SL GREEN REALTY CORP
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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	**13-3956775**
(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. YES x 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 x NO 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (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 Exchange Act). YES o NO x

The number of shares outstanding of the registrant s common stock, $0.01 par value, was 90,152,710 as of July 31, 2012.

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PART I. **FINANCIAL INFORMATION**

ITEM 1. **Financial Statements**

SL Green Realty Corp.

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Commercial real estate properties, at cost:		
Land and land interests	**$ 2,872,822**	$ 2,684,626
Building and improvements	**7,310,651**	7,147,527
Building leasehold and improvements	**1,316,523**	1,302,790
Property under capital lease	**12,208**	12,208
	11,512,204	11,147,151
Less: accumulated depreciation	**(1,269,979)**	(1,136,603)
	10,242,225	10,010,548
Assets held for sale	**91,574**	76,562
Cash and cash equivalents	**256,799**	138,192
Restricted cash	**138,493**	86,584
Investment in marketable securities	**23,502**	25,323
Tenant and other receivables, net of allowance of $20,826 and $16,772 in 2012 and 2011, respectively	**32,728**	32,107
Related party receivables	**7,793**	4,001
Deferred rents receivable, net of allowance of $31,343 and $29,156 in 2012 and 2011, respectively	**315,700**	281,974
Debt and preferred equity investments, net of discount of $22,601 and $24,996 and allowance of $41,050 and $50,175 in 2012 and 2011, respectively	**982,209**	985,942
Investments in unconsolidated joint ventures	**1,014,042**	893,933
Deferred costs, net	**249,147**	210,786
Other assets	**784,901**	737,900
Total assets	**$ 14,139,113**	$ 13,483,852
Liabilities		
Mortgages and other loans payable	**$ 4,861,463**	$ 4,314,741
Revolving credit facility	**80,000**	350,000
Senior unsecured notes	**1,173,769**	1,270,656
Accrued interest payable and other liabilities	**114,003**	126,135
Accounts payable and accrued expenses	**140,910**	142,428
Deferred revenue/gains	**352,151**	357,193
Capitalized lease obligation	**17,148**	17,112
Deferred land leases payable	**18,721**	18,495
Dividend and distributions payable	**30,126**	28,398
Security deposits	**47,463**	46,367
Liabilities related to assets held for sale	**62,792**	61,988

Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities		**100,000**		100,000
Total liabilities		**6,998,546**		6,833,513
Commitments and contingencies				
Noncontrolling interest in operating partnership		**279,685**		195,030
Series H Preferred Units, $25.00 liquidation preference, 80 issued and outstanding at June 30, 2012 and December 31, 2011, respectively		**2,000**		2,000
Series G Preferred Units, $25.00 liquidation preference, 1,902 issued and outstanding at June 30, 2012		**47,550**		
Equity				
SL Green stockholders equity:				
Series C preferred stock, $0.01 par value, $25.00 liquidation preference, 11,700 issued and outstanding at both June 30, 2012 and December 31, 2011, respectively		**274,022**		274,022
Series D preferred stock, $0.01 par value, $25.00 liquidation preference, 4,000 issued and outstanding at both June 30, 2012 and December 31, 2011, respectively		**96,321**		96,321
Common stock, $0.01 par value 160,000 shares authorized and 93,543 and 89,210 issued and outstanding at June 30, 2012 and December 31, 2011, respectively (including 3,605 and 3,427 shares at June 30, 2012 and December 31, 2011, held in Treasury, respectively)		**936**		892
Additional paid-in-capital		**4,557,652**		4,236,959
Treasury stock at cost		**(319,866)**		(308,708)
Accumulated other comprehensive loss		**(28,413)**		(28,445)
Retained earnings		**1,741,160**		1,704,506
Total SL Green stockholders equity		**6,321,812**		5,975,547
Noncontrolling interests in other partnerships		**489,520**		477,762
Total equity		**6,811,332**		6,453,309
Total liabilities and equity	**$**	**14,139,113**	$	13,483,852

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

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SL Green Realty Corp.

Consolidated Statements of Income

(Unaudited, and amounts in thousands, except per share data)

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

Net income attributable to SL Green common stockholders								
Amounts attributable to SL Green common stockholders:								
Income from continuing operations	**$**	**93,833**	$	15,324	**$**	**105,718**	$	80,803
Purchase price fair value adjustment				464,445				478,012
Equity in net gain on sale of interest in unconsolidated joint venture/real estate		**9,207**				**16,244**		
Net (loss) income from discontinued operations				1,638		**(76)**		3,469
Gain on sale of discontinued operations				45,051		**6,410**		45,060
Net income	**$**	**103,040**	$	526,458	**$**	**128,296**	$	607,344
Basic earnings per share:								
Net income from continuing operations before discontinued operations	**$**	**1.05**	$	5.74	**$**	**1.20**	$	6.85
Equity in net gain on sale of interest in unconsolidated joint venture/ real estate		**0.10**				**0.18**		
Net income from discontinued operations				0.02				0.04
Gain on sale of discontinued operations				0.54		**0.07**		0.55
Net income attributable to SL Green common stockholders	**$**	**1.15**	$	6.30	**$**	**1.45**	$	7.44
Diluted earnings per share:								
Net income from continuing operations before discontinued operations	**$**	**1.04**	$	5.70	**$**	**1.20**	$	6.81
Equity in net gain on sale of interest in unconsolidated joint venture/ real estate		**0.10**				**0.18**		
Net income from discontinued operations				0.02				0.04
Gain on sale of discontinued operations				0.54		**0.07**		0.55
Net income attributable to SL Green common stockholders	**$**	**1.14**	$	6.26	**$**	**1.45**	$	7.40
Dividends per share	**$**	**0.25**	$	0.10	**$**	**0.50**	$	0.20
Basic weighted average common shares outstanding		**89,789**		83,578		**88,265**		81,632
Diluted weighted average common shares and common share equivalents outstanding		**93,351**		86,010		**91,766**		83,995

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

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SL Green Realty Corp.

Consolidated Statements of Comprehensive Income

(Unaudited, and amounts in thousands)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	**$ 118,457**	$ 549,187	**$ 153,614**	$ 643,078
Other comprehensive income (loss):				
Net unrealized gain (loss) on derivative instruments	**(11)**	(3,940)	**303**	(2,991)
SL Green s share of joint venture net unrealized gain (loss) on derivative instruments	**(3,637)**	888	**(836)**	3,389
Unrealized gain (loss) on marketable securities	**(542)**	(5,719)	**228**	566
Other comprehensive income (loss)	**(4,190)**	(8,771)	**(305)**	964
Comprehensive income	**114,267**	540,416	**153,309**	644,042
Comprehensive income attributable to noncontrolling interests	**(7,720)**	(14,989)	**(9,892)**	(20,538)
Comprehensive income attributable to SL Green common stockholders	**$ 106,547**	$ 525,427	**$ 143,417**	$ 623,504

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

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SL Green Realty Corp.

Consolidated Statement of Equity

(Unaudited, and amounts in thousands, except per share data)

	SL Green Realty Corp. Stockholders									
	Series C Preferred Stock	Series D Preferred Stock	Common Stock Shares	Common Stock Par Value	Additional Paid-In-Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2011	$ 274,022	$ 96,321	85,783	$ 892	$ 4,236,959	$ (308,708)	$ (28,445)	$ 1,704,506	$ 477,762	$ 6,453,309
Net income after allocation to noncontrolling interests in SLGOP								143,385	4,958	148,343
Comprehensive Income:							32			32
Preferred dividends								(15,089)		(15,089)
Redemption of units and DRIP proceeds			1,311	13	100,011					100,024
Reallocation of noncontrolling interest in the Operating Partnership								(46,810)		(46,810)
Deferred compensation plan & stock award, net			67	3	541	(11,158)				(10,614)
Amortization of deferred compensation plan					13,208					13,208
Proceeds from issuance of common stock			2,640	27	201,280					201,307
Proceeds from stock options exercised			137	1	5,653					5,654
Consolidation of joint venture interest									18,799	18,799
Cash distributions to noncontrolling interests									(11,999)	(11,999)
Cash distribution declared ($0.50 per common share, none of which represented a return of capital for federal income tax purposes)								(44,832)		(44,832)
Balance at June 30, 2012	**$ 274,022**	**$ 96,321**	**89,938**	**$ 936**	**$ 4,557,652**	**$ (319,866)**	**$ (28,413)**	**$ 1,741,160**	**$ 489,520**	**$ 6,811,332**

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

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SL Green Realty Corp.

Consolidated Statements of Cash Flows

(Unaudited, and amounts in thousands)

	Six Months Ended June 30, 2012	2011
Operating Activities		
Net income	$ **153,614**	$ 643,078
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**162,028**	136,355
Depreciable real estate reserves, net of recoveries	**(5,789)**	
Equity in net income from unconsolidated joint ventures	**(69,330)**	(10,390)
Equity in net gain on sale of interest in unconsolidated joint venture	**(16,794)**	
Gain on sale of discontinued operations	**(6,627)**	(46,085)
Distributions of cumulative earnings from unconsolidated joint ventures	**77,981**	7,866
Purchase price fair value adjustment		(488,890)
Gain on sale of debt securities		(19,840)
Loan loss and other investment reserves, net of recoveries	**564**	(1,870)
Loss on investments in marketable securities		133
Gain on early extinguishment of debt		(971)
Deferred rents receivable	**(37,318)**	(44,343)
Other non-cash adjustments	**3,759**	3,774
Changes in operating assets and liabilities:		
Restricted cash operations	**(7,104)**	15,487
Tenant and other receivables	**(5,006)**	(841)
Related party receivables	**(3,792)**	1,157
Deferred lease costs	**(28,549)**	(14,534)
Other assets	**(27,176)**	5,169
Accounts payable, accrued expenses and other liabilities	**9,609**	(5,323)
Deferred revenue and land leases payable	**(2,135)**	(3,084)
Net cash provided by operating activities	**197,935**	176,848
Investing Activities		
Acquisitions of real estate property	**(248,468)**	(331,972)
Additions to land, buildings and improvements	**(76,585)**	(57,442)
Escrowed cash capital improvements/acquisition deposits	**(65,030)**	46,861
Investments in unconsolidated joint ventures	**(131,820)**	(60,321)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	**44,172**	102,089
Net proceeds from disposition of real estate/joint venture interest	**26,099**	150,893
Other investments	**(31,206)**	631
Debt and preferred equity and other investments, net of repayments/participations	**(75,209)**	84,528
Net cash used in investing activities	**(558,047)**	(64,733)
Financing Activities		
Proceeds from mortgages and other loans payable	**1,113,500**	690,000
Repayments of mortgages and other loans payable	**(472,288)**	(744,873)
Proceeds from revolving credit facility and senior unsecured notes	**468,339**	725,079
Repayments of revolving credit facility and senior unsecured notes	**(840,793)**	(962,395)
Proceeds from stock options exercised and DRIP issuance	**105,195**	7,097
Net proceeds from sale of common stock	**201,307**	419,463
Purchase of treasury stock	**(11,158)**	(4,197)
Distributions to noncontrolling interests in other partnerships	**(11,999)**	(133,712)
Contributions from noncontrolling interests in other partnerships	**18,799**	

Distributions to noncontrolling interests in Operating Partnership		**(1,561)**		(382)
Dividends paid on common and preferred stock		**(59,155)**		(31,662)
Deferred loan costs and capitalized lease obligation		**(31,467)**		(19,134)
Net cash provided by (used in) financing activities		**478,719**		(54,716)
Net increase in cash and cash equivalents		**118,607**		57,399
Cash and cash equivalents at beginning of period		**138,192**		332,830
Cash and cash equivalents at end of period	**$**	**256,799**	$	390,229

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

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SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2012

(Unaudited)

1. Organization and Basis of Presentation

SL Green Realty Corp., which is referred to as the Company or SL Green, a Maryland corporation, and SL Green Operating Partnership, L.P., which is referred to as SLGOP or the Operating Partnership, a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. The Operating Partnership received a contribution of interest in the real estate properties, as well as 95% of the economic interest in the management, leasing and construction companies, which is referred to as the Service Corporation, a consolidated variable interest entity. All of the management, leasing and construction services with respect to the properties which are wholly-owned by us are conducted through SL Green Management LLC which is 100% owned by our Operating Partnership. The Company has qualified, and expects to qualify in the current fiscal year, as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, and operates as a self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to minimize the payment of Federal income taxes at the corporate level. Unless the context requires otherwise, all references to the we, our and us means the Company and all entities owned or controlled by the Company, including the Operating Partnership.

Substantially all of our assets are held by, and our operations are conducted through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership. As of June 30, 2012, noncontrolling investors held, in the aggregate, a 3.7% limited partnership interest in the Operating Partnership. We refer to these interests as the noncontrolling interests in the Operating Partnership. See Note 13, Noncontrolling Interests in Operating Partnership.

Reckson Associates Realty Corp., or Reckson, and Reckson Operating Partnership, L.P., or ROP, are wholly-owned subsidiaries of the Operating Partnership.

As of June 30, 2012, we owned the following interests in commercial office properties in the New York Metropolitan area, primarily in midtown Manhattan, a borough of New York City, or 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	27	18,644,945	93.1%
	Unconsolidated properties	7	5,326,815	95.7%
Suburban	Consolidated properties	25	3,863,000	80.6%
	Unconsolidated properties	6	2,941,700	93.1%

65	30,776,460	92.0%

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

We also owned investments in 13 stand-alone retail properties encompassing approximately 398,686 square feet, eight development properties encompassing approximately 2,614,996 square feet, two residential properties encompassing 385 units (approximately 430,482 square feet) and two land interests as of June 30, 2012. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 0.9 million rentable square feet. As of June 30, 2012, we also held $982.2 million in debt and preferred equity investments.

Partnership Agreement

In accordance with the partnership agreement of the Operating Partnership, or the Operating Partnership agreement, we allocate all distributions and profits and losses in proportion to the percentage ownership interests of the respective partners. As the managing general partner of the Operating Partnership, we are required to take such reasonable efforts, as determined by us in our sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient dividends by us to minimize any Federal income or excise tax at the Company level. Under the Operating Partnership agreement, each limited partner has the right to redeem units of limited partnership interests for cash, or if we so elect, shares of our common stock on a one-for-one basis.

Basis of Quarterly Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

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SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2012

(Unaudited)

Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the financial position of the Company at June 30, 2012, and the results of operations for the periods presented have been included. The 2012 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These financial statements should be read in conjunction with the financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries, which are wholly-owned or controlled by us. Entities which we do not control through our voting interest and entities which are variable interest entities, but where we are not the primary beneficiary, are accounted for under the equity method or as debt and preferred equity investments. See Notes 5, Debt and Preferred Equity Investments and 6, Investment in Unconsolidated Joint Ventures. All significant intercompany balances and transactions have been eliminated.

The Financial Accounting Standards Board, or FASB, guidance for determining whether an entity is a variable interest entity, or VIE, requires the performance of a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE. Under this guidance, an entity would be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

A noncontrolling interest in a consolidated subsidiary is defined as the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Noncontrolling interests are required to be presented as a separate component of equity in the consolidated balance sheet and modified the presentation of net income by requiring earnings and other comprehensive income to be attributed to controlling and noncontrolling interests.

We assess the accounting treatment for each joint venture and debt and preferred equity investment. This assessment includes a review of each joint venture or limited liability company agreement to determine which party has what rights and whether those rights are protective or participating. For all VIE s, we review such agreements in order to determine which party has the power to direct the activities that most significantly impact the entity s economic performance. In situations where we or our partner approves, among other things, the annual budget, receives a detailed monthly reporting package from us, meets on a quarterly basis to review the results of the joint venture, reviews and approves the joint venture s tax return before filing, and approves all leases that cover more than a nominal amount of space relative to the total rentable space at each property, we do not consolidate the joint venture as we consider these to be substantive participation rights that result in shared power of the activities that most significantly impact the performance of our joint venture. Our joint venture agreements typically contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the property and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan.

Investment in Commercial Real Estate Properties

On a periodic basis, we assess whether there are any indicators that the value of our real estate properties may be impaired or that their carrying value may not be recoverable. A property s value is considered impaired if management s estimate of the aggregate future cash flows (undiscounted and without interest charges for consolidated properties) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property. In addition, we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture s projected discounted cash flows. In November 2011, we recorded a $5.8 million impairment charge in connection with the expected sale of one of our equity investments. In June 2012, we reversed this entire impairment charge. See Note 6, Investments in Unconsolidated Joint Ventures. No impairment charge was recorded during the three or six months ended June 30, 2012 and 2011. We do not believe that the value of any of our consolidated properties or equity investments was impaired at June 30, 2012 and December 31, 2011.

We allocate the purchase price of real estate to land and building and, if determined to be material, intangibles, such as the value of

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SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2012

(Unaudited)

above-, below- and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building and other intangible assets over their estimated useful lives, which generally range from three to 40 years and from one to 14 years, respectively. The values of the above- and below-market leases are amortized and recorded as either an increase (in the case of below-market leases) or a decrease (in the case of above-market leases) to rental income over the remaining term of the associated lease, which generally range from one to 14 years. The value associated with in-place leases is amortized over the expected term of the associated lease, which generally ranges from one to 14 years. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). We assess fair value of the leases based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. To the extent acquired leases contain fixed rate renewal options that are below market and determined to be material, we amortized such below market lease value into rental income over the renewal period.

We recognized an increase of approximately $2.7 million, $4.9 million, $5.1 million, $12.3 million in rental revenue for the three and six months ended June 30, 2012 and 2011, respectively, for the amortization of aggregate below-market leases in excess of above-market leases and a reduction in lease origination costs, resulting from the allocation of the purchase price of the applicable properties. We recognized an increase/(reduction) in interest expense for the amortization of the above-market rate mortgages assumed of approximately $1.6 million, $0.6 million, $(1.7) million and $(3.0) million for the three and six months ended June 30, 2012 and 2011, respectively.

The following summarizes our identified intangible assets (acquired above-market leases and in-place leases) and intangible liabilities (acquired below-market leases) (amounts in thousands):

		June 30, 2012		**December 31, 2011**
Identified intangible assets (included in other assets):				
Gross amount	**$**	**733,250**	$	673,495
Accumulated amortization		**(233,003)**		(193,442)
Net	**$**	**500,247**	$	480,053
Identified intangible liabilities (included in deferred revenue):				
Gross amount	**$**	**656,441**	$	622,029
Accumulated amortization		**(327,986)**		(290,893)
Net	**$**	**328,455**	$	331,136

Fair Value Measurements

Fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

We determined the fair value of our current investments in marketable securities using Level 1, Level 2 and Level 3 inputs. Additionally, we determined the valuation allowance for loan losses based on Level 3 inputs. See Note 5, Debt and Preferred Equity Investments.

The estimated fair values of tangible and intangible assets and liabilities recorded in connection with business combinations are based on Level 3 inputs. We estimate fair values based on cash flow projections utilizing appropriate discount and/or capitalization rates and available market information.

We determine impairment in real estate investments and debt and preferred equity investments, including intangibles, utilizing cash flow projections that apply estimated revenue and expense growth rates, discount rates and capitalization rates, which are classified as Level 3 inputs.

We use the following methods and assumptions in estimating fair value disclosures for financial instruments.

• *Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and other assets and liabilities:* The carrying amount of cash and cash equivalents, restricted cash, accounts

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receivable, accounts payable and accrued expenses, and other assets and liabilities reported in our consolidated balance sheets approximates fair value due to the short-term nature of these instruments.

- *Debt and preferred equity investments:* The fair value of debt and preferred equity investments is estimated by discounting the future cash flows using current interest rates at which similar loans with the same maturities would be made to borrowers with similar credit ratings. See Reserve for Possible Credit Losses below regarding valuation allowances for loan losses.

- *Mortgage and other loans payable and other debt:* The fair value of borrowings is estimated by discounting the future cash flows using current interest rates at which similar borrowings could be made by us.

The methodologies used for valuing financial instruments have been categorized into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

Level 2 Valuations based principally on other observable market parameters, including

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 Valuations based significantly on unobservable inputs.

- Valuations based on third-party indications (broker quotes or counterparty quotes) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.

- Valuations based on internal models with significant unobservable inputs.

These levels form a hierarchy. We follow this hierarchy for our financial instruments measured at fair value on a recurring and nonrecurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Investment in Marketable Securities

We invest in marketable securities. At the time of purchase, we are required to designate a security as held-to-maturity, available-for-sale, or trading depending on ability and intent. We do not have any securities designated as held-to-maturity or trading at this time. Securities available-for-sale are reported at fair value pursuant to ASC 820-10, with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. Included in accumulated other comprehensive loss at June 30, 2012 is approximately $7.1 million in net unrealized gains related to marketable securities.

The cost of bonds and marketable securities sold is determined using the specific identification method.

At June 30, 2012 and December 31, 2011, we held the following marketable securities (amounts in thousands):

		June 30, 2012	**December 31, 2011**
Level 1	Equity marketable securities	**$ 8,065**	$ 8,065
Level 2	Commercial mortgage-backed securities	**11,636**	13,369
Level 3	Rake bonds	**3,801**	3,889
Total marketable securities available-for-sale		**$ 23,502**	$ 25,323

The cost basis of the Level 3 securities was $3.8 million at June 30, 2012 and $3.9 million at December 31, 2011. There were no sales of Level 3 securities during the six months ended June 30, 2012. The Level 3 securities mature at various times through 2030.

Revenue Recognition

Interest income on debt and preferred equity investments is recognized over the life of the investment using the effective interest method and recognized on the accrual basis. Fees received in connection with loan commitments are deferred until the loan is funded and are then recognized over the term of the loan as an adjustment to yield. Anticipated exit fees, whose collection is expected, are also recognized over the term of the loan as an adjustment to yield. Fees on commitments that expire unused are recognized at expiration.

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Income recognition is generally suspended for debt and preferred equity investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Interest is recorded as income on impaired loans only to the extent cash is received. Several of the debt and preferred equity investments provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management s determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt.

If we purchase a debt or preferred equity investment at a discount, intend to hold it until maturity and expect to recover the full value of the investment, we accrete the discount into income as an adjustment to yield over the term of the investment. If we purchase a debt or preferred equity investment at a discount with the intention of foreclosing on the collateral, we do not accrete the discount.

Reserve for Possible Credit Losses

The expense for possible credit losses in connection with debt and preferred equity investments is the charge to earnings to increase the allowance for possible credit losses to the level that we estimate to be adequate, based on Level 3 data, considering delinquencies, loss experience and collateral quality. Other factors considered relate to geographic trends and product diversification, the size of the portfolio and current economic conditions. Based upon these factors, we establish the provision for possible credit losses on each individual investment. When it is probable that we will be unable to collect all amounts contractually due, the investment is considered impaired.

Where impairment is indicated on an investment that is held to maturity, a valuation allowance is measured based upon the excess of the recorded investment amount over the net fair value of the collateral. Any deficiency between the carrying amount of an asset and the calculated value of the collateral is charged to expense. The write-off of the reserve balance is called a charge off. We recorded loan loss reserves of zero, $3.0 million, $2.5 million and $2.5 million on investments being held to maturity during the three and six months ended June 30, 2012 and 2011, respectively. We also recorded recoveries of approximately zero, $2.4 million, $1.2 million and $4.4 million during the three and six months ended June 30, 2012 and 2011, respectively, in connection with the sale of investments. This is included in Loan loss and other investment reserves, net of recoveries in the accompanying Consolidated Statements of Income.

Debt and preferred equity investments held for sale are carried at the lower of cost or fair market value using available market information obtained through consultation with dealers or other originators of such investments as well as discounted cash flow models based on Level 3 data pursuant to ASC 820-10. As circumstances change, management may conclude not to sell an investment designated as held for sale. In such situations, the investment will be reclassified at its net carrying value to debt and preferred equity investments held to maturity. For these reclassified investments, the difference between the current carrying value and the expected cash to be collected at maturity will be accreted into income over the remaining term of the investment.

Income Taxes

We are taxed as a REIT under Section 856(c) of the Code. As a REIT, we generally are not subject to Federal income tax. To maintain our qualification as a REIT, we must distribute at least 90% of our REIT taxable income to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income tax on our taxable income at regular corporate rates. We may also be subject to certain state, local and franchise taxes. Under certain circumstances, Federal income and excise taxes may be due on our undistributed taxable income.

Pursuant to amendments to the Code that became effective January 1, 2001, we have elected, and may in the future elect, to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or a TRS. In general, a TRS of ours may perform non-customary services for our tenants, hold assets that we cannot hold directly and generally may engage in any real estate or non-real estate related business. Our TRSs generate income, resulting in Federal income tax liability for these entities. Our TRSs did not record any Federal, state and local tax provision during either of the six months ended June 30, 2012 and 2011, respectively, and made estimated tax payments of zero and $0.1 million during the six months ended June 30, 2012 and 2011, respectively.

We follow a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is more-likely-than-not to be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited.

Stock-Based Employee Compensation Plans

We have a stock-based employee compensation plan, described more fully in Note 12, Equity .

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions

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including the expected stock price volatility. Because our plan has characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

Compensation cost for stock options, if any, is recognized ratably over the vesting period of the award. Our policy is to grant options with an exercise price equal to the quoted closing market price of our stock on the grant date. Awards of stock or restricted stock are expensed as compensation over the benefit period based on the fair value of the stock on the grant date.

For share-based awards with a performance or market measure, we recognize compensation cost over the requisite service period, using the accelerated attribution expense method. The requisite service period begins on the date the Compensation Committee authorizes the award and adopts any relevant performance measures. For programs with performance or market measures, the total estimated compensation cost is based on the fair value of the award at the applicable reporting date estimated using a binomial model. For share-based awards for which there is no pre-established performance measure, we recognize compensation cost over the service vesting period, which represents the requisite service period, on a straight-line basis. In accordance with the provisions of our share-based incentive compensation plans, we accept the return of shares of Company common stock, at the current quoted market price, from certain key employee to satisfy minimum statutory tax-withholding requirements related to shares that vested during the period.

Awards can also be made in the form of a separate series of units of limited partnership interest in our Operating Partnership called long-term incentive plan units, or LTIP units. LTIP units, which can be granted either as free-standing awards or in tandem with other awards under our stock incentive plan, are valued by reference to the value of our common stock at the time of grant, and are subject to such conditions and restrictions as our compensation committee may determine, including continued employment or service, computation of financial metrics and/or achievement of pre-established performance goals and objectives.

Earnings per Share

We present both basic and diluted earnings per share, or EPS. Basic EPS excludes dilution and is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Basic EPS includes participating securities, consisting of unvested restricted stock that receive nonforfeitable dividends similar to shares of common stock. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. This also includes units of limited partnership interest. The dilutive effect of the outstanding nonvested shares of common stock, or nonvested shares, and restricted stock units, or RSUs, that have not yet been granted but are contingently issuable under the share-based compensation programs is reflected in the weighted average diluted shares calculation by application of the treasury stock method at the beginning of the quarterly period in which all necessary conditions have been satisfied. The dilutive effect of stock options is reflected in the weighted average diluted outstanding shares calculation by application of the treasury stock method. There is no dilutive effect for the exchangeable senior debentures as the conversion premium will be paid in cash.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, debt and preferred equity investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our debt and preferred equity investments is primarily located in the New York Metropolitan area. See Note 5, Debt and Preferred Equity Investments. We perform ongoing credit evaluations of our tenants and require most tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total value of a tenant s lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with re-tenanting the space. Although the properties in our real estate portfolio are primarily located in Manhattan, we also have properties located in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey. The tenants located in our buildings operate in various industries. Other than three tenants who account for approximately 7.4%, 6.9% and 6.0% of our share of annualized cash rent, respectively, no other tenant in our portfolio accounted for more than 1.9% of our annualized cash rent, including our share of joint venture annualized cash rent at June 30, 2012. Approximately 9%, 5%, 6% and 6% of our annualized cash rent, including our share of joint venture annualized cash rent, was attributable to 1515 Broadway, 420 Lexington Avenue, 1185 Avenue of the Americas and One Madison Avenue, respectively, for the three months ended June 30, 2012. In addition, two debt and preferred equity investments accounted for more than 10.0% of the

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income earned on debt and preferred equity investments during the three months ended June 30, 2012.

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Reclassification

Certain prior year balances have been reclassified to conform to our current year presentation primarily in order to eliminate discontinued operations from income from continuing operations.

Accounting Standards Updates

In May 2011, the FASB issued updated guidance on fair value measurement which amends U.S. GAAP to conform to IFRS measurement and disclosure requirements. The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value, changes certain fair value measurement principles and enhances disclosure requirements. This guidance was effective as of the first quarter of 2012 and its adoption did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued guidance to increase the prominence of other comprehensive income in the financial statements. The standard gives businesses two options for presenting other comprehensive income, or OCI, which previously had been included within the statement of equity. An OCI statement may be included with the statement of income, and together the two will make a statement of total comprehensive income. Alternatively, businesses may have an OCI statement separate from the statement of income, but the two statements will have to appear consecutively within a financial report. These requirements related to the presentation of OCI became effective for interim and annual reporting periods beginning after December 15, 2011. We adopted this guidance and presented a separate Statement of Comprehensive Income in our consolidated financial statements. In December 2011, the FASB temporarily delayed those requirements that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. During the deferral period, the FASB plans to re-evaluate the requirement, with a final decision expected in 2012.

In December 2011, the FASB issued guidance that concluded when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity must apply the accounting guidance for sales of real estate to determine whether it should derecognize the in substance real estate. The reporting entity is precluded from derecognizing the real estate until legal ownership has been transferred to the lender to satisfy the debt. The guidance is effective for calendar year-end public and nonpublic companies in 2013 and is to be applied on a prospective basis. Early adoption of the guidance is permitted. Adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

3. Property Acquisitions

2012 Acquisitions

In June 2012, we acquired a 215,000 square foot mixed-use office and retail building at 304 Park Avenue South for $135.0 million. The property was acquired with approximately $102.0 million in cash and $33.0 million in units of limited partnership interest in the Operating Partnership. We are currently in the process of analyzing the fair value of the in-place leases; and consequently, no value has yet been assigned to the leases. Therefore, the purchase price allocation is preliminary and subject to change.

In October 2011, we formed a joint venture with Stonehenge Partners and, in January 2012, we acquired five retail and two multifamily properties in Manhattan for $193.1 million, inclusive of the issuance of $47.6 million aggregate liquidation preference of 4.5% Series G preferred units of limited partnership interest in the Operating Partnership. Simultaneous with the closing, we financed the residential component, which encompasses 385 units and 488,000 square feet, with an aggregate 12-year $100.0 million fixed rate mortgage which bears interest at 4.125% and one of the retail properties was financed with a 5-year $8.5 million mortgage. We hold an 80% interest in this joint venture which we consolidate as it is a VIE and we have been designated as the primary beneficiary.

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The following summarizes our allocation of the purchase price of the assets acquired and liabilities assumed upon the closing of these 2012 acquisitions (amounts in thousands):

		Stonehenge Properties (Preliminary)
Land	$	65,723
Building		122,049
Above market lease value		598
Acquired in-place leases		9,038
Other assets, net of other liabilities		2,278
Assets acquired		199,686
Fair value adjustment to mortgage note payable		
Below market lease value		6,578
Liabilities assumed		6,578
Purchase price allocation	$	193,108
Net consideration funded by us at closing	$	78,121
Equity and/or debt investment held	$	
Debt assumed	$	

2011 Acquisitions

In November 2011, we acquired all of the interests in 51 East 42nd Street, a 142,000 square-foot office building for approximately $80.0 million, inclusive of the issuance of $2.0 million aggregate liquidation preference of 6.0% Series H preferred units of limited partnership interest in the Operating Partnership.

In November 2011, we, along with The Moinian Group, formed a joint venture to recapitalize 180 Maiden Lane, a fully-leased, 1.1 million-square-foot Class A office tower. The consideration for our 49.9 percent stake in the joint venture included $41.0 million in cash and Operating Partnership units valued at $31.7 million. In connection with the issuance of these Operating Partnership units, we recorded an $8.3 million fair value adjustment due to changes in our stock price. Simultaneous with the closing of the recapitalization, the joint venture refinanced the existing $344.2 million indebtedness with a five-year $280-million mortgage. We consolidate this joint venture due to the control we exert over leasing activities at the property. We consolidate this joint venture as it is a VIE and we have been designated as the primary beneficiary.

In May 2011, we acquired a substantial ownership interest in the 205,000-square-foot office condominium at 110 East 42nd Street, along with control of the asset. We had previously provided a $16.0 million senior mezzanine loan as part of our sale of the condominium unit in 2007. The May 2011 transaction included a consensual modification of that loan. In conjunction with the transaction, we successfully restructured the in-place mortgage financing, which had previously been in default.

In April 2011, we purchased SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ s, 31.5% economic interest in 1515 Broadway, thereby consolidating full ownership of the 1,750,000 square foot building. The transaction valued the consolidated interests at $1.23 billion. This valuation was based on a negotiated sales agreement and took into consideration such factors as whether this was a distressed sale and whether a minority discount was warranted. We acquired the interest subject to the $458.8 million mortgage encumbering the property. We recognized a purchase price fair value adjustment of $475.1 million upon the closing of this transaction. This property, which we initially acquired in May 2002, was previously accounted for as an investment in unconsolidated joint ventures.

In January 2011, we purchased City Investment Fund, or CIF s, 49.9% interest in 521 Fifth Avenue, thereby assuming full ownership of the 460,000 square foot building. The transaction valued the consolidated interests at approximately $245.7 million, excluding $4.5 million of cash and other assets acquired. We acquired the interest subject to the $140.0 million mortgage encumbering the property. We recognized a purchase price fair value adjustment of $13.8 million upon the closing of this transaction. In April 2011, we refinanced the property with a new $150.0 million 2-year mortgage which carries a floating rate of interest of 200 basis points over the 30-day LIBOR. In connection with that refinancing, we acquired the fee interest in the property for $15.0 million.

The following summarizes our allocation of the purchase price of the assets acquired and liabilities assumed upon the closing of these 2011 acquisitions (amounts in thousands):

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	51 East 42nd Street	180 Maiden Lane	110 East 42nd Street	1515 Broadway	521 Fifth Avenue
Land	$ 44,095	$ 191,523	$ 34,000	$ 462,700	$ 110,100
Building	33,470	233,230	46,411	707,938	146,686
Above market lease value	5,616	7,944	823	18,298	3,318
Acquired in-place leases	4,333	29,948	5,396	98,661	23,016
Other assets, net of other liabilities				27,127	
Assets acquired	87,514	462,645	86,630	1,314,724	283,120
Fair value adjustment to mortgage note payable				(3,693)	
Below market lease value	7,514	20,320	2,326	84,417	25,977
Liabilities assumed	7,514	20,320	2,326	80,724	25,977
Purchase price allocation	$ 80,000	$ 442,325	$ 84,304	$ 1,234,000	$ 257,143
Net consideration funded by us at closing	$ 81,632	$ 81,835	$ 2,744	$ 259,228	$ 70,000
Equity and /or debt investment held			$ 16,000	$ 40,942	$ 41,432
Debt assumed	$	$	$ 65,000	$ 458,767	$ 140,000

4. Property Dispositions and Assets Held for Sale

An entity that holds the property which served as collateral for our loan position, which is collateralized by a property in London, was determined to be a VIE under a reconsideration event and we have been determined to be the primary beneficiary. As a result of this determination, we consolidated the entity and reclassified the investment to assets held for sale on the consolidated balance sheet at June 30, 2012.

In February 2012, we sold our leased fee interest at 292 Madison Avenue for $85.0 million. We recognized a gain of $6.6 million on the sale.

In May 2011, we sold our property located at 28 West 44th Street for $161.0 million. The property is approximately 359,000 square feet. We recognized a gain of $46.1 million on the sale.

Discontinued operations included the results of operations of real estate assets sold prior to June 30, 2012. This included 28 West 44th Street, which was sold in May 2011, and 292 Madison Avenue, which was sold in February 2012.

The following table summarizes income from discontinued operations for the three and six months ended June 30, 2012 and 2011, respectively (amounts in thousands).

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues				
Rental revenue	**$**	$ 3,194	**$ 516**	$ 8,735
Escalation and reimbursement revenues		219		873
Other income		56		60
Total revenues		3,469	**516**	9,668
Operating expense		498	**(3)**	1,645
Real estate taxes		188		1,034
Interest expense, net of interest income		1,101	**597**	2,604
Amortization of deferred financing costs		6		160
Depreciation and amortization				676
Total expenses		1,793	**594**	6,119
Net income (loss) from discontinued operations	**$**	$ 1,676	**$ (78)**	$ 3,549

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5. Debt and Preferred Equity Investments

During the six months ended June 30, 2012 and 2011, our debt and preferred equity investments (net of discounts) increased approximately $159.1 million and $162.9 million, respectively, due to originations, purchases, accretion of discounts and paid-in-kind interest. We recorded approximately $162.8 million and $544.3 million in repayments, participations, sales, foreclosures and loan loss reserves during those periods, respectively, which offset the increases in debt and preferred equity investments.

As of June 30, 2012 and December 31, 2011, we held the following debt investments with an aggregate weighted average current yield of approximately 9.53% (amounts in thousands):

Loan Type	June 30, 2012 Senior Financing	June 30, 2012 Carrying Value, Net of Discounts	December 31, 2011 Carrying Value, Net of Discounts	Initial Maturity Date
Other Loan	$ 15,000	$ 3,500	$ 3,500	September 2021
Mortgage/Mezzanine Loan(1)	1,109,000	108,549	108,817	March 2017
Mezzanine Loan	165,000	70,864	40,375	November 2016
Junior Participation	133,000	49,000	49,000	June 2016
Mortgage/ Mezzanine Loan	170,397	46,452	46,416	May 2016
Mezzanine Loan	177,000	16,500	17,112	May 2016
Mezzanine Loan	205,000	65,095	64,973	February 2016
Junior Participation(2)(4)			8,725	
Junior Participation(3)(4)			11,000	
Total fixed rate	$ 1,974,397	$ 359,960	$ 349,918	
Mezzanine Loan(5)	$ 81,000	$ 34,940	$ 34,940	October 2016
Mezzanine Loan	55,000	35,000	35,000	July 2016
Mortgage/ Mezzanine Loan		36,700		February 2015
Mezzanine Loan	45,000	10,000	10,000	January 2015
Mezzanine Loan	170,000	60,000	60,000	August 2014
Mezzanine Loan	62,500	37,500		July 2014
Mezzanine Loan(6)	75,000	7,650	7,650	July 2013
Junior Participation(4)	60,250	10,875	10,875	June 2013
Mortgage(7)	28,500	3,000	3,000	February 2013
Mezzanine Loan(8)	796,693	8,392	8,392	August 2012
Mezzanine Loan(9)	467,000	49,900	30,747	July 2012
Mortgage(10)			86,339	June 2012
Other Loan			3,196	
Total floating rate	$ 1,840,943	$ 293,957	$ 290,139	
Total	3,815,340	653,917	640,057	

Loan loss reserve(4)		**(7,000)**	(19,125)
	$ 3,815,340	**$ 646,917**	$ 620,932

(1) Interest is added to the principal balance for this accrual only loan.

(2) This loan was in default and on non-accrual status. We sold our interest in the loan in February 2012 and recovered $0.4 million against the reserve on this loan.

(3) In March 2012, we sold our interest in this loan and recovered $2.0 million against the reserve on this loan.

(4) Loan loss reserves are specifically allocated to investments. Our reserves reflect management s judgment of the probability and severity of losses based on Level 3 data. We cannot be certain that our judgment will prove to be correct or that reserves will be adequate over time to protect against potential future losses.

(5) As of June 30, 2012, we were committed to fund an additional $15.0 million in connection with this loan.

(6) In November 2011, we entered into a loan participation agreement in the amount of $7.4 million on a $15.0 million mortgage. Due to our continued involvement with the loan, the portion that was participated out has been recorded in other assets and other liabilities in the accompanying consolidated balance sheet.

(7) In June 2011, we funded an additional $5.5 million and extended the maturity date of this loan to February 2013. In September 2011, we entered into a loan participation in the amount of $28.5 million on a $31.5 million mortgage. We have assigned our right as servicer to a third party. Due to our continued involvement with the loan, the portion that was participated out has been recorded in other assets and other liabilities in the accompanying consolidated balance sheet.

(8) In connection with the extension of this loan, a portion of the mezzanine loan was converted to preferred equity. See note 4 to the next table. In June 2012, we acquired an additional 38.6% participation interest in this mezzanine loan. As a result of this acquisition, we have complete control over this position and can, therefore, control any restructuring. This mezzanine loan is on non-accrual status as of January 2012.

(9) As a result of the acquisition of the remaining 50% interest in November 2011 in the joint venture which held an investment in a debt position on the property located at 450 West 33rd Street, we have reclassified our investment as a debt investment. See Note 6, Investments in Unconsolidated Joint Ventures . This investment was repaid in full at maturity.

(10) We hold an 88% interest in the consolidated joint venture that acquired this loan. This investment is denominated in British Pounds. This loan was not repaid on its maturity date and was placed in receivership. The entity that holds the property which served as collateral for our loan position was determined to be a VIE under a reconsideration event and we have been determined to be the primary beneficiary. As a result of this determination, we consolidated the entity and reclassified the investment to assets held for sale on the consolidated balance sheet at June 30, 2012.

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SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2012

(Unaudited)

Preferred Equity Investments

As of June 30, 2012 and December 31, 2011, we held the following preferred equity investments, with an aggregate weighted average current yield of approximately 11.14% (amounts in thousands):

Type	June 30, 2012 Senior Financing	June 30, 2012 Carrying Value, Net of Discounts	December 31, 2011 Carrying Value, Net of Discounts	Initial Mandatory Redemption
Preferred equity(1)	**$ 926,260**	**$ 206,931**	$ 203,080	July 2016
Preferred equity(1)(2)	**56,935**	**16,042**		April 2016
Preferred equity(1)(3)(4)	**480,000**	**95,653**	141,980	July 2014
Preferred equity(1)(5)	**974,673**	**50,716**	51,000	