolitan area, primarily in midtown Manhattan. Our investments in the New York Metropolitan area also include investments in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey, which are collectively known as the Suburban assets:

| Location | Ownership | Number of Properties | Square Feet | Weighted Average Occupancy[1] |
|---|---|---|---|---|
| Manhattan | Consolidated properties | 22 | 15,141,945 | 91.8% |
| | Unconsolidated properties | 8 | 7,182,515 | 95.3% |
| | | | | |
| Suburban | Consolidated properties | 25 | 3,863,000 | 81.9% |
| | Unconsolidated properties | 6 | 2,941,700 | 94.3% |
| | | | | |
| | | 61 | 29,129,160 | 91.6% |

(1) The weighted average occupancy represents the total leased square feet divided by total available square feet.

As of December 31, 2010, our Manhattan properties were comprised of fee ownership (23 properties), including ownership in condominium units, and leasehold ownership (seven properties). As of December 31, 2010, our Suburban properties were comprised of fee ownership (30 properties) and leasehold ownership (one property). We refer to our Manhattan and Suburban office properties collectively as our portfolio.

We also own investments in 11 retail properties encompassing approximately 405,362 square feet, four development properties encompassing approximately 465,441 square feet and three land interests. In addition, we manage four office properties owned by third parties and affiliated companies encompassing approximately 1.3 million rentable square feet.

Our corporate offices are located in midtown Manhattan at 420 Lexington Avenue, New York, New York 10170. As of December 31, 2010, our corporate staff consisted of approximately 250 persons, including 190 professionals experienced in all aspects of commercial real estate. We can be contacted at (212) 594-2700. We maintain a website at *www.slgreen.com*. On our website, you can obtain, free of charge, a copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as practicable after we file such material electronically with, or furnish it to, the Securities and Exchange Commission, or the SEC. We have also made available on our website our audit committee charter, compensation committee charter, nominating and corporate governance committee charter, code of business conduct and ethics and corporate governance principles. You can also read and copy any materials we file with the SEC at its Public Reference Room at 100 F Street, NE, Washington, DC 20549 (1-800-SEC-0330). The SEC maintains an Internet site (*http://www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Table of Contents

Unless the context requires otherwise, all references to the "Company," "we," "our" and "us" in this annual report means SL Green Realty Corp., a Maryland corporation, and one or more of its subsidiaries, including SL Green Operating Partnership, L.P., a Delaware limited partnership, or the operating partnership, and the predecessors thereof, or the SL Green Predecessor, or, as the context may require, SL Green Realty Corp. only or SL Green Operating Partnership, L.P. only, and "S.L. Green Properties" means S.L. Green Properties, Inc., a New York corporation, as well as the affiliated partnerships and other entities through which Stephen L. Green has historically conducted commercial real estate activities.

**Corporate Structure**

In connection with our initial public offering, or IPO, in August 1997, our operating partnership received a contribution of interests in real estate properties as well as a 95% economic, non-voting interest in the management, leasing and construction companies affiliated with S.L. Green Properties. We refer to the management, leasing and construction entities as the "Service Corporation." We are organized so as to qualify and have elected to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code.

Substantially all of our assets are held by, and all of our operations are conducted through, our operating partnership. We are the sole managing general partner of, and as of December 31, 2010, were the owner of approximately 98.43% of the economic interests in, our operating partnership. All of the management and leasing operations with respect to our wholly-owned properties are conducted through SL Green Management LLC, or Management LLC. Our operating partnership owns a 100% interest in Management LLC.

In order to maintain our qualification as a REIT while realizing income from management, leasing and construction contracts with third parties and joint venture properties, all of these service operations are conducted through the Service Corporation, a consolidated variable interest entity. We, through our operating partnership, own 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation. Through dividends on our equity interest, we expect to receive substantially all of the cash flow from the Service Corporation's operations. All of the voting common stock of the Service Corporation (representing 5% of the total equity) is held by a Company affiliate. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. Since July 1, 2003, we have consolidated the operations of the Service Corporation into our financial results as we have determined that we are the primary beneficiary. Effective January 1, 2001, the Service Corporation elected to be taxed as a taxable REIT subsidiary.

**Business and Growth Strategies**

SL Green Realty Corp. is the largest owner and operator of commercial office properties in the borough of Manhattan in New York City. We also control a significant amount of premier Manhattan retail properties both within our office buildings and in our free-standing retail portfolio. Outside of our direct property ownership platform, we are a sizeable investor in debt and preferred equity investments, investing primarily in Manhattan office assets. Our portfolio also includes office properties in Queens, Brooklyn and New York City's surrounding suburban markets.

Our primary business objective is to maximize the total return to stockholders, through growth in funds from operations and through asset value appreciation during any business cycle.

Our core business is the ownership of high quality office buildings that are strategically located in close proximity to midtown Manhattan's primary commuter stations. We are led by a strong, experienced management team that provides a foundation of skills in all aspects of property ownership and management including leasing, operations, capital improvements, repositioning and maintenance. It is with this team that we have achieved a market leading position in our targeted submarkets.

With these exceptional skills and knowledge base, we have also been able to take advantage of attractive investment opportunities in additional submarkets and in the retail sector.

Table of Contents

We seek to enhance the value of our company by executing strategies that include the following:

- Leasing and property management capitalizing on our extensive presence and knowledge of the marketplaces in which we operate.

- Acquiring office and retail properties and selectively using joint venture capital to enhance returns and reduce investment risk.

- Investing in high-yielding debt and preferred equity positions, generating strong risk-adjusted returns, increasing breadth of market insight, building key market relationships and sourcing potential future property acquisition opportunities.

- Executing dispositions that harvest equity generated through management's value enhancing activities, thereby providing a continuing source of capital for reinvestment.

***Leasing and Property Management***

We seek to capitalize on our management's extensive knowledge of the Manhattan and suburban markets and the needs of our tenants through proactive leasing and management programs, which include: (i) use of in-depth market experience resulting from managing and leasing 29 million square feet of office and retail space, predominantly in Manhattan; (ii) careful management to ensure adequate average lengths of leases and manageable lease rollovers; (iii) utilization of an extensive network of third-party brokers; (iv) use of comprehensive building management analysis and planning; and (v) commitment to tenant satisfaction by providing high quality tenant services at attractive rental rates.

It is our belief that our proactive leasing efforts have directly contributed to our average portfolio occupancy consistently exceeding the market average.

***Property Acquisitions***

We acquire core properties for long-term appreciation and earnings growth. Non-core properties are typically held for shorter periods during which we attempt to create significant increases in value. This strategy has resulted in capital gains that increase our investment capital base.

Through an intimate knowledge of our markets and operating base we have developed a keen ability to source transactions with superior risk-adjusted returns by capturing off-market opportunities that lead to acquisitions at meaningful discounts to replacement costs. In rising markets, we acquire strategic vacancies that provide the opportunity to taking advantage of our exceptional leasing capability to increase cash flow and property value. In stable or falling markets, we target assets featuring credit tenancies with fully escalated in-place rents to provide cash flow stability near-term and the opportunity for increases over time.

In acquiring core and non-core properties, directly or through joint ventures with a predominance of high quality institutional investors, we believe that we have the following advantages over many of our competitors: (i) senior management's average 24 years of experience leading a full-service, fully-integrated real estate company focused on the Manhattan office market; (ii) the ability to offer tax-advantaged structures to sellers through the exchange of ownership interests as opposed to solely cash transactions; and (iii) the ability to close transactions quickly despite complicated ownership structures.

***Property Repositioning***

Our knowledge of the leasing markets and our ability to efficiently plan and execute capital projects provide the additional capability to enhance returns by repositioning acquired retail and commercial office properties that are underperforming. Many of the retail and commercial office buildings we own or would seek to acquire feature unique architectural design elements, large floor plates, unique amenities and characteristics that can be appealing to tenants when fully exploited. Our strategic reinvestment in such buildings, combined with our active management and pro-active leasing, provide the opportunity to creatively meet market needs and generate favorable returns.

***Debt and Preferred Equity Investments***

We seek to invest in high-yield debt and preferred equity investments. Our knowledge of our markets and our leasing and asset management expertise provide underwriting capabilities that enable highly educated assessments of risk and return. The benefits of this investment program, which has a carefully managed aggregate size generally not to exceed 10% of our total enterprise value, include the following:

- Our typical investments generally provide high current returns and, in certain cases, a potential for future capital gains.

- In certain cases, these investments may also serve as a potential source of real estate acquisitions for us. This is particularly true when a property's current ownership seeks an efficient off-market transaction, because ownership will know that we have already gained knowledge of the asset as a lender, and that we can close quickly if we believe such acquisition would be beneficial.

- The largest concentration of these investments is in Manhattan, which helps us to gain market insight and awareness of upcoming and active investment opportunities and support for key relationships that may provide access to future investment opportunities.

***Property Dispositions***

We continuously evaluate our properties to identify those most suitable to meet our long-term earnings growth objectives and contribute to increasing portfolio value. Properties that no longer meet our objectives are identified as non-core holdings and are targeted for sale to release equity created through management's value enhancement programs or to take advantage of opportune market valuations.

Capital generated from these dispositions is efficiently re-deployed into property acquisitions and investments in high-yield debt and preferred equity investments that we expect will provide enhanced future capital gain and earnings growth opportunities.

**Competition**

The leasing of real estate is highly competitive, especially in the Manhattan office market. We compete for tenants with landlords and developers of similar properties located in our markets primarily on the basis of location, rent charged, services provided, balance sheet strength and the design and condition of our properties. Although currently no other publicly traded REIT has been formed primarily to acquire, own, reposition and manage Manhattan commercial office properties, we may in the future compete with such other REITs. In addition, we face competition from other real estate companies including other REITs that currently invest in markets other than or in addition to Manhattan, private real estate funds, domestic and foreign financial institutions, life insurance companies, pension trusts, partnerships, individual investors and others that may have greater financial resources or access to capital than we do or that are willing to acquire properties in transactions which are more highly leveraged or with different financial attributes than we are willing to pursue.

**Manhattan Office Market Overview**

Manhattan is by far the largest office market in the United States, containing more rentable square feet than the next five largest central business district office markets combined. The properties in our portfolio are concentrated in some of Manhattan's most prominent midtown locations.

Manhattan has a total inventory of 392.7 million square feet, including 241.5 million square feet in midtown. Based on current construction activity, we estimate that midtown Manhattan will have approximately 2.0 million

Table of Contents

square feet of new construction becoming available in the next two years, approximately 26.8% of which is pre-leased. This will add approximately 0.5% to Manhattan's total inventory.

**General Terms of Leases in the midtown Manhattan Markets**

Leases entered into for space in the midtown Manhattan markets typically contain terms which may not be contained in leases in other U.S. office markets. The initial term of leases entered into for space in excess of 10,000 square feet in the midtown markets is generally seven to fifteen years. The tenant often will negotiate an option to extend the term of the lease for one or two renewal periods of five years each. The base rent during the initial term often will provide for agreed-upon periodic increases over the term of the lease. Base rent for renewal terms, and base rent for the final years of a long-term lease (in those leases which do not provide an agreed upon rent during such final years), often is based upon a percentage of the fair market rental value of the premises (determined by binding arbitration in the event the landlord and the tenant are unable to mutually agree upon the fair market value). Leases may contain termination options whereby tenants can terminate their lease obligations generally, upon payment of a penalty.

In addition to base rent, the tenant will generally also pay its pro rata share of increases in real estate taxes and operating expenses for the building over a base year. In some leases, in lieu of paying additional rent based upon increases in building operating expenses, the tenant will pay additional rent based upon increases in the wage rate paid to porters over the porters' wage rate in effect during a base year, increases in the consumer price index over the index value in effect during a base year, or a fixed percentage increase over base rent.

Electricity is most often supplied by the landlord either on a sub-metered basis or rent inclusion basis (i.e., a fixed fee is included in the rent for electricity, which amount may increase based upon increases in electricity rates or increases in electrical usage by the tenant). Base building services other than electricity (such as heat, air conditioning and freight elevator service during business hours, and base building cleaning) typically are provided at no additional cost, with the tenant paying additional rent only for services which exceed base building services or for services which are provided other than during normal business hours.

In a typical lease for a new tenant, the landlord will deliver the premises with all existing improvements demolished and any asbestos abated. The landlord also typically will provide a tenant improvement allowance, which is a fixed sum that the landlord makes available to the tenant to reimburse the tenant for all or a portion of the tenant's initial construction of its premises. Such sum typically is payable as work progresses, upon submission of invoices for the cost of construction. However, in certain leases (most often for relatively small amounts of space), the landlord will construct the premises for the tenant.

**Occupancy**

The following table sets forth the weighted average occupancy rates at our office properties based on space leased as of December 31, 2010, 2009 and 2008:

| | Percent Occupied as of December 31, | | |
|---|---|---|---|
| **Property** | **2010** | **2009** | **2008** |
| Manhattan Properties | 92.9% | 95.0% | 96.7% |
| Same-Store Properties[1] | 91.5% | 93.5% | 95.3% |
| Unconsolidated Joint Venture Properties | 95.0% | 95.1% | 95.0% |
| Portfolio | 91.6% | 93.6% | 95.2% |

(1) Same-Store Properties for 2010 represents 44 of our 47 consolidated properties owned by us at January 1, 2009 and still owned by us at December 31, 2010.

Table of Contents

**Rent Growth**

We estimated that rents in place, at December 31, 2010, in our Manhattan and Suburban consolidated properties were approximately 5.0% and 5.1%, respectively, below current market asking rents. We estimated that rents in place at December 31, 2010 in our Manhattan and Suburban properties owned through unconsolidated joint ventures were approximately 16.3% and 9.3%, respectively, below current market asking rents. These comparative measures were approximately 4.9% and 4.5% at December 31, 2009 for the consolidated properties and 10.4% and 0.3% for the unconsolidated joint venture properties. As of December 31, 2010, approximately 34.7% and 32.1% of all leases in-place in our consolidated properties and unconsolidated joint venture properties, respectively, are scheduled to expire during the next five years. There can be no assurances that our estimates of current market rents are accurate, that market rents currently prevailing will not erode in the future or that we will realize any rent growth. However, we believe the degree that rents in the current portfolio are below market provides a potential for long-term internal growth.

**Industry Segments**

We are a REIT that acquires, owns, repositions, manages and leases commercial office and retail properties in the New York Metropolitan area and have two reportable segments: real estate and debt and preferred equity investments. We evaluate real estate performance and allocate resources based on earnings contribution to income from continuing operations.

At December 31, 2010, our real estate portfolio was primarily located in one geographical market, namely, the New York Metropolitan area. The primary sources of revenue are generated from tenant rents and escalations and reimbursement revenue. Real estate property operating expenses consist primarily of security, maintenance, utility costs, real estate taxes and ground rent expense (at certain applicable properties). As of December 31, 2010, one tenant in our portfolio contributed approximately 8.0% of our portfolio annualized rent. No other tenant contributed more than 5.9% of our portfolio annualized rent. Portfolio annualized rent includes our consolidated annualized revenue and our share of joint venture annualized revenue. No property contributed in excess of 8.0% of our consolidated total revenue for 2010. In addition, two debt and preferred equity investments each accounted for more than 10.0% of the revenue earned on debt and preferred equity investments at December 31, 2010. Our industry segments are discussed in Note 19, "Segment Reporting" in the accompanying consolidated financial statements.

**Employees**

At December 31, 2010, we employed approximately 1,027 employees, over 191 of whom were managers and professionals, approximately 776 of whom were hourly-paid employees involved in building operations and approximately 60 of whom were clerical, data processing and other administrative employees. There are currently three collective bargaining agreements which cover the workforce that services substantially all of our properties.

**Acquisitions**

During 2010, we acquired 125 Park Avenue for an aggregate purchase price of $330.0 million, including the assumption of $146.25 million of mortgage debt. We also completed the foreclosure of the senior mezzanine loan at 100 Church Street. Through a joint venture, we acquired 600 Lexington Avenue for $193.0 million, including the assumption of $49.85 million of mortgage debt. We also closed on the remaining 45% joint venture interests in the leased fee at 885 Third Avenue and 2 Herald Square and the entire leased fee interest at 292 Madison Avenue for an aggregate investment of $349.7 million, including the assumption of $265.6 million of mortgage debt.

**Dispositions**

During 2010, we sold 19 West 44$^{th}$ Street for a gross contract price of approximately $123.2 million. We recognized a gain of approximately $35.5 million on the sale of this property, which encompassed 0.3 million

Table of Contents

square feet. We also sold our partnership interest in 1221 Avenue of the Americas for total consideration of $577.4 million and recognized a gain of approximately $126.8 million on the sale of our interest.

**Debt and Preferred Equity Investments**

During 2010, we originated or acquired approximately $520.7 million in debt and preferred equity investments (net of discount), inclusive of accretion of discount and pay-in-kind interest. We also recorded approximately $342.5 million in sales, repayments, participations, foreclosures and loan loss reserves in 2010. Included in this was approximately $20.9 million of loan loss reserves.

**Offering/Financings**

In January 2010, we sold 5,400,000 shares of our Series C preferred stock. The net proceeds from this offering (approximately $122.0 million) was used to repurchase unsecured debt and for other corporate purposes.

In March 2010, we issued $250.0 million principal amount of 7.75% senior unsecured notes, due 2020, at par. The net proceeds from the offering (approximately $246.9 million) were used to repay certain of our existing indebtedness, make investments in additional properties, and for general corporate purposes.

In October 2010, we issued $345.0 million aggregate principal amount of 3.00% exchangeable senior notes due October 2017 at par. The net proceeds from the offering (approximately $336.5 million) were used to repay certain of our existing indebtedness, make investments in additional properties, and for general corporate purposes.

During 2010, we also closed on 12 mortgages and other loans payable, which are collateralized by our real estate and debt investments, totaling approximately $1.3 billion.

Table of Contents

## ITEM 1A. RISK FACTORS

**Declines in the demand for office space in New York City, and in particular midtown Manhattan, as well as our Suburban markets, including Westchester County, Connecticut, New Jersey and Long Island, resulting from general economic conditions could adversely affect the value of our real estate portfolio and our results of operations and, consequently, our ability to service current debt and to pay dividends to stockholders.**

Most of our commercial office properties are located in midtown Manhattan. As a result, our business is dependent on the condition of the New York City economy in general and the market for office space in midtown Manhattan in particular. Weakness in the New York City economy could materially reduce the value of our real estate portfolio and our rental revenues, and thus adversely affect our cash flow and ability to service current debt and to pay dividends to stockholders. We could also be affected by similar weakness in our suburban markets.

**We may be unable to renew leases or relet space as leases expire.**

When our tenants decide not to renew their leases upon their expiration, we may not be able to relet the space. Even if tenants do renew or we can relet the space, the terms of renewal or reletting, including the cost of required renovations, may be less favorable than current lease terms. As of December 31, 2010, approximately 6.0 million and 3.1 million square feet, representing approximately 34.7% and 32.1% of the rentable square feet, are scheduled to expire by December 31, 2015 at our consolidated properties and unconsolidated joint venture properties, respectively, and as of December 31, 2010, these leases had annualized escalated rental income totaling approximately $283.8 million and $157.4 million, respectively. We also have leases with termination options beyond 2015. If we are unable to promptly renew the leases or relet the space at similar rates, our cash flow and ability to service debt and pay dividends to stockholders could be adversely affected.

**The expiration of long term leases or operating sublease interests could adversely affect our results of operations.**

Our interests in seven commercial office properties are through either long-term leasehold or operating sublease interests in the land and the improvements, rather than by ownership of fee interest in the land. These properties are 673 First Avenue, 420 Lexington Avenue, 461 Fifth Avenue, 711 Third Avenue, 625 Madison Avenue, 1185 Avenue of the Americas, all in Manhattan, and 1055 Washington Avenue, Stamford, Connecticut. We have the ability to acquire the fee position at 461 Fifth Avenue for a fixed price on a specific date. Unless we can purchase a fee interest in the underlying land or extend the terms of these leases before their expiration, we will lose our right to operate these properties upon expiration of the leases, which would significantly adversely affect our results of operations. The average remaining term of these long-term leases as of December 31, 2010, including our unilateral extension rights on each of the properties, is approximately 42 years. Our share of annualized escalated rents of these properties at December 31, 2010 totaled approximately $240.2 million, or 24%, of our share of total portfolio annualized revenue.

**Our results of operations rely on major tenants, including in the financial services sector, and insolvency, bankruptcy or receivership of these or other tenants could adversely affect our results of operations.**

Giving effect to leases in effect as of December 31, 2010 for consolidated properties and unconsolidated joint venture properties, as of that date, our five largest tenants, based on square footage leased, accounted for approximately 22.3% of our share of portfolio annualized rent, with three tenants, Citigroup, Inc. (and its affiliates), Viacom International Inc. and Credit Suisse Securities (USA) LLC accounting for approximately 8.0%, 5.3% and 5.9% of our share of portfolio annualized rent, respectively. In addition, the financial services sector accounted for approximately 39% of our total annualized revenues and 38% of our square feet leased of our portfolio as of December 31, 2010. This sector continues to experience significant turmoil. If current economic conditions persist or deteriorate, we may experience increases in past due accounts, defaults, lower occupancy and reduced effective rents, particularly in respect of our financial service tenants. Our business would be adversely affected if any of our major tenants became insolvent, declared bankruptcy, are put into receivership or otherwise refused to pay rent in a timely fashion or at all.

Table of Contents

**Adverse economic and geopolitical conditions in general and the Northeastern commercial office markets in particular could have a material adverse effect on our results of operations, financial condition and our ability to pay dividends to stockholders.**

Our business may be affected by the unprecedented volatility and illiquidity in the financial and credit markets and other market or economic challenges experienced by the U.S. economy or real estate industry as a whole. As a result of the economic downturn that began in the second half of 2007, demand for office and retail space declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. Real estate transactions and development opportunities lessened compared to the period prior to the current economic downturn and capitalization rates rose. As a result, the cost and availability of credit was, and may in down markets be, adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led, and in downturn periods may lead, many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers, and this may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. Our business may also be adversely affected by local economic conditions, as substantially all of our revenues are derived from our properties located in the Northeast, particularly in New York, Westchester County and Connecticut. Because our portfolio consists primarily of commercial office buildings (as compared to a more diversified real estate portfolio) located principally in Manhattan, if negative economic conditions persist or deteriorate, then our results of operations, financial condition and ability to service current debt and to pay distributions to our stockholders may be adversely affected. Specifically, our business may be affected by the following conditions:

- significant job losses in the financial and professional services industries, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;

- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from both our existing operations and our acquisition and development activities and increase our future interest expense;

- reduced values of our properties, which may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

- reduced liquidity in debt markets and increased credit risk premiums for certain market participants, which may impair our ability to access capital.

These conditions, which could have a material adverse effect on our results of operations, financial condition and ability to pay distributions, may continue or worsen in the future.

**We may suffer adverse consequences if our revenues decline since our operating costs do not necessarily decline in proportion to our revenue.**

We earn a significant portion of our income from renting our properties. Our operating costs, however, do not fluctuate in relation to changes in our rental revenue. As a result, our costs will not necessarily decline even if our revenues do. Similarly, our operating costs could increase while our revenues stay flat or decline. In either such event, we may be forced to borrow to cover our costs, we may incur losses or we may not have cash available for distributions to our stockholders.

**We face risks associated with property acquisitions.**

We may acquire individual properties and portfolios of properties, including large portfolios that could significantly increase our size and alter our capital structure. Our acquisition activities may be exposed to, and their success may be adversely affected by, the following risks:

- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including due diligence investigations to our satisfaction;

Table of Contents

- we may be unable to finance acquisitions on favorable terms or at all;
- acquired properties may fail to perform as we expected;
- our estimates of the costs of repositioning or redeveloping acquired properties may be inaccurate;
- we may not be able to obtain adequate insurance coverage for new properties;
- acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and therefore our results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us arising from our ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow. Unknown liabilities with respect to properties acquired might include:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants, vendors or other persons arising from dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

**Competition for acquisitions may reduce the number of acquisition opportunities available to us and increase the costs of those acquisitions.**

We plan to continue to acquire properties as we are presented with attractive opportunities. We may face competition for acquisition opportunities from other investors, particularly private investors who can incur more leverage, and this competition may adversely affect us by subjecting us to the following risks:

- an inability to acquire a desired property because of competition from other well-capitalized real estate investors, including publicly traded and privately held REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, sovereign wealth funds, pension trusts, partnerships and individual investors; and
- an increase in the purchase price for such acquisition property, in the event we are able to acquire such desired property.

**We rely on seven large properties for a significant portion of our revenue.**

As of December 31, 2010, seven of our properties, 420 Lexington Avenue, 220 East 42nd Street, One Madison Avenue, 485 Lexington Avenue, 1185 Avenue of the Americas, 1515 Broadway and 388-390 Greenwich Street, accounted for approximately 41% of our portfolio annualized rent, including our share of joint venture annualized rent. Our revenue and cash available for distribution to our stockholders would be materially adversely affected if any of these properties were materially damaged or destroyed. Additionally, our revenue and cash available for distribution to our stockholders would be materially adversely affected if tenants at these properties fail to timely make rental payments due to adverse financial conditions or otherwise, default under their leases or file for bankruptcy.

**The continuing threat of terrorist attacks may adversely affect the value of our properties and our ability to generate cash flow.**

There may be a decrease in demand for space in New York City because it is considered at risk for future terrorist attacks, and this decrease may reduce our revenues from property rentals. In the aftermath of a terrorist attack, tenants in the New York City area may choose to relocate their business to less populated, lower-profile areas of the United States that are not as likely to be targets of future terrorist activity. This in turn could trigger a decrease in the demand for space in the New York City area, which could increase vacancies in our properties and force us to lease our properties on less favorable terms. As a result, the value of our properties and the level of our revenues could materially decline.

**A terrorist attack could cause insurance premiums to increase significantly.**

We maintain "all-risk" property and rental value coverage (including coverage regarding the perils of flood, earthquake and terrorism) within two property insurance portfolios and liability insurance. The first property portfolio maintains a blanket limit of $750.0 million per occurrence, including terrorism, for the majority of the New York City properties in our portfolio. This policy expires on December 31, 2011. The second portfolio maintains a limit of $600.0 million per occurrence, including terrorism, for some New York City properties and the majority of the Suburban properties. The second property policy expires on December 31, 2011. Additional coverage may be purchased on a stand-alone basis for certain assets. We maintain liability policies which cover all our properties and provide limits of $201.0 million per occurrence and in the aggregate per location. The liability policies expire on October 31, 2011.

In October 2006, we formed a wholly-owned taxable REIT subsidiary, Belmont Insurance Company, or Belmont, to act as a captive insurance company and be one of the elements of our overall insurance program. Belmont was formed in an effort to, among other reasons, stabilize to some extent the fluctuations of insurance market conditions. Belmont is licensed in New York to write Terrorism, NBCR (nuclear, biological, chemical, and radiological), General Liability, Environmental Liability and D&O coverage.

Terrorism: Belmont acts as a direct property insurer with respect to a portion of our terrorism coverage for the New York City properties. Effective December 31, 2010, Belmont increased its terrorism coverage from $400 million to $650 million in a layer in excess of $100.0 million. In addition Belmont purchased reinsurance to reinsure the retained insurable risk not otherwise covered under Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007, or TRIPRA, as detailed below.

NBCR: Since December 31, 2010, Belmont acts as a direct insurer of NBCR coverage up to $600 million on the entire property portfolio for certified acts of terrorism above a program trigger of $100.0 million. Belmont is responsible for a small deductible and 15% of a loss, with the remaining 85% covered by the Federal government.

General Liability: For the period commencing October 31, 2010, Belmont insures a retention on the general liability insurance of $150,000 per occurrence and a $2.1 million annual aggregate stop loss limit. We have secured excess insurance to protect against catastrophic liability losses above the $150,000 retention. Prior policy years carried a higher per occurrence deductible and/or higher aggregate stop loss. Belmont has retained a third party administrator to manage all claims within the retention and we anticipate that direct management of liability claims will improve loss experience and ultimately lower the cost of liability insurance in future years. In addition, we have an umbrella liability policy of $200.0 million per occurrence and in the aggregate on a per location basis.

Environmental Liability: Belmont insures a deductible of $975,000 per occurrence in excess of $25,000 on a $25 million per occurrence/$30 million aggregate environmental liability policy covering the entire portfolio.

As long as we own Belmont, we are responsible for its liquidity and capital resources, and the accounts of Belmont are part of our consolidated financial statements. If we experience a loss and Belmont is required to pay under its insurance policy, we would ultimately record the loss to the extent of Belmont's required payment.

Therefore, insurance coverage provided by Belmont should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

The Terrorism Risk Insurance Act, or TRIA, which was enacted in November 2002, was renewed on December 31, 2007. Congress extended TRIA, now called TRIPRA (Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007) until December 31, 2014. The law extends the federal Terrorism Insurance Program that requires insurance companies to offer terrorism coverage and provides for compensation for insured losses resulting from acts of certified terrorism, subject to the current program trigger of $100.0 million. Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), mezzanine loans, ground leases, our 2007 unsecured revolving credit facility and other corporate obligations, contain customary covenants requiring us to maintain insurance. Although we believe that we currently maintain sufficient insurance coverage to satisfy these obligations, there is no assurance that in the future we will be able to procure coverage at a reasonable cost. In such instances, there can be no assurance that the lenders or ground lessors under these instruments will not take the position that a total or partial exclusion from "all-risk" insurance coverage for losses due to terrorist acts is a breach of these debt and ground lease instruments allowing the lenders or ground lessors to declare an event of default and accelerate repayment of debt or recapture of ground lease positions. In addition, if lenders prevail in asserting that we are required to maintain full coverage for these risks, it could result in substantially higher insurance premiums.

We have a 49.9% interest in the property at 100 Park Avenue, where we participate with Prudential, which carries a blanket policy of $500.0 million of "all-risk" property insurance, including terrorism coverage. We own One Madison Avenue, which is under a triple net lease with insurance provided by the tenant, Credit Suisse Securities (USA) LLC, or CS. We have a 50.6% interest in the property at 388 and 390 Greenwich Street, where we participate with SITQ, which is leased on a triple net basis to Citigroup, N.A., which provides insurance coverage directly. We monitor all triple net leases to ensure that tenants are providing adequate coverage. Other joint ventures may be covered under policies separate from our policies, at coverage limits which we deem to be adequate. We continually monitor these policies. Although we consider our insurance coverage to be appropriate, in the event of a major catastrophe, such as an act of terrorism, we may not have sufficient coverage to replace certain properties.

**Our dependence on smaller and growth-oriented businesses to rent our office space could adversely affect our cash flow and results of operations.**

Many of the tenants in our properties are smaller, growth-oriented businesses that may not have the financial strength of larger corporate tenants. Smaller companies generally experience a higher rate of failure than large businesses. Growth-oriented firms may also seek other office space as they develop. Dependence on these companies could create a higher risk of tenant defaults, turnover and bankruptcies, which could adversely affect our distributable cash flow and results of operations.

**Debt financing, financial covenants, degree of leverage, and increases in interest rates could adversely affect our economic performance.**

***Scheduled debt payments could adversely affect our results of operations.***

Cash flow could be insufficient to pay dividends and meet the payments of principal and interest required under our current mortgage and other indebtedness, 2007 unsecured revolving credit facility, senior unsecured notes, debentures and indebtedness outstanding at our joint venture properties. The total principal amount of our outstanding consolidated indebtedness was approximately $5.3 billion as of December 31, 2010, consisting of approximately $650.0 million under our 2007 unsecured revolving credit facility, $1.1 billion under our senior unsecured notes, $100.0 million under our junior subordinated deferrable interest debentures and approximately $3.4 billion of non-recourse mortgages and loans payable on 21 of our investments and a recourse loan on one of our investments. In addition, we could increase the amount of our outstanding indebtedness in the future, in part by borrowing under our 2007 unsecured revolving credit facility, which had $776.9 million available for draw as of

Table of Contents

December 31, 2010. Our 2007 unsecured revolving credit facility matures in June 2011 and has a one-year as-of-right extension option. As of December 31, 2010, the total principal amount of non-recourse indebtedness outstanding at the joint venture properties was approximately $3.7 billion, of which our proportionate share was approximately $1.6 billion.

If we are unable to make payments under our 2007 unsecured revolving credit facility, all amounts due and owing at such time shall accrue interest at a rate equal to 4% higher than the rate at which each draw was made. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose on the property, resulting in loss of income and asset value. Foreclosure on mortgaged properties or an inability to make payments under our 2007 unsecured revolving credit facility or our senior unsecured notes would have a negative impact on our financial condition and results of operations.

We may not be able to refinance existing indebtedness, which may require substantial principal payments at maturity. In 2011, approximately $84.8 million of corporate indebtedness, $216.7 million of debt on our consolidated properties and $589.0 million of debt on our unconsolidated joint venture properties will mature. At the present time we intend to exercise extension options, repay, or refinance the debt associated with our properties on or prior to their respective maturity dates. At the time of refinancing, prevailing interest rates or other factors, such as the possible reluctance of lenders to make commercial real estate loans may result in higher interest rates. Increased interest expense on the refinanced debt would adversely affect cash flow and our ability to service debt and make distributions to stockholders. If any principal payments due at maturity cannot be repaid, refinanced or extended, our cash flow will not be sufficient in all years to repay all maturing debt.

***Financial covenants could adversely affect our ability to conduct our business.***

The mortgages and mezzanine loans on our properties generally contain customary negative covenants that limit our ability to further mortgage the properties, to enter into new leases without lender consent or materially modify existing leases, and to discontinue insurance coverage. In addition, our 2007 unsecured revolving credit facility contains customary restrictions and requirements on our method of operations. Our 2007 unsecured revolving credit facility and senior unsecured bonds also require us to maintain designated ratios, including but not limited to, total debt-to-assets, debt service coverage and unencumbered assets-to-unsecured debt. These restrictions could adversely affect our results of operations and our ability to make distributions to stockholders.

***Rising interest rates could adversely affect our cash flow.***

Advances under our 2007 unsecured revolving credit facility and certain property-level mortgage debt bear interest at a variable rate. These consolidated variable rate borrowings totaled approximately $1.1 billion at December 31, 2010. In addition, we could increase the amount of our outstanding variable rate debt in the future, in part by borrowing under our 2007 unsecured revolving credit facility, which had $776.9 million available for draw as of December 31, 2010. Borrowings under our 2007 unsecured revolving credit facility currently bear interest at a spread equal to the 30-day LIBOR, plus 90 basis points. As of December 31, 2010, borrowings under our 2007 unsecured revolving credit facility and junior subordinated deferrable interest debentures totaled $650.0 million, and $100.0 million, respectively, and bore interest at 1.18% and 5.61%, respectively. At December 31, 2010, a hypothetical 100 basis point increase in interest rates across each of our variable interest rate instruments would increase our annual interest costs by approximately $11.0 million and would increase our share of joint venture annual interest costs by approximately $6.7 million. Accordingly, increases in interest rates could adversely affect our ability to continue to make distributions to stockholders. We may incur indebtedness in the future that also bears interest at a variable rate or may be required to refinance our debt at higher rates, which would also reduce our ability to make distributions to stockholders.

***Failure to hedge effectively against interest rate changes may adversely affect results of operations.***

The interest rate hedge instruments we use to manage some of our exposure to interest rate volatility involve risk, such as the risk that counterparties may fail to honor their obligations under these arrangements. In addition,

Table of Contents

these arrangements may not be effective in reducing our exposure to interest rate changes. Failure to hedge effectively against inte