SL GREEN REALTY CORP
Form 10-K
February 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

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	**13-3956755**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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, $25.00 mandatory liquidation preference	New York Stock Exchange
7.875% Series D Cumulative Redeemable Preferred Stock, $0.01 par value, $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 x 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 x

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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of February 22, 2007, there were 59,169,987 shares of the Registrant s common stock outstanding. The aggregate market value of the common stock, held by non-affiliates of the Registrant (42,270,674 shares) at June 30, 2006 was $4,627,370,683. 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 the Annual Stockholders Meeting, to be held on May 24, 2007, are incorporated by reference into Part III of this Annual Report on Form 10-K.

SL GREEN REALTY CORP.

FORM 10-K

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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 and former Chief Executive Officer, 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.

As of December 31, 2006, our portfolio, which included interests in 28 properties aggregating 19.0 million square feet, consisted of 20 wholly-owned commercial office properties, or the wholly-owned properties, and eight partially-owned commercial office properties encompassing approximately 10.1 million and 8.9 million rentable square feet, respectively, located primarily in midtown Manhattan. Our wholly-owned interests in these properties represent fee ownership (15 properties), including ownership in condominium units, leasehold ownership (three properties) and operating sublease ownership (two properties). Pursuant to the operating sublease arrangements, we, as tenant under the operating sublease, perform the functions traditionally performed by landlords with respect to its subtenants. We are responsible for not only collecting rent from subtenants, but also maintaining the property and paying expenses relating to the property. As of December 31, 2006, the weighted average occupancy (total leased square feet divided by total available square feet) of our wholly-owned properties was 96.9%. Our eight partially-owned commercial office properties, which we own through unconsolidated joint ventures, are comprised of fee ownership (seven) and leasehold ownership (one). As of December 31, 2006 the weighted average occupancy of our partially-owned properties was 97.1%. We refer to our wholly-owned properties and unconsolidated joint ventures collectively as our portfolio. We also own interests in eight retail properties encompassing approximately 296,000 square feet and one residential redevelopment property encompassing 220,000 square feet. In addition, we manage three office properties owned by third-parties and affiliated companies encompassing approximately 1.0 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, 2006, our corporate staff consists of approximately 205 persons, including 161 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. We have also made available on our website our audit committee charter, compensation committee charter, corporate governance and nominating committee charter, code of business conduct and ethics and corporate governance principles.

Unless the context requires otherwise, all references to 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 this management entity 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, 2006, were the owner of approximately 94.9% 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. 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,

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2003, we have consolidated the operations of the Service Corporation into our financial results. Effective January 1, 2001, the Service Corporation elected to be taxed as a taxable REIT subsidiary.

Business and Growth Strategies

Our primary business objective is to maximize total return to stockholders through growth in funds from operations and appreciation in the value of our assets during any business cycle. We seek to achieve this objective by assembling a high quality portfolio of Manhattan office properties and capitalizing on current opportunities in the Manhattan office market through: (i) property acquisitions (directly or through joint ventures) - acquiring office properties at significant discounts to replacement costs and with fully escalated in-place rents at a discount to current market rents which provide attractive initial yields and the potential for cash flow growth, as well as properties with significant vacancies; (ii) property repositioning - repositioning acquired retail and commercial office properties that are under-performing through renovations, active management and proactive leasing; (iii) property dispositions; (iv) integrated leasing and property management; and (v) structured finance investments inclusive of our investment in Gramercy Capital Corp., or Gramercy (NYSE:GKK), in the greater New York area. Generally, we focus on properties that are within a ten-minute walk of midtown Manhattan s primary commuter stations.

Property Acquisitions. We acquire properties for long term appreciation and earnings growth (core assets) or for shorter term holding periods where we attempt to create significant increases in value which, when sold, result in capital gains that increase our investment capital base (non-core assets). In acquiring (core and non-core) properties, directly or through joint ventures with the highest quality institutional investors, we believe that we have the following advantages over our competitors: (i) senior management s average 20 years of experience as a full-service, fully-integrated real estate company focused on the office market in Manhattan; (ii) enhanced access to capital as a public company (as compared to the generally fragmented institutional or venture oriented sources of capital available to private companies); (iii) the ability to offer tax-advantaged structures to sellers through the exchange of ownership interests as opposed to solely cash transactions; and (iv) the ability to close a transaction quickly despite complicated ownership structures.

Property Repositioning. We apply our management s experience in enhancing property cash flow and value by renovating and repositioning properties to be among the best in their sub-markets. Many of the retail and commercial office buildings we own or acquire are located in or near sub-market(s) which are undergoing major reinvestment and where the properties in these markets have relatively low vacancy rates compared to other sub-markets. Because the properties feature unique architectural design, large floor plates or other amenities and functionally appealing characteristics, reinvestment in them provides us an opportunity to meet market needs and generate favorable returns.

Property Dispositions. We continuously evaluate our properties to identify which are most suitable to meet our long-term earnings growth objectives and contribute to increasing portfolio value. Properties such as smaller side-street properties or properties that simply no longer meet our earnings objectives are identified as non-core holdings, and are targeted for sale to create investment capital. We believe that we will be able to re-deploy capital generated from the disposition of non-core holdings into property acquisitions or investments in high-yield structured finance investments, which will provide enhanced future capital gain and earnings growth opportunities.

Leasing and Property Management. We seek to capitalize on our management s extensive knowledge of the Manhattan marketplace and the needs of the tenants therein by continuing a proactive approach to leasing and management, which includes: (i) use of in-depth market research; (ii) utilization of an extensive network of third-party brokers; (iii) use of comprehensive building management analysis and planning; and (iv) a commitment to tenant satisfaction by providing high quality tenant services at affordable rental rates. We believe proactive leasing efforts have contributed to average occupancy rates in our portfolio consistently exceeding the market average.

Structured Finance. We seek to invest in high-yield structured finance investments. These investments generally provide high current returns and, in certain cases, a potential for future capital gains. These investments may also serve as a potential source of real estate acquisitions for us. These investments include both floating rate and fixed rate investments. Our floating rate investments serve as a natural hedge for our unhedged floating rate debt. We intend to

invest not more than 10% of our total market capitalization in structured finance investments. With the commencement of operations of Gramercy, in August 2004, we have reduced our focus on direct structured finance investments made by us. We may make additional structured finance investments, subject to certain limitations, where Gramercy has determined that such investments do not fit its investment profile or where investments represent the refinancing of one of our existing investments or in connection with the sale of one of our properties. We hold a 25% non-controlling interest in Gramercy. Gramercy is managed by GKK Manager LLC, an affiliate of ours. Structured finance investments include first mortgages, mortgage participations, subordinate loans, bridge loans and preferred equity investments.

Competition

The Manhattan office market is a competitive marketplace. Although currently no other publicly traded REITs have been formed solely 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

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other than or in addition to Manhattan) 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 are less attractive from a financial viewpoint 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 391 million square feet, including 237 million square feet in Midtown. Based on current construction activity, we estimate that Midtown Manhattan will have approximately 3.6 million square feet of new construction becoming available in the next two years, 84% of which is pre-leased. This will add approximately 1.0% 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 generally is seven to ten 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).

In addition to base rent, the tenant also generally will pay the tenant s 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. During the year ended December 31, 2006, we were able to recover approximately 85.5% of our electric costs.

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 properties based on space leased as of December 31, 2006, 2005 and 2004:

	Percent Occupied as of December 31,		
Property	**2006**	**2005**	**2004**
Same-Store Properties (1)	97.5 %	96.0 %	94.5 %
Joint Venture Properties	97.1 %	97.4 %	97.1 %
Portfolio	97.0 %	96.7 %	95.6 %

(1) Represents 16 of our 20 wholly-owned properties owned by us at December 31, 2004 and still owned by us at December 31, 2006.

Rent Growth

We estimate that rents in place, at December 31, 2006, in our wholly-owned properties are approximately 30.2% below current market asking rents. We estimate that rents in place at December 31, 2006 in our properties owned through joint ventures are approximately 40.9% below current market asking rents. This comparative measure was approximately 18.7% at December 31, 2005 for the wholly-owned properties and 38.4% for the joint venture properties. As of December 31, 2006, 38.5% and 38.8% of all leases in-place in our wholly-owned and joint venture properties, respectively, are scheduled to expire during the next five years. We expect to capitalize on embedded rent growth as these leases and future leases expire by renewing or replacing these tenant leases at higher prevailing market rents. 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 properties in Manhattan and have two reportable segments, office real estate and structured finance investments. We evaluate real estate performance and allocate resources based on earnings contribution to net operating income.

At December 31, 2006, our real estate portfolio was primarily located in one geographical market, namely, Manhattan. 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, 2006, one tenant in our portfolio contributed approximately 7.9% of our portfolio annualized rent. No other tenant contributed more than 4.4% of our portfolio annualized rent. In addition, 420 Lexington Avenue contributed in excess of 10% of our consolidated revenue for 2006. See Item 2 Properties 420 Lexington Avenue for a further discussion on this property. Portfolio annualized rent includes our consolidated annualized revenue and our share of joint venture annualized revenue. In addition, one borrower accounted for more than 10.0% of the revenue earned on structured finance investments at December 31, 2006.

Employees

At December 31, 2006, we employed approximately 814 employees, over 161 of whom were managers and professionals, approximately 611 of whom were hourly-paid employees involved in building operations and approximately 42 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 2006, we acquired two wholly-owned properties, namely, 521 Fifth Avenue and 609 Fifth Avenue, and a tenancy-in-common interest representing a 50 percent interest in 55 Corporate Drive, NJ, for an aggregate gross purchase price of $510.0 million and encompassing 1.3 million rentable square feet. We also acquired most of the remaining interest in 485 Lexington Avenue at an implied value of $578.0 million. In addition, we acquired a 50% ownership interest in three retail properties, namely, 25/27-29 West 34th Street for a gross aggregate purchase price of $30.0 million. These properties encompass approximately 51,000 rentable square feet. We invested in two joint ventures valued at approximately $412.5 million and encompassing approximately 1.4 million rentable square feet. We also invested in the retail condominium and 1 floor of office space at 717 Fifth Avenue at an implied value of approximately $235.0 million. This property encompasses approximately 76,400 rentable square feet.

Dispositions

During 2006, we sold the properties located at 286/290 Madison Avenue and 1140 of the Americas for a gross sale of $160.5 million. We realized gains of approximately $94.0 million on the sales of these properties, which encompassed 340,000 rentable square feet.

During 2006, we sold a 49.9% interest in the 460,000 square foot property located at 521 Fifth Avenue for $240.0 million. We realized a gain of approximately $3.5 million on the sale of this interest.

Structured Finance

During 2006, we originated approximately $240.7 million in structured finance and preferred equity investments (net of discount). There were also approximately $195.7 million in repayments and participations in 2006. We also made a $20.1 million investment in Gramercy, maintaining our 25% interest.

Offering/Financings

In 2006, we sold 6,498,100 shares of our common stock, raising net proceeds of approximately $800.3 million in two separate transactions.

We also closed on mortgage financings at four properties totaling approximately $472.5 million.

Recent Developments

In January 2007, we acquired Reckson Associates Realty Corp. for approximately $6.0 billion, inclusive of transaction costs. Simultaneously, we sold approximately $2.0 billion of the Reckson assets to an asset purchasing venture which includes certain former members of Reckson s senior management. The transaction includes the acquisition of 30 properties encompassing approximately 9.2 million square feet, of which five properties encompassing approximately 4.2 million square feet are located in Manhattan. In connection with the acquisition, we issued approximately 9.0 million shares of our common stock, closed on $298.0 million of new mortgage financing and a $500.0 million term loan, and assumed approximately $238.6 million of mortgage debt, approximately $967.8 million of public unsecured notes and approximately $287.5 million of public convertible debt. In connection with the Reckson acquisition, we made loans totaling $215.0 million to the asset purchasing venture. We may syndicate all or a portion of these loans.

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In January 2007, we exercised the accordion feature in our unsecured revolving line of credit. As a result, the capacity under the unsecured revolver increased by $300.0 million to $800.0 million.

On January 29, 2007, we completed a refinancing of the first mortgage loan on 485 Lexington Avenue for $450.0 million. The ten-year interest only mortgage has an effective interest rate of 5.566%. The mortgage matures in January 2017.

On January 30, 2007, a joint venture of SL Green, SITQ Immobilier and SEB Immobilier - Investment GMbH announced that it is selling One Park Avenue for $550.0 million. We expect to receive approximately $108.0 million in proceeds from the sale, a substantial portion of which will represent an incentive distribution under our joint venture arrangement with SEB. The proceeds may be utilized in a tax efficient 1031-exchange. The sale, which is subject to customary closing conditions, is expected to close in the first quarter of 2007.

On January 30, 2007, we announced that we have entered into an agreement to sell 70 West 36th Street for $61.5 million. The sale, which is subject to customary closing conditions, is expected to close in the first quarter of 2007. The proceeds may be utilized in a tax efficient 1031-exchange.

In January, 2007, we acquired 300 Main Street in Stamford, Connecticut and 399 Knollwood Road in White Plains, New York for approximately $46.6 million, inclusive of 50,000 square feet of garage parking at 300 Main Street, from affiliates of RPW Group. These properties are being managed and leased by our management team and by the former Reckson management team located in White Plains, NY.

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Item 1A. Risk Factors

Declines in the demand for office space in New York City, and in particular, in midtown Manhattan, 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 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 revenues, and thus adversely affect our ability to service current debt and to pay dividends to stockholders.

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. Over the next five years, through the end of 2011, leases will expire on approximately 38.5% and 38.8% of the rentable square feet at our wholly-owned and joint venture properties, respectively. As of December 31, 2006, approximately 3.9 million and 3.3 million square feet are scheduled to expire by December 31, 2011 at our wholly-owned and joint venture properties, respectively, and these leases currently have annualized escalated rental income totaling approximately $164.3 million and $164.2 million, respectively. If we are unable to promptly renew the leases or relet this space at similar rates, our cash flow and ability to service debt and pay dividends to stockholders would be adversely affected.

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

Our interest in six of our commercial office properties is through either long-term leasehold or operating sublease interests in the land and the improvements, rather than by a fee interest in the land. 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 and our interest in the improvements upon expiration of the leases, which would significantly adversely affect our results of operations. These properties are 673 First Avenue, 420 Lexington Avenue, 461 Fifth Avenue, 711 Third Avenue, 625 Madison Avenue and 521 Fifth Avenue. The average remaining term of these long-term leases, including our unilateral extension rights on each of the properties, is approximately 30 years. Pursuant to the operating sublease arrangements, we, as tenant under the operating sublease, perform the functions traditionally performed by landlords with respect to our subtenants. We are responsible for not only collecting rent from our subtenants, but also maintaining the property and paying expenses relating to the property. The annualized escalated rents of these properties at December 31, 2006 totaled approximately $152.9 million, or 24.3%, of our share of total portfolio annualized revenue associated with these properties.

Reliance on major tenants and insolvency or bankruptcy of these and other tenants could adversely affect our results of operations.

Giving effect to leases in effect as of December 31, 2006 for wholly-owned and joint venture properties as of that date, our five largest tenants, based on square footage leased, accounted for approximately 22.4% of our share of portfolio annualized rent, and, other than three tenants, Viacom International Inc., Credit Suisse Securities (USA) LLC and Citigroup, N.A. who accounted for approximately 7.9%, 4.4% and 4.4% of our share of portfolio annualized rent, respectively, no tenant accounted for more than 3.3% of that total. Our business would be adversely affected if any of these tenants or any other tenants became insolvent, declared bankruptcy or otherwise refused to pay rent in a timely fashion or at all.

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 necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline even if our revenues do. Our operating costs could also increase while our revenues do not. If our operating costs increase but our rental revenues do not, we may be forced to borrow to cover our costs, we may incur losses and we may not have cash available for distributions to our stockholders.

We face risks associated with property acquisitions.

Since our initial public offering, we have made acquisitions of individual properties and portfolios of properties. We intend to continue to acquire individual properties and portfolios of properties, including large portfolios that could significantly increase our size and alter our capital structure. Our acquisition activities and their success may be exposed to the following risks:

- we may be unable to acquire a desired property because of competition from other well capitalized real estate investors, including publicly traded REITs, institutional investment funds and private investors or at all;
- 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;
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;
- 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 as a result 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 based upon 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 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 with 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, institutional investment funds, investment banking firms and other real estate 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 three large properties for a significant portion of our revenue.

As of December 31, 2006, three of our properties, 420 Lexington Avenue, 1221 Avenue of the Americas and 1515 Broadway, accounted for approximately 28% of our portfolio annualized rent, including our share of joint venture annualized rent, and 1221 Avenue of the Americas alone accounted for approximately 10% 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 the ground lease for the 420 Lexington Avenue property were terminated for any reason or if one or all 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 our tenants at these properties experienced a downturn in their business which may weaken their financial condition and result in their failure to timely make rental payments, defaulting under their leases or filing 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 would 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) and liability insurance with limits in excess of $200.0 million per location. The property coverage has a blanket limit of $600.0 million per occurrence for all the properties in our portfolio with a sub-limit of $450.0 million for acts of terrorism. The property policies expire on December 31, 2007 and the liability policies expire on October 31, 2007. The new property policies incorporate our newly formed Belmont Insurance Company, or Belmont, a captive insurance company which we formed and which received its license to underwrite insurance in New York State, in an effort to stabilize, to some extent, the fluctuations of insurance market conditions. Belmont is licensed to write up to $100.0 million of coverage for us, but at this time is providing $50.0 million of terrorism coverage in excess of $100.0 million and is insuring a large deductible on the liability insurance with a $250,000 deductible per occurrence and a $2,000,000 annual aggregate loss limit. We have secured an insurer to protect against catastrophic liability losses. We have retained a third party administrator to manage all claims within the deductible and we anticipate that direct management of liability claims will improve loss experience and ultimately lower the cost of liability insurance in future years. We have a 45% interest in the property at 1221 Avenue of the Americas, where we participate with the Rockefeller Group Inc., which carries a blanket policy providing $1.0 billion of all-risk property insurance, including terrorism coverage, and 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, together with Gramercy, own One Madison Avenue, which is under a triple net lease with insurance provided by the tenant, Credit Suisse Securities (USA) LLC. We monitor the coverage provided by Credit Suisse Securities (USA) LLC to make sure that our asset is adequately protected. 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.

In October 2006, we formed a wholly-owned taxable REIT subsidiary, Belmont, to act as a captive insurance company and be one of the elements of our overall insurance program. Belmont acts as a direct insurer with respect to a portion of our terrorism coverage and provides primary liability insurance to cover the deductible program. 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 January 1, 2006. Congress extended TRIA, now called TRIEA (Terrorism Risk Insurance Extension Act) until December 31, 2007. Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), mezzanine loans, ground leases and our 2005 unsecured revolving credit facility and secured and unsecured term loans, contain customary covenants requiring us to maintain insurance. 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 that allows 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 insist on full coverage for these risks and prevail in asserting that we are required to maintain such coverage, it could result in substantially higher insurance premiums.

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, including Class A 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.

The total principal amount of our outstanding consolidated indebtedness was approximately $1.8 billion as of December 31, 2006, consisting of $325.0 million under our unsecured term loan, $200.0 million under our secured term loan, $100.0 million under our junior subordinated deferrable interest debentures and approximately $1.2 billion of non-recourse mortgage loans on thirteen of our properties. In addition, we could increase the amount of our outstanding indebtedness in the future, in part by borrowing under our 2005 unsecured revolving credit facility, which had $484.0 million available for draw as of December 31, 2006. Our 2005 unsecured revolving credit

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facility matures in September 2008. Our unsecured term loan matures in August 2009. Our secured term loan matures in May 2010. As of December 31, 2006, the total principal amount of non-recourse indebtedness outstanding at the joint venture properties was approximately $2.5 billion, of which our proportionate share was approximately $1.2 billion. Cash flow could be insufficient to pay distributions at expected levels and meet the payments of principal and interest required under our current mortgage indebtedness, credit facilities, term loans, debentures and indebtedness outstanding at our joint venture properties.

If we are unable to make payments under our unsecured credit facility and our secured and unsecured term loans, all amounts due and owing at such time shall accrue interest at a rate equal to 4% higher than the rate at which each such loan 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 scheduled payments under our secured and unsecured term loans and unsecured credit facility would have a negative impact on our financial condition and results of operations.

We may not be able to refinance existing indebtedness, which in all cases requires substantial principal payments at maturity. In 2007, approximately $83.8 million and $880.2 million of debt on our wholly-owned buildings and our joint venture properties, respectively, will mature. At the present time we intend to exercise extension options or refinance the debt associated with our properties on or prior to their respective maturity dates. If any principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow will not be sufficient in all years to repay all maturing debt. 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.

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

The mortgages on our properties contain customary negative covenants that limit our ability to further mortgage the property, to enter into new leases or materially modify existing leases, and to discontinue insurance coverage. In addition, our 2005 unsecured revolving credit facility contains customary restrictions and requirements on our method of operations. Our 2005 unsecured revolving credit facility and unsecured term loan also require us to maintain designated ratios of total debt-to-assets, debt service coverage and unencumbered assets-to-unsecured debt. Restrictions on our ability to conduct business 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 2005 unsecured revolving credit facility and unsecured term loan and certain property-level mortgage debt bear interest at a variable rate. These variable rate borrowings totaled approximately $303.7 million at December 31, 2006. In addition, we could increase the amount of our outstanding variable rate debt in the future, in part by borrowing under our 2005 unsecured revolving credit facility, which had $484.0 million available for draw as of December 31, 2006. Borrowings under our 2005 unsecured revolving credit facility bear interest at a spread equal to the 30-day LIBOR, plus 110 basis points. Borrowings under our unsecured term loan and our secured term loan bear interest at spreads equal to the 30-day LIBOR plus 140 and 125 basis points, respectively. As of December 31, 2006, borrowings under the 2005 unsecured revolving credit facility and secured and unsecured term loans and junior subordinated deferrable interest debentures totaled $0.0, $200.0 million, $325.0 million and $100.0 million, respectively, and bore interest at 6.42%, 5.00%, 5.34%, and 5.61%, respectively. 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. Accordingly, increases in interest rates above that which we anticipated based upon historical trends could adversely affect our ability to continue to make distributions to stockholders. At December 31, 2006, a hypothetical 100 basis point increase in interest rates along the entire interest rate curve would increase our annual interest costs by approximately $2.9 million and would increase our share of joint venture annual interest costs by approximately $6.7 million.

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, these arrangements may not be effective in reducing our exposure to interest rate changes. Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

Our policy of no limitation on debt could adversely affect our cash flow.

Our organizational documents do not contain any limitation on the amount of indebtedness we may incur. As of December 31, 2006, assuming the conversion of all outstanding units of the operating partnership into shares of our common stock, our combined debt-to-market capitalization ratio, including our share of joint venture debt of $1.2 billion, was approximately 29.5%. However, our policy is to incur debt only if upon a conversion our consolidated debt to market capitalization ratio would be 60.0% or less. Our board of directors can alter or eliminate this policy and may do so if our board of directors determines that this action is in the best interests of our business. If this policy is changed and we become more highly leveraged, an increase in debt service could adversely affect cash available for distribution to stockholders and could increase the risk of default on our indebtedness. In addition, any change that increases our debt to

market capitalization percentage could be viewed negatively by investors. As a result, our share price could decrease.

We have established our debt policy relative to the total market capitalization of our business rather than relative to the book value of our assets. We use total market capitalization because we believe that the book value of our assets, which to a large extent is the depreciated original cost of our properties, and our primary tangible assets, does not accurately reflect our ability to borrow and to meet debt service requirements. Our market capitalization, however, is more variable than book value, and does not necessarily reflect the fair market value of our assets at all times. We also will consider factors other than market capitalization in making decisions regarding the incurrence of indebtedness, such as the purchase price of properties to be acquired with debt financing, the estimated market value of our properties upon refinancing and the ability of particular properties and our business as a whole to generate cash flow to cover expected debt service.

Structured finance investments could cause expenses, which could adversely affect our results of operations.

We owned mezzanine loans, junior participations and preferred equity interests in eighteen properties with an aggregate book value of approximately $445.0 million at December 31, 2006. Such investments may or may not be recourse obligations of the borrower and are not insured or guaranteed by governmental agencies or otherwise. In the event of a default under these obligations, we may have to realize upon our collateral and thereafter make substantial improvements or repairs to the underlying real estate in order to maximize the property s investment potential. Borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce their obligation to us. Relatively high loan-to-value ratios and declines in the value of the property may prevent us from realizing an amount equal to our investment upon foreclosure or realization. In addition, under the origination agreement with Gramercy, we may be precluded from making certain types of structured finance investments.

Joint investments could be adversely affected by our lack of sole decision-making authority and reliance upon a co-venturer s financial condition.

We co-invest with third parties through partnerships, joint ventures, co-tenancies or other entities, acquiring non-controlling interests in, or sharing responsibility for managing the affairs of, a property, partnership, joint venture, co-tenancy or other entity. Therefore, we will not be in a position to exercise sole decision-making authority regarding that property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may involve risks not present were a third party not involved, including the possibility that our partners, co-tenants or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, our partners or co-venturers might at any time have economic or other business interests or goals, which are inconsistent with our business interests or goals. These investments may also have the potential risk of impasses on decisions such as a sale, because neither we nor the partner, co-tenant or co-venturer would have full control over the partnership or joint venture. Consequently, actions by such partner, co-tenant or co-venturer might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in specific circumstances be liable for the actions of our third-party partners, co-tenants or co-venturers. As of December 31, 2006, our unconsolidated joint ventures owned eight properties and we had an aggregate cost basis in the joint ventures totaling approximately $686.1 million. As of December 31, 2006, our share of joint venture debt totaled approximately $1.2 billion.

Our joint venture agreements contain terms in favor of our partners that may have an adverse effect on the value of our investments in the joint ventures.

Each of our joint venture agreements has been individually negotiated with our partner in the joint venture and, in some cases, we have agreed to terms that are favorable to our partner in the joint venture. For example, our partner may be entitled to a specified portion of the profits of the joint venture before we are entitled to any portion of such profits and our partner may have rights to buy our interest in the joint venture, to force us to buy the partner s interest in the joint venture or to compel the sale of the property owned by such joint venture. These rights may permit our partner in a particular joint venture to obtain a greater benefit from the value or profits of the joint venture than us, which may have an adverse effect on the value of our investment in the joint venture and on our financial condition and results of operations. We may also enter into similar arrangements in the future.

We are subject to possible environmental liabilities and other possible liabilities.

We are subject to various federal, state and local environmental laws. These laws regulate our use, storage, disposal and management of hazardous substances and wastes and can impose liability on property owners or operators for the clean-up of certain hazardous substances released on a property and any associated damage to natural resources without regard to whether the release was legal or whether it was caused by the property owner or operator. The presence of hazardous substances on our properties may adversely affect occupancy and our ability to develop or sell or borrow against those properties. In addition to potential liability for clean-up costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Various laws also impose liability for the clean-up of contamination at any facility (e.g., a landfill) to which we have sent hazardous substances for treatment or disposal, without regard to whether the materials were transported, treated and disposed in accordance with law.

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Our properties may be subject to other risks relating to current or future laws including laws benefiting disabled persons, and other state or local zoning, construction or other regulations. These laws may require significant property modifications in the future for which we may not have budgeted and could result in fines being levied against us. The occurrence of any of these events could have an adverse impact on our cash flows and ability to make distributions to stockholders.

We may incur significant costs complying with the Americans with Disabilities Act and similar laws.

Under the Americans with Disabilities Act, or ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Additional federal, state and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. We have not conducted an audit or investigation of all of our properties to determine our compliance. If one or more of our properties is not in compliance with the ADA or other legislation, then we would be required to incur additional costs to bring the property into compliance. We cannot predict the ultimate amount of the cost of compliance with ADA or other legislation. If we incur substantial costs to comply with the ADA and any other legislation, our financial condition, results of operations and cash flow and/or ability to satisfy our debt service obligations and to pay dividends to our stockholders could be adversely affected.

Our charter documents and applicable law may hinder any attempt to acquire us, which could discourage takeover attempts and prevent our stockholders from receiving a premium over the market price of our stock.

Provisions of our articles of incorporation and bylaws could inhibit changes in control.

A change of control of our company could benefit stockholders by providing them with a premium over the then-prevailing market price of the stock. However provisions contained in our articles of incorporation and bylaws may delay or prevent a change in control of our company. These provisions, discussed more fully below, are:

- staggered board of directors;
- ownership limitations for tax purposes;
- the board of director s ability to issue additional common stock and preferred stock without stockholder approval; and
- stockholder rights plan.

Our board of directors is staggered into three separate classes.

The board of directors of our company is divided into three classes. The terms of the class I, class II and class III directors expire in 2007, 2008 and 2009, respectively. Our staggered board may deter changes in control because of the increased time period necessary for a third party to acquire control of the board.

We have a share ownership limit for REIT tax purposes.

To remain qualified as a REIT for federal income tax purposes, not more than 50% in value of our outstanding capital stock may be owned by five or fewer individuals at any time during the last half of any taxable year. For this purpose, stock may be owned directly, as well as indirectly under certain constructive ownership rules, including, for example, rules that attribute stock held by one family member to another family member. To avoid violating this rule regarding share ownership limitations and maintain our REIT qualification, our articles of incorporation prohibit ownership by any single stockholder of more than 9.0% in value or number of shares of our common stock. Limitations on the ownership of preferred stock may also be imposed by us.

The board of directors has the discretion to raise or waive this limitation on ownership for any stockholder if deemed to be in our best interest. To obtain a waiver, a stockholder must present the board and our tax counsel with evidence that ownership in excess of this limit will not affect our present or future REIT status.

Absent any exemption or waiver, stock acquired or held in excess of the limit on ownership will be transferred to a trust for the exclusive benefit of a designated charitable beneficiary, and the stockholder s rights to distributions and to vote would terminate. The stockholder would be entitled to receive, from the proceeds of any subsequent sale of the shares transferred to the charitable trust, the lesser of: the price paid for the stock or, if the owner did not pay for the stock, the market price of the stock on the date of the event causing the stock to be transferred to the

charitable trust; and the amount realized from the sale.

This limitation on ownership of stock could delay or prevent a change in control.

We have a stockholder rights plan.

We adopted a stockholder rights plan which provides, among other things, that when specified events occur, our stockholders will be entitled to purchase from us a newly created series of junior preferred shares, subject to our ownership limit described above. The preferred share purchase rights are triggered by the earlier to occur of (1) ten days after the date of a public announcement that a person or group acting in concert has acquired, or obtained the right to acquire, beneficial ownership of 17% or more of our outstanding shares of common stock or (2) ten business days after the commencement of or announcement of an intention to make a tender offer or exchange

offer, the consummation of which would result in the acquiring person becoming the beneficial owner of 17% or more of our outstanding common stock. The preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors.

Maryland takeover statutes may prevent a change of control of our company, which could depress our stock price.

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s outstanding shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.
- A person is not an interested stockholder under the statute if the board of directors approves in advance the transaction by which he otherwise would have become an interested stockholder.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation, voting together as a single group; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

In addition, Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition will have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock owned by the acquiror, by officers of the corporation or by directors who are employees of the corporation, under the Maryland Control Share Acquisition Act. Control shares means voting shares of stock that, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (i) one-tenth or more but less than one-third, (ii) one-third or more but less than a majority, or (iii) a majority or more of all voting power. A control share acquisition means the acquisition of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares, subject to certain exceptions.

We have opted out of these provisions of the Maryland General Corporation Law, or the MGCL, with respect to business combinations and control share acquisitions by resolution of our board of directors and a provision in our bylaws, respectively. However, in the future, our board of directors may reverse its decision by resolution and elect to opt in to the MGCL s business combination provisions, or amend our bylaws and elect to opt in to the MGCL s control share provisions.

Additionally, Title 8, Subtitle 3 of the MGCL permits our board of directors, without stockholder approval and regardless of what is provided in our charter or bylaws, to implement takeover defenses, some of which we do not have. Such takeover defenses, if implemented, may have the

effect of inhibiting a third party from making us an acquisition proposal or of delaying, deferring or preventing a change in our control under circumstances that otherwise could provide you with an opportunity to realize a premium over the then-current market price.

Future issuances of common stock and preferred stock could dilute existing stockholders interests.

Our articles of incorporation authorize our board of directors to issue additional shares of common stock and preferred stock without stockholder approval. Any such issuance could dilute our existing stockholders interests. Also, any future series of preferred stock may have voting provisions that could delay or prevent a change of control.

Changes in market conditions could adversely affect the market price of our common stock.

As with other publicly traded equity securities, the value of our common stock depends on various market conditions, which may change from time to time. Among the market conditions that may affect the value of our common stock are the following:

- the extent of your interest in us;

- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

- our financial performance; and

- general stock and bond market conditions.

The market value of our common stock is based primarily upon the market s perception of our growth potential and our current and potential future earnings and cash dividends. Consequently, our common stock may trade at prices that are higher or lower than our net asset value per share of common stock. If our future earnings or cash dividends are less than expected, it is likely that the market price of our common stock will diminish.

Market interest rates may have an effect on the value of our common stock.

If market interest rates go up, prospective purchasers of shares of our common stock may expect a higher distribution rate on our common stock. Higher market interest rates would not, however, result in more funds for us to distribute and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common stock to go down.

There are potential conflicts of interest between us and Mr. Green.

There is a potential conflict of interest relating to the disposition of the property contributed to us by Stephen L. Green, and his family. Mr. Green serves as the chairman of our board of directors and is an executive officer. As part of our formation, Mr. Green contributed appreciated property, with a net book value of $73.5 million, to the operating partnership in exchange for units of limited partnership interest in the operating partnership. He did not recognize any taxable gain as a result of the contribution. The operating partnership, however, took a tax basis in the contributed property equal to that of the contributing unitholder. The fair market value of the property contributed by him exceeded his tax basis by approximately $34.0 million at the time of contribution. The difference between fair market value and tax basis at the time of contribution represents a built-in gain. If we sell a property in a transaction in which a taxable gain is recognized, for tax purposes the built-in gain would be allocated solely to him and not to us. As a result, Mr. Green has a conflict of interest if the sale of a property, which he contributed, is in our best interest but not his.

There is a potential conflict of interest relating to the refinancing of indebtedness specifically allocated to Mr. Green. Mr. Green would recognize gain if he were to receive a distribution of cash from the operating partnership in an amount that exceeds his tax basis in his partnership units. His tax basis includes his share of debt, including mortgage indebtedness, owed by our operating partnership. If our operating partnership were to retire such debt, then he would experience a decrease in his share of liabilities, which, for tax purposes, would be treated as a distribution of cash to him. To the extent the deemed distribution of cash exceeded his tax basis, he would recognize gain.

Limitations on our ability to sell or reduce the indebtedness on specific mortgaged properties could adversely affect the value of the stock.

We have agreed to restrictions relating to future transactions involving 673 First Avenue and 470 Park Avenue South. During the period of time that these restrictions apply, our ability to manage or use these properties in a manner that is in our overall best interests may be impaired. In particular, these restrictions could preclude us from participating in major transactions otherwise favorable to us if a disposition of these restricted assets is required. These restrictions may also inhibit a change in control of our company even though a disposition or change in control might be in the best interests of the stockholders.

Specifically, we have agreed not to sell our interest in these properties until August 20, 2009 without the approval of unitholders holding at least 75% of the units issued in consideration for these properties. The current gross carrying value of the commercial real estate of these properties totaled approximately $87.9 million at December 31, 2006. We have also agreed not to reduce the mortgage indebtedness (approximately $33.8 million at December 31, 2006), other than pursuant to scheduled amortization, on 673 First Avenue until one year prior to its maturity date without the same consent. In addition, we are obligated to use commercially reasonable efforts to refinance this mortgage prior to its maturity date in an amount not less than the principal amount outstanding on the maturity date. With respect to 673 First Avenue, Mr. Green controls at least 75% of the units whose approval is necessary. With respect to 470 Park Avenue South, Mr. Green controls at least 65% of the units whose approval is necessary. Finally, during this period, we may not incur debt secured by any of these properties if the amount of our new debt would

exceed the greater of 75% of the value of the property securing the debt or the amount of existing debt being refinanced plus associated costs. The maturity date for the mortgage loan for 673 First Avenue is February 11, 2013.

In addition, on May 15, 2002, we acquired the property located at 1515 Broadway, New York, New York. Under a tax protection agreement established to protect the limited partners of the partnership that transferred 1515 Broadway to us, we have agreed not to take certain action that would adversely affect the limited partners tax positions before December 31, 2011. We also acquired the property located at 220 East 42nd Street, New York, New York, on February 13, 2003. We have agreed not to take certain action that would adversely affect the tax positions of certain of the partners who held interests in this property prior to the acquisition for a period of seven

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years, after the acquisition. We also acquired the property located at 625 Madison Avenue, New York, New York, on October 19, 2004 and have agreed not to take certain action that would adversely affect the tax positions of certain of the partners who held interests in this property prior to the acquisition for a period of seven years after the acquisition.

In connection with future acquisitions of interests in properties, we may agree to similar restrictions on our ability to sell or refinance the acquired properties with similar potential adverse consequences.

We face potential conflicts of interest.

Members of management may have a conflict of interest over whether to enforce terms of agreements with entities in which senior management, directly or indirectly, has an interest.

Two entities owned by one of Mr. Green s sons, First Quality Maintenance, L.P. and Classic Security LLC, currently provide cleaning, exterminating and security services to all of our office properties, with the exception of cleaning services at one property. Our company and our tenants accounted for approximately 13.4% of First Quality Maintenance, L.P. s 2006 total revenue and 39.7% of Classic Security LLC s 2006 total revenue. Bright Star Courier, LLC, a messenger service company owned by one of Mr. Green s sons, has provided messenger services at of our properties since May 1, 2002. We accounted for approximately 28.8% of Bright Star Courier, LLC s 2006 total revenue. In addition, Onyx Restoration Works, a restoration company owned by one of Mr. Green s sons, has provided restoration services at all of our properties since March 2005. We accounted for approximately 62.8% of Onyx Restoration Works 2006 total revenue. While the contracts pursuant to which these services are provided are reviewed by our board of directors, they are not the result of arm s length negotiations and, therefore, there can be no assurance that the terms and conditions are not less favorable than those which could be obtained from third parties providing comparable services. In addition, to the extent that we choose to enforce our rights under any of these agreements, we may determine to pursue available remedies, such as actions for damages or injunctive relief, less vigorously than we otherwise might because of our desire to maintain our ongoing relationship with the individual involved.

Members of management may have a conflict of interest over whether to enforce terms of senior management s employment and noncompetition agreements.

Stephen Green, Marc Holliday, Gregory Hughes, Andrew Levine and Andrew Mathias entered into employment and noncompetition agreements with us pursuant to which they have agreed not to actively engage in the acquisition, development or operation of office real estate in the New York City metropolitan area. For the most part these restrictions apply to the executive both during his employment and for a period of time thereafter. Each executive is also prohibited from otherwise disrupting or interfering with our business through the solicitation of our employees or clients or otherwise. To the extent that we choose to enforce our rights under any of these agreements, we may determine to pursue available remedies, such as actions for damages or injunctive relief, less vigorously than we otherwise might because of our desire to maintain our ongoing relationship with the individual involved. Additionally, the non-competition provisions of these agreements despite being limited in scope and duration, could be difficult to enforce, or may be subject to limited enforcement, should litigation arise over them in the future. Mr. Green has interests in two properties in Manhattan, which are exempt from the non-competition provisions of his employment and non-competition agreement.

Our failure to qualify as a REIT would be costly.

We believe we have operated in a manner to qualify as a REIT for federal income tax purposes and intend to continue to so operate. Many of these requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of factual matters and circumstances. These matters, some of which may not be totally within our control, can affect our qualification as a REIT. For example, to qualify as a REIT, at least 95% of our gross income must come from designated sources that are listed in the REIT tax laws. We are also required to distribute to stockholders at least 90% of our REIT taxable income excluding capital gains. The fact that we hold our assets through the operating partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the Internal Revenue Service, which we refer to as the IRS, might make changes to the tax laws and regulations, and the courts might issue new rulings that make it more difficult, or impossible, for us to remain qualified as a REIT.

If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS grants us relief under specific statutory provisions, we would remain disqualified as a REIT for four years following the year we first failed to qualify. If we failed to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to stockholders. This would likely have a significant adverse effect on the value of our securities. In addition, the REIT tax laws

would no longer require us to make any distributions to stockholders.

Previously enacted tax legislation reduces tax rates for dividends paid by non-REIT corporations.

Under certain previously enacted tax legislation, the maximum tax rate on dividends to individuals has generally been reduced from 38.6% to 15% (from January 1, 2003 through December 31, 2008). The reduction in rates on dividends is generally not applicable to dividends paid by a REIT except in limited circumstances that we do not contemplate. Although this legislation will not adversely affect

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the taxation of REITs or dividends paid by REITs, the favorable treatment of regular corporate dividends could cause investors who are individuals to consider stock of non-REIT corporations that pay dividends as relatively more attractive than stocks of REITs. It is not possible to predict whether such a change in perceived relative value will occur or what the effect, if any, this legislation will have on the market price of our stock.

We are dependent on external sources of capital.

Because of distribution requirements imposed on us to qualify as a REIT, it is not likely that we will be able to fund all future capital needs, including acquisitions, from income from operations. We therefore will have to rely on third-party sources of capital, which may or may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of things, including the market s perception of our growth potential and our current and potential future earnings. In addition, we anticipate having to raise money in the public equity and debt markets with some regularity, and our ability to do so will depend upon the general conditions prevailing in these markets. At any time conditions may exist which effectively prevent us, and REITs in general, from accessing these markets. Moreover, additional equity offerings may result in substantial dilution of our stockholders interests, and additional debt financing may substantially increase our leverage.

We face significant competition for tenants.

The leasing of real estate is highly competitive. The principal means of competition are rent charged, location, services provided and the nature and condition of the facility to be leased. We directly compete with all lessors and developers of similar space in the areas in which our properties are located. Demand for retail space has been impacted by the recent bankruptcy of a number of retail companies and a general trend toward consolidation in the retail industry, which could adversely affect the ability of our company to attract and retain tenants.

Our office building properties are concentrated in highly developed areas of midtown Manhattan. Manhattan is the largest office market in the United States. The number of competitive office properties in Manhattan (which may be newer or better located than our properties) could have a material adverse effect on our ability to lease office space at our properties, and on the effective rents we are able to charge.

Loss of our key personnel could harm our operations.

We are dependent on the efforts of Stephen L. Green, the chairman of our board of directors and an executive officer, and Marc Holliday, our chief executive officer and president. A loss of the services of either of these individuals could adversely affect our operations.

Our business and operations would suffer in the event of system failures.

Despite system redundancy, the implementation of security measures and the existence of a Disaster Recovery Plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses, affect our operations and affect our reputation.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations and New York Stock Exchange rules, are creating uncertainty for public companies. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors audit of that assessment has required the commitment of significant financial and managerial resources. In addition, it has become more difficult and more expensive for us to obtain director and officer liability insurance. We expect these efforts to require the continued commitment of significant resources. Further, our directors, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified

directors and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

Forward-Looking Statements May Prove Inaccurate

See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-looking Information for additional disclosure regarding forward-looking statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of December 31, 2006, we did not have any unresolved comments with the staff of the SEC.

ITEM 2. PROPERTIES

The Portfolio

General

As of December 31, 2006, we wholly-owned 20 commercial office properties encompassing approximately 10.1 million rentable square feet located primarily in midtown Manhattan. Certain of these properties include at least a small amount of retail space on the lower floors, as well as basement/storage space. As of December 31, 2006, our portfolio also included ownership interests in eight unconsolidated joint ventures, which own commercial office properties located in Manhattan, encompassing approximately 8.9 million rentable square feet. As of December 31, 2006, our portfolio also included consolidated and unconsolidated retail (eight) and development (one) properties encompassing approximately 516,000 rentable square feet.

The following table sets forth certain information with respect to each of the Manhattan office properties in the portfolio as of December 31, 2006:

Property Wholly-Owned	Year Built/ Renovated	Sub-market	Approximate Rentable Square Feet	Percentage of Portfolio Rentable Square Feet (%)	Percent Leased (%)	Annualized Rent (1)	Percentage of Portfolio Annualized Rent (%) (2)	Number of Tenants	Annualized Rent Per Leased Square Foot (3)	Annualized Net Effective Rent Per Leased Square Foot (4)
PROPERTIES 100% OWNED										
Same Store										
110 East 42nd Street	1921	Grand Central North	181,000	1	98.9	7,537,152	1	31	$39.75	$31.23
125 Broad Street	1968/1997	Downtown	525,000	3	100.0	17,892,636	3	4	34.12	29.25
1372 Broadway	1926/1998	Garment	508,000	3	85.7	15,993,192	3	21	34.89	28.74
220 East 42nd Street	1929	Midtown	1,135,000	6	100.0	42,376,140	7	38	38.28	32.30
292 Madison Avenue	1923	Grand Central South	187,000	1	99.7	7,863,624	1	19	41.83	35.54
317 Madison Avenue	1920/2004	Grand Central	450,000	2	92.2	18,699,120	3	86	42.32	34.72
420 Lexington Ave (Graybar) (7)	1927/1999	Grand Central North	1,188,000	6	98.3	56,781,348	9	253	42.15	33.20
440 Ninth Avenue	1927/1989	Garment	339,000	2	99.4	10,672,008	2	12	27.74	18.53
461 Fifth Avenue (9)	1988	Midtown	200,000	1	89.7	11,116,824	2	16	60.43	56.14
470 Park Avenue South (5)	1912/1944	Park Avenue South/Flatiron	260,000	1	98.3	9,902,508	2	29	36.12	28.25
555 West 57th Street (6)	1971	Midtown West	941,000	5	99.9	28,327,128	4	16	28.80	22.92
625 Madison Avenue	1956/2002	Plaza District	563,000	3	97.3	38,757,480	6	34	69.20	61.75
673 First Avenue (6)	1928/1990	Grand Central South	422,000	2	96.8	13,769,028	2	11	31.88	27.79
70 West 36th Street (a)	1923/1994	Garment	151,000	1	99.6	4,477,500	1	27	28.70	23.12
711 Third Avenue (b) (6) (8)	1955	Grand Central North	524,000	3	100.0	23,656,020	4	19	41.86	31.66
750 Third Avenue	1958/2006	Grand Central North	780,000	4	98.0	34,826,568	6	18	45.20	44.78
Subtotal / Weighted Average			**8,354,000**	**44**	**97.5**	**342,648,276**	**54**	**634**	**40.06**	**34.34**
ADJUSTMENTS										
19 West 44th Street	1916	Midtown	292,000	2	97.4	11,007,852	2	64	39.21	36.63
28 West 44th Street	1919/2003	Midtown	359,000	2	96.5	13,021,272	2	78	40.22	33.80
485 Lexington Avenue (17)	1956/2006	Grand Central North	921,000	5	90.5	38,294,568	6	12	50.18	31.41
609 Fifth Ave	1925/1990	Midtown	160,000	1	98.8	12,604,404	2	22	81.26	72.36
Subtotal / Weighted Average (11)			**1,732,000**	**9**	**93.7**	**74,928,096**	**12**	**176**	**$49.21**	**$32.78**
Total / Weighted Average Properties 100% Owned			**10,086,000**	**53**	**96.9**	**417,576,372**	**66**	**810**	**$41.44**	**$34.07**
PROPERTIES < 100% OWNED (Unconsolidated)										
Same Store										
One Park Avenue (a) (15)	1925/1986	Grand Central	913,000	5	97.8	36,138,480	1	19	$40.13	$28.91
1250 Broadway (6) (12)	1968/2001	Penn Station	670,000	4	98.6	25,368,036	3	35	36.16	26.59
1515 Broadway (6) (13)	1972	Times Square	1,750,000	9	99.0	84,846,420	9	9	50.21	39.27

Declines in the demand for office space in New York City, and in particular, in midtown Manhattan, resulting from ge

100 Park Avenue (14)	1950/1980	Grand Central South	834,000	4	92.1	33,872,520	3	35	44.09	31.55
1221 Avenue of the Americas (16)	1971/1997	Rockefeller Center	2,550,000	14	97.3	140,038,668	10	25	57.25	51.73
Subtotal / Weighted Average			**6,717,000**	**36**	**97.3**	**320,264,124**	**26**	**123**	**$49.23**	**$38.98**
ADJUSTMENTS										
521 Fifth Avenue (21)	1929/2000	Midtown	460,000	2	90.4	17,608,128	1	51	41.82	35.24
800 Third Avenue (22)	1972/2006	Grand Central North	526,000	3	96.9	25,130,040	2	25	49.43	42.02
One Madison Avenue (10)	1960/2002	Park Avenue South	1,176,900	6	98.6	56,804,028	5	3	48.98	51.37
Subtotal / Weighted Average (17)			**2,162,900**	**11**	**96.4**	99,542,196	**8**	**79**	**$47.65**	**$45.25**
Total / Weighted Average Properties Less Than 100% Owned			**8,879,900**	**47**	**97.1**	419,806,320	**34**	**202**	**$48.84**	**$40.51**
Grand Total / Weighted Average			**18,965,900**	**100**	**97.0**	837,382,692		**1,012**		
Grand Total - SLG Share of Annualized Rent						629,828,623	**100**			
Same Store Occupancy% - Combined			**15,071,000**	**79**	**97.4**					
(a) This property is under contract of sale.										
(b) Including Ownership of 50% in Building Fee.										

Declines in the demand for office space in New York City, and in particular, in midtown Manhattan, resulting from ge

Property Wholly-Owned	Year Built/ Renovated	Sub-market	Approximate Rentable Square Feet	Percentage of Portfolio Rentable Square Feet (%)	Percent Leased (%)	Annualized Rent (1)	Percentage of Portfolio Annualized Rent (%) (2)	Number of Tenants	Annualized Rent Per Leased Square Foot (3)	Annualized Net Effective Rent Per Leased Square Foot (4)
RETAIL & DEVELOPMENT PROPERTIES										
One Madison Avenue Clock Tower (18)	1909/2006	Park Avenue South	220,000	43		$ N/A	N/A	N/A	$	$
1551-1555 Broadway (19)	1890	Times Square	23,600	5		N/A	N/A	N/A		
1604 Broadway (20)	1912/2001	Times Square	41,100	8	72.7	4,117,584	7	2	100.18	91.10
21 West 34th Street (19)	1920/1930	Herald Square/ Penn Station	20,100	4	100.0	5,865,012	11	1	291.79	442.75
25-27 West 34th Street (19)	1857/1960	Herald Square/ Penn Station	21,700	4				3		
29 West 34th Street (19)	1904	Herald Square/ Penn Station	29,300	6	58.8	890,988	2	6	30.41	27.97
379 West Broadway (20)	1853/1987	Cast Iron/ Soho	62,006	12	100.0	2,777,160	5	7	44.79	39.61
717 Fifth Avenue (23)	1958/2000	Midtown/ Plaza District	76,400	15	63.1	12,504,504	43	8	163.67	171.53
141 Fifth Avenue (19)	1879	Flat Iron	21,500	4	100.0	822,600	2	4	38.26	37.88
Total / Weighted Average Retail/Development Properties			**515,706**	**100.0**	**N/A**	**$ 26,977,848**	**68**	**31**	$ 107.74	$ 126.61

(1) Annualized Rent represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimated as of such date. Total rent abatements for leases in effect as of December 31, 2006 for the 12 months ending December 31, 2007 are approximately $4.6 million for our wholly-owned properties and $1.0 million for our joint venture properties.

(2) Includes our share of unconsolidated joint venture annualized rent calculated on a consistent basis.

(3) Annualized Rent Per Leased Square Foot represents Annualized Rent, as described in footnote (1) above, presented on a per leased square foot basis.

(4) Annual Net Effective Rent Per Leased Square Foot represents (a) for leases in effect at the time an interest in the relevant property was first acquired by us, the remaining lease payments under the lease from the acquisition date (excluding operating expense pass-throughs, if any) divided by the number of months remaining under the lease multiplied by 12 and (b) for leases entered into after an interest in the relevant property was first acquired by us, all lease payments under the lease (excluding operating expense pass-throughs, if any) divided by the number of months in the lease multiplied by 12, and, in the case of both (a) and (b), minus tenant improvement costs and leasing commissions, if any, paid or payable by us and presented on a per leased square foot basis. Annual Net Effective Rent Per Leased Square Foot includes future contractual increases in rental payments and therefore, in certain cases, may exceed Annualized Rent Per Leased Square Foot.

(5) 470 Park Avenue South is comprised of two buildings, 468 Park Avenue South (a 17-story office building) and 470 Park Avenue South (a 12-story office building).

(6) Includes a parking garage.

(7) We hold an operating sublease interest in the land and improvements.

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(8) We hold a leasehold mortgage interest, a net sub-leasehold interest and a co-tenancy interest in this property.

(9) We hold a leasehold interest in this property.

(10) We own a 55.0% interest in this joint venture.

(11) Includes approximately 9.0 million square feet of rentable office space, 0.9 million square feet of rentable retail space and 0.1 million square feet of garage space.

(12) We own a 66.18% interest in this joint venture and manage the property held by such venture.

(13) We hold a 68.45% economic interest in this joint venture.

(14) We own a 49.9% interest in this joint venture.

(15) We own a 16.7% interest in this joint venture and manage the property held by such venture.

(16) We own a 45.0% interest in this joint venture. We do not manage this property.

(17) Includes approximately 8.0 million square feet of rentable office space, 0.7 million square feet of rentable retail space and 0.1 million square feet of garage space.

(18) We own a 30.0% interest in this joint venture.

(19) We own a 50.0% interest in this joint venture.

(20) We own a 45.0% interest in this joint venture.

(21) We own a 50.1% interest in this joint venture.

(22) We hold a 45.01% interest in this joint venture.

(23) We hold a 92.0% interest in this property.

Historical Occupancy. We have historically achieved consistently higher occupancy rates in comparison to the overall Midtown markets, as shown over the last five years in the following table:

	Percent of Portfolio Leased (1)	Occupancy Rate of Class A Office Properties In The Midtown Markets (2) (3)	Occupancy Rate of Class B Office Properties in the Midtown Markets (2) (3)
December 31, 2006	97.0 %	95.7 %	93.7 %
December 31, 2005	96.7 %	94.4 %	92.5 %
December 31, 2004	96.0 %	93.0 %	91.0 %
December 31, 2003	96.0 %	92.0 %	90.0 %
December 31, 2002	97.0 %	94.0 %	89.0 %

(1) Includes space for leases that were executed as of the relevant date in our wholly-owned and joint venture properties owned by us as of that date.

(2) Includes vacant space available for direct lease, but does not include vacant space available for sublease, which if included, would reduce the occupancy rate as of each date shown. Source: Cushman & Wakefield.

(3) The term Class B is generally used in the Manhattan office market to describe office properties that are more than 25 years old but that are in good physical condition, enjoy widespread acceptance by high-quality tenants and are situated in desirable locations in Manhattan. Class B office properties can be distinguished from Class A properties in that Class A properties are generally newer properties with higher finishes and obtain the highest rental rates within their markets.

Lease Expirations

Leases in our portfolio, as at many other Manhattan office properties, typically extend for a term of seven to ten years, compared to typical lease terms of five to ten years in other large U.S. office markets. For the five years ending December 31, 2011, the average annual rollover at our wholly-owned properties and joint venture properties is approximately 0.8 million square feet and 0.7 million square feet, respectively, representing an average annual expiration rate of 7.7% and 7.8% respectively, per year (assuming no tenants exercise renewal or cancellation options and there are no tenant bankruptcies or other tenant defaults).

The following tables set forth a schedule of the annual lease expirations at our wholly-owned properties and joint venture properties, respectively, with respect to leases in place as of December 31, 2006 for each of the next ten years and thereafter (assuming that no tenants exercise renewal or cancellation options and that there are no tenant bankruptcies or other tenant defaults):

Wholly-Owned Properties Year of Lease Expiration	Number of Expiring Leases	Square Footage of Expiring Leases	Percentage of Total Leased Square Feet (%)	Annualized Rent of Expiring Leases (1)	Annualized Rent Per Leased Square Foot of Expiring Leases (2)
2007 (3)	145	401,327	3.99 %	$ 16,170,048	$ 40.29
2008	113	684,299	6.79 %	28,182,180	41.18
2009	94	684,793	6.80 %	29,465,652	43.03
2010	121	1,433,192	14.22 %	57,844,752	40.36
2011	103	675,792	6.71 %	32,608,212	48.25
2012	53	809,163	8.03 %	24,955,668	30.84
2013	50	888,380	8.82 %	34,957,308	39.35
2014	23	338,292	3.36 %	12,616,512	37.29
2015	37	564,693	5.60 %	23,619,672	41.83

2016 & thereafter	103	3,595,790	35.69 %	157,156,368	43.71
Total/weighted average	842	10,075,721	100.0 %	$ 417,576,372	$ 41.44

(1) Annualized Rent of Expiring Leases represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimated as of such date. Total rent abatements for leases in effect as of December 31, 2006 for the 12 months ending December 31, 2007, are approximately $4.6 million for the properties.

(2) Annualized Rent Per Leased Square Foot of Expiring Leases represents Annualized Rent of Expiring Leases, as described in footnote (1) above, presented on a per leased square foot basis.

(3) Includes 51,000 square feet of month-to-month holdover tenants whose leases expired prior to December 31, 2006.

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Joint Venture Properties Year of Lease Expiration	Number of Expiring Leases	Square Footage of Expiring Leases	Percentage of Total Leased Square Feet (%)	Annualized Rent of Expiring Leases (1)	Annualized Rent Per Leased Square Foot of Expiring Leases (2)
2007 (3)	24	404,172	4.70	$ 22,016,220	$ 54.47
2008	26	548,827	6.39	24,375,456	44.41
2009	26	571,503	6.65	28,318,812	49.55
2010	30	1,587,997	18.48	79,924,056	50.33
2011	17	225,727	2.63	9,542,208	42.27
2012	16	264,965	3.08	10,581,120	39.93
2013	14	1,039,945	12.10	52,957,584	50.92
2014	18	219,552	2.55	15,685,272	71.44
2015	20	544,690	6.34	23,654,352	43.43
2016 & thereafter	38	3,187,804	37.09	152,751,240	47.92
Total/weighted average	229	8,595,182	100.0	$ 419,806,320	$ 48.84

(1) Annualized Rent of Expiring Leases represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimated as of such date. Total rent abatements for leases in effect as of December 31, 2006 for the 12 months ending December 31, 2007 are approximately $1.0 million for the joint venture properties.

(2) Annualized Rent Per Leased Square Foot of Expiring Leases represents Annualized Rent of Expiring Leases, as described in footnote (1) above, presented on a per leased square foot basis.

(3) Includes 27,000 square feet of month-to-month holdover tenants whose leases expired prior to December 31, 2006.

Declines in the demand for office space in New York City, and in particular, in midtown Manhattan, resulting from ge

Tenant Diversification

At December 31, 2006, our portfolio was leased to approximately 1,012 tenants, which are engaged in a variety of businesses, including professional services, financial services, media, apparel, business services and government/non-profit. The following table sets forth information regarding the leases with respect to the 25 largest tenants in our portfolio, based on the amount of square footage leased by our tenants as of December 31, 2006:

Tenant (1)	Properties	Remaining Lease Term in Months (2)	Total Leased Square Feet	Percentage of Aggregate Portfolio Leased Square Feet (%)	Percentage of Aggregate Portfolio Annualized Rent (%)
Viacom International Inc.	1515 Broadway	161	1,410,339	7.6	7.9
Credit Suisse Securities (USA), LLC	One Madison Avenue	168	1,123,879	6.0	4.4
Citigroup, N.A.	125 Broad Street, One Park Avenue, 750 Third Avenue, 485 Lexington Avenue and 800 Third Avenue	122	653,366	3.5	4.4
Omnicom Group	220 East 42nd Street, 420 LexingtonAvenue & 485 Lexington Avenue	124	573,470	3.1	3.3
Morgan Stanley & Co., Inc.	1221 Avenue of the Americas	144	517,768	2.8	2.4
Societe Generale	1221 Avenue of the Americas	81	486,663	2.6	1.8
The McGraw Hill Companies	1221 Avenue of the Americas	159	420,328	2.3	1.4
Advance Magazine Group	750 Third Avenue & 485 Lexington Avenue	170	342,720	1.8	2.0
Visiting Nurse Services of New York	1250 Broadway	144	295,870	1.6	1.0
New York Presbyterian Hospital	555 West 57th Street & 673 First Avenue	176	256,422	1.4	1.3
C.B.S. Broadcasting, Inc.	555 West 57th Street	129	253,316	1.4	1.4
Polo Ralph Lauren Corporation	625 Madison Avenue	156	234,207	1.3	1.8
The City University of NY-CUNY	555 West 57th Street & 28 West 44th Street	111	232,092	1.2	1.3
BMW of Manhattan	555 West 57th Street	67	227,782	1.2	0.7
Vivendi Universal US Holdings	800 Third Avenue	38	226,105	1.2	0.8
The Travelers Indemnity Company	485 Lexington Avenue	116	214,978	1.2	0.9
Teachers Insurance Annuity Society	750 Third Avenue	30	188,625	1.0	1.4
The Columbia House Company	1221 Avenue of the Americas	13	175,312	0.9	0.6
The Mt. Sinai Hospital & NYU Hospital Centers	One Park Avenue and 625 Madison Avenue	111	173,741	0.9	0.3
Segal Company	One Park Avenue	36	157,947	0.8	0.2
J&W Seligman & Co., Incorporated	100 Park Avenue	25	148,726	0.8	0.5
Sonnenschein, Nath & Rosenthal	1221 Avenue of the Americas	133	147,997	0.8	0.5
Ross Procurement, Inc.	1372 Broadway	109	138,130	0.7	0.7
Altria Corp. Services	100 Park Avenue	11	136,118	0.7	0.5
Allen & Overy, LLP	1221 Avenue of the Americas	118	135,885	0.7	0.8
Total Weighted Average (3)			8,871,786	47.5	42.2

(1) This list is not intended to be representative of our tenants as a whole.

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(2) Lease term from December 31, 2006 until the date of the last expiring lease for tenants with multiple leases.

(3) Weighted average calculation based on total rentable square footage leased by each tenant.

420 Lexington Avenue (The Graybar Building)

We purchased the tenant s interest in the operating sublease, or the Graybar operating sublease, at 420 Lexington Avenue, also known as the Graybar Building, in March 1998. This 31-story office property sits at the foot of Grand Central Terminal in the Grand Central North sub-market of the midtown Manhattan office market. The Graybar Building was designed by Sloan and Robertson and completed in 1927. The building takes its name from its original owner, the Graybar Electric Company. The Graybar Building contains approximately 1.2 million rentable square feet (including approximately 1,133,000 square feet of office space, and 60,000 square feet of mezzanine and retail space), with floor plates ranging from 17,000 square feet to 50,000 square feet. We restored the grandeur of this building through the implementation of an $11.9 million capital improvement program geared toward certain cosmetic upgrades, including a new entrance and storefronts, new lobby, elevator cabs and elevator lobbies and corridors.

The Graybar Building offers unsurpassed convenience to transportation. The Graybar Building enjoys excellent accessibility to a wide variety of transportation options with a direct passageway to Grand Central Station. Grand Central Station is the major transportation destination for commutation from southern Connecticut and Westchester, Putnam and Dutchess counties. Major bus and subway lines serve this property as well. The property is ideally located to take advantage of the renaissance of Grand Central Terminal, which has been redeveloped into a major retail/transportation hub containing restaurants such as Michael Jordan s Steakhouse and retailers such as Banana Republic and Kenneth Cole.

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The Graybar Building consists of the building at 420 Lexington Avenue and fee title to a portion of the land above the railroad tracks and associated structures, which form a portion of the Grand Central Terminal complex in midtown Manhattan. Our interest consists of a tenant s interest in a controlling sublease, as described below.

Fee title to the building and the land parcel is owned by an unaffiliated third party, who also owns the landlord s interest under the operating lease through which we hold our interest in this property. This operating lease expires December 31, 2008, and is subject to renewal by us through December 31, 2029, or the Graybar ground lease. We control the exercise of this renewal option through the terms of subordinate leases, which have corresponding renewal option terms and control provisions and which culminate in the Graybar operating sublease. An unaffiliated third-party owns the landlord s interest in the Graybar operating sublease.

The Graybar Building is our largest wholly-owned property based on total wholly-owned property square footage and consolidated revenue for 2006. It contributes Annualized Rent of approximately $56.8 million, or 13.6% of our Annualized Rent at December 31, 2006 and approximately $61.9 million, or 11.2%, of our consolidated revenue for 2006.

As of December 31, 2006, 98.3% of the rentable square footage in the Graybar Building was leased. The following table sets forth certain information with respect to this property:

Year-End	Percent Leased		Annualized Rent per Leased Square Foot
2006	98	%	$ 42.15
2005	97	%	40.07
2004	97	%	38.89
2003	94	%	43.16
2002	95	%	37.52

As of December 31, 2006, the Graybar Building was leased to 253 tenants operating in various industries, including legal services, financial services and advertising. One tenant occupied approximately 10.0% of the rentable square footage at this property and accounted for approximately 8.3% of this property s Annualized Rent. The next largest tenant occupied approximately 6.0% of the rentable square footage at this property and accounted for approximately 6.4% of this property s Annualized Rent.

The following table sets out a schedule of the annual lease expirations at the Graybar Building for leases executed as of December 31, 2006 with respect to each of the next ten years and thereafter (assuming that no tenants exercise renewal or cancellation options and that there are no tenant bankruptcies or other tenant defaults):

Year of Lease Expiration	Number of Expiring Leases	Square Footage of Expiring Leases	Percentage of Total Leased Square Feet (%)	Annualized Rent of Expiring Leases (1)	Annualized Rent Per Leased Square Foot of Expiring Leases (2)
2007 (3)	62	131,947	9.8	$ 5,446,680	$ 41.28
2008	45	163,655	12.1	6,960,336	42.53
2009	29	158,079	11.7	6,444,264	40.77
2010	45	154,183	11.4	7,270,980	47.16
2011	35	154,365	11.5	7,084,236	45.89
2012	8	36,630	2.7	1,602,756	43.76
2013	10	151,548	11.3	6,546,996	43.20
2014	5	16,479	1.2	617,244	37.46
2015	5	55,738	4.1	2,072,100	37.18
2016 & thereafter	18	324,409	24.2	12,735,756	39.26

Subtotal/Weighted average	262	1,347,033	100.0	$	56,781,348	$	42.15

(1) Annualized Rent of Expiring Leases represents the monthly contractual rent under existing leases as of December 31, 2006 multiplied by 12. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimated as of such date. There are no rent abatements for leases in effect as of December 31, 2006 for the 12 months ending December 31, 2007 for this property.

(2) Annualized Rent Per Leased Square Foot of Expiring Leases represents Annualized Rent of Expiring Leases, as described in footnote (1) above, presented on a per leased square foot basis.

(3) Includes approximately 27,000 square feet of month-to-month holdover tenants whose leases expired prior to December 31, 2006.

The aggregate undepreciated tax basis of depreciable real property at the Graybar Building for Federal income tax purposes was $176.0 million as of December 31, 2006. Depreciation and amortization are computed for Federal income tax purposes on the straight-line method over lives, which range up to 39 years.

The current real estate tax rate for all Manhattan office properties is $10.997 per $100 of assessed value. The total annual tax for the Graybar Building at this rate, including the applicable BID tax for the 2006/2007-tax year, is approximately $11.7 million (at a taxable assessed value of approximately $104.3 million).

Environmental Matters

We engaged independent environmental consulting firms to perform Phase I environmental site assessments on our portfolio, in order to assess existing environmental conditions. All of the Phase I assessments met the ASTM Standard. Under the ASTM Standard, a Phase I environmental site assessment consists of a site visit, an historical record review, a review of regulatory agency data bases and records, and interviews with on-site personnel, with the purpose of identifying potential environmental concerns associated with real estate. These environmental site assessments did not reveal any known environmental liability that we believe will have a material adverse effect on our results of operations or financial condition.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2006, we were not involved in any material litigation nor, to management s knowledge, is any material litigation threatened against us or our portfolio other than routine litigation arising in the ordinary course of business or litigation that is adequately covered by insurance.

On December 6, 2006, the company announced that it and Reckson Associates Realty Corp. had reached an agreement in principle with the plaintiffs to settle the previously disclosed class action lawsuits relating to the SL Green/Reckson merger. The settlement, which remains subject to documentation and judicial review and approval, provides (1) for certain contingent profit sharing participations for Reckson stockholders relating to specified assets, (2) that if the merger closes on or before December 31, 2006, the Reckson stockholders will receive the full fourth quarter dividend, (3) for potential payments to Reckson stockholders of amounts relating to Reckson s interest in contingent profit sharing participations in connection with the sale of certain Long Island industrial properties in a prior transaction, and (4) for the dismissal by the plaintiffs of all actions with prejudice and customary releases of all defendants and related parties.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the fourth quarter ended December 31, 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the New York Stock Exchange, or the NYSE, on August 15, 1997 under the symbol SLG. On February 22, 2007, the reported closing sale price per share of common stock on the NYSE was $151.00 and there were approximately 362 holders of record of our common stock. The table below sets forth the quarterly high and low closing sales prices of the common stock on the NYSE and the distributions paid by us with respect to the periods indicated.

	2006			2005		
Quarter Ended	**High**	**Low**	**Dividends**	**High**	**Low**	**Dividends**
March 31	$ 103.09	$ 77.70	$ 0.60	$ 59.74	$ 52.70	$ 0.54
June 30	$ 109.47	$ 95.31	$ 0.60	$ 66.05	$ 55.38	$ 0.54
September 30	$ 115.90	$ 107.17	$ 0.60	$ 70.10	$ 64.76	$ 0.54
December 31	$ 139.50	$ 112.37	$ 0.70	$ 77.14	$ 63.80	$ 0.60

If dividends are declared in a quarter, those dividends will be paid during the subsequent quarter. We expect to continue our policy of distributing our taxable income through regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements and financial condition. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Dividends for additional information regarding our dividends.

UNITS

At December 31, 2006, there were 2,693,900 units of limited partnership interest of the operating partnership outstanding. These units received distributions per unit in the same manner as dividends per share were distributed to common stockholders.

SALE OF UNREGISTERED AND REGISTERED SECURITIES; USE OF PROCEEDS FROM REGISTERED SECURITIES

During the years ended December 31, 2006, 2005 and 2004, we issued 223,361, 104,031 and 81,250 shares of common stock, respectively, to holders of units of limited partnership in the operating partnership upon the redemption of such units pursuant to the partnership agreement of the operating partnership. The issuance of such shares was exempt from registration under the Securities Act, pursuant to the exemption contemplated by Section 4(2) thereof for transactions not involving a public offering. The units were converted into an equal number of shares of common stock.

We issued 102,826, 251,293 and 351,750 shares of our common stock in 2006, 2005 and 2004, respectively, for deferred stock-based compensation in connection with employment contracts and other compensation-related grants.

See Notes 14 and 16 to the Consolidated Financial Statements in Item 8 for a description of our stock option plan and other compensation arrangements.