SL GREEN REALTY CORP
Form 10-K/A
May 11, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

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

For the fiscal year ended December 31, 2008

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 ý No o

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceeding 12months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

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

As of February 18, 2009, there were 57,258,756 shares of the Registrant's common stock outstanding. The aggregate market value of the common stock, held by non-affiliates of the Registrant (53,458,234 shares) at June 30, 2008 was $4.4 billion. The aggregate market value was calculated by using the closing price of the common stock as of that date on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

None.

SL GREEN REALTY CORP.
FORM 10-K/A

EXPLANATORY NOTE

SL Green Realty Corp., or the Company, is revising its historical financial statements in connection with Statement of Financial Accounting Standards No. 144, or SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and the adoption of SFAS 160, or SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51," and FASB Staff Position, or FSP, No. APB 14-1, or FSP 14-1, "Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion." SFAS No. 160 defines a non-controlling interest in a consolidated subsidiary as "the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent" and requires non-controlling interests to be presented as a separate component of equity in the consolidated balance sheet subject to the provisions of EITF Topic D-98, or EITF D-98, "Classification and Measurement of Redeemable Securities." SFAS No. 160 also modifies the presentation of net income by requiring earnings and other comprehensive income to be attributed to controlling and non-controlling interests. FSP 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. During 2009, our ownership interests in GKK Manager LLC, or the Manager, were sold to Gramercy Capital Corp. (NYSE: GKK), or Gramercy, as part of the GKK Internalization which closed on April 24, 2009. In connection with this transaction and in compliance with SFAS 144, the revenue and expenses from the Manager has been reported as income from discontinued operations for each period presented. Under the Securities and Exchange Commission, or the SEC, requirements, the same reclassification as discontinued operations required by SFAS 144 following the sale of an operating entity, and adoption of SFAS 160 and FSP 14-1 is required for previously issued annual financial statements for each of the three years shown in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, on the Form 10-K, if those financials are incorporated by reference in subsequent filings with the SEC made under the Securities Act of 1933, as amended, even though those financial statements relate to periods prior to the date of the transaction. We have restated our Condensed Consolidated Statement of Cash Flows for the year ended December 31, 2008 to reclassify the $77.5 million gain on early extinguishment of debt as a reduction in operating cash flow and an increase in financing activities. Previously the entire gain was considered a financing activity. The restatement does not affect the total net change in cash and cash equivalents for the year ended December 31, 2008, and has no impact on our consolidated balance sheets, consolidated statements of income or the related income per share amounts. It also has no impact on the non-GAAP measure of funds from operations that is described on page 27. Conforming changes have been made to management's discussion and analysis of financial condition and results of operations included in this Form 10-K/A Amendment No. 2. See Note 25 in the notes to the consolidated financial statements for further information relating to the restatement. This Current Report on Form 10-K/A Amendment No. 2 updates Part II, Items 6, 7, 8 and 9A and Part IV, Item 15 of the Form 10-K to reflect the GKK Internalization during 2009 as discontinued operations and the adoption of SFAS 160, FSP 14-1 and the restatement of the statement of cash flows. All other items of the Form 10-K remain unchanged. No attempt has been made to update matters in the Form 10-K, except to the extent expressly provided above.

ITEM 1A. RISK FACTORS

Other that as described below, there have been no material changes to the risk factors disclosed in "Item 1A-Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008.

Our independent registered public accounting firm identified a material weakness in our internal control over financial reporting that required us to restate our financial statements. Failure to establish and maintain effective internal control over financial reporting could have a material adverse effect on our business, our operating results and the value of our common stock.

Ernst & Young LLP, our independent registered public accounting firm, has identified a material weakness in our system of internal control over financial reporting. The Public Company Accounting Oversight Boards Auditing Standard No. 2 defines a material weakness as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. The material weakness that Ernst & Young LLP identified related to a lack of effective internal controls in connection with the presentation of the gain from early extinguishment of debt. This material weakness required us to restate our statement of cash flows, specifically our operating activities and financing activities, in our audited financial statements for the year ended December 31, 2008 and our unaudited interim financial statements for the three months ended March 31, 2009.

If our management or our independent registered public accounting firm were to conclude in their future reports that our internal control over financial reporting was not effective, or if we fail to remediate the current material weakness or design, implement and maintain new or improved controls and procedures designed to prevent additional material weaknesses, this could have a material adverse effect on our ability to meet our periodic reporting obligations or result in additional errors and material misstatements not detected by management in our financial statements. Any such failure could adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting. Any such failure could also cause investors to lose confidence in our reported financial information and adversely affect the value of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected financial data and should be read in conjunction with our Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report.

In connection with this report, we are restating our historical audited consolidated financial statements for the year ended December 31, 2008, as a result of Statement of Financial Accounting Standards No. 144, or SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." During the periods presented below, we classified properties as held for sale and, in compliance with SFAS No. 144, have reported revenue and expenses from these properties as discontinued operations, net of noncontrolling interest, for each period presented in our Annual Report on Form 10-K for the year ended December 31, 2008. This reclassification had no effect on our reported net income or funds from operations.

We are also providing updated selected financial information, which is included below, reflecting the prior period reclassification as discontinued operations of the operating entity classified as held for sale during 2009.

Operating Data	**Year Ended December 31,** 2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Total revenue	$ 1,094,018	$ 986,934	$ 451,022	$ 339,799	$ 256,654
Operating expenses	229,712	209,420	102,548	77,541	60,194
Real estate taxes	127,130	121,594	62,915	45,935	34,171
Ground rent	31,494	32,389	20,150	19,250	15,617
Interest	300,808	266,308	89,394	71,752	55,899
Amortization of deferred finance costs	6,436	15,893	4,424	4,461	3,275
Depreciation and amortization	217,624	175,171	62,523	46,670	34,539
Loan loss and other investment reserves	115,882				
Marketing, general and administration	107,037	93,045	57,850	36,826	28,985
Total expenses	1,136,123	913,820	399,804	302,435	232,680
Equity in net income of unconsolidated joint ventures	59,961	46,765	40,780	49,349	44,037
Income before gains on sale	17,856	119,879	91,998	86,713	68,011
Gain on early extinguishment of debt	77,465				
Loss on equity investment in marketable securities	(147,489)				
Gain on sale of properties/partial interests	103,056	31,509	3,451	11,550	22,012
Income from continuing operations	50,888	151,388	95,449	98,263	90,023
Discontinued operations	356,989	538,031	141,909	67,309	131,354
Net income	407,877	689,419	237,358	165,572	221,377
Net income attributable to noncontrolling interests in operating partnership	(14,562)	(26,084)	(11,429)	(8,222)	(11,351)
Net income attributable to noncontrolling interests in other partnerships	(12,505)	(17,105)	(5,210)	69	(596)
Net income attributable to SL Green	380,810	646,230	220,719	157,419	209,430
Preferred dividends and accretion	(19,875)	(19,875)	(19,875)	(19,875)	(16,258)
Income available to common stockholders	$ 360,935	$ 626,355	$ 200,844	$ 137,544	$ 193,172
Net income per common share Basic	$ 6.22	$ 10.66	$ 4.50	$ 3.29	$ 4.93
Net income per common share Diluted	$ 6.18	$ 10.54	$ 4.38	$ 3.20	$ 4.75
Cash dividends declared per common share	$ 2.7375	$ 2.89	$ 2.50	$ 2.22	$ 2.04
Basic weighted average common shares outstanding	57,996	58,742	44,593	41,793	39,171
	60,598	61,885	48,495	45,504	43,078

Diluted weighted average common shares and common share equivalents outstanding

Balance Sheet Data	2008	2007	2006	2005	2004
			As of December 31, (In thousands)		
Commercial real estate, before accumulated depreciation	$ 8,201,789	$ 8,622,496	$ 3,055,159	$ 2,222,922	$ 1,756,104
Total assets	10,984,353	11,430,078	4,632,227	3,309,777	2,751,881
Mortgage notes payable, revolving credit facilities, term loans, unsecured notes and trust preferred securities	5,581,559	5,658,149	1,815,379	1,542,252	1,150,376
Noncontrolling interests in operating partnership	87,327	81,615	71,731	74,049	74,555
Equity	4,481,963	4,524,600	2,451,045	1,484,453	1,348,389

Other Data	2008	2007	2006	2005	2004
			Year Ended December 31, (In thousands)		
Funds from operations available to common stockholders(1)	$ 344,850	$ 343,186	$ 223,634	$ 189,513	$ 162,377
Funds from operations available to all stockholders(1)	344,850	343,186	223,634	189,513	162,377
Net cash provided by operating activities	296,011	406,705	225,644	138,398	164,458
Net cash used in investment activities	396,219	(2,334,337)	(786,912)	(465,674)	(269,045)
Net cash provided by financing activities	(11,305)	1,856,418	654,342	315,585	101,836

(1) Funds From Operations, or FFO, is a widely recognized measure of REIT performance. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do. The revised White Paper on FFO approved by the Board of Governors of NAREIT in April 2002 defines FFO as net income (loss) (computed in accordance with generally accepted accounting principles, or GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITS, particularly those that own and operate commercial office properties. We also use FFO as one of several criteria to determine performance-based bonuses for members of our senior management. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs, providing perspective not immediately apparent from net income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), as an indication of our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

A reconciliation of FFO to net income computed in accordance with GAAP is provided under the heading of "Management's Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Explanatory Note

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, the notes thereto, and the other financial data included elsewhere in this Current Report on Form 10-K/A Amendment No. 2.

Overview

SL Green Realty Corp., or the company, a Maryland corporation, and SL Green Operating Partnership, L.P., or the operating partnership, a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. We are a self-managed real estate investment trust, or REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. Unless the context requires otherwise, all references to "we," "our" and "us" means the company and all entities owned or controlled by the company, including the operating partnership.

The following discussion related to our consolidated financial statements should be read in conjunction with the financial statements appearing in Item 8 of this report.

On January 25, 2007, we completed the acquisition, or the Reckson Merger, of all of the outstanding shares of common stock of Reckson Associates Realty Corp., or Reckson, pursuant to the terms of the Agreement and Plan of Merger, dated as of August 3, 2006, as amended, the Merger Agreement, among SL Green, Wyoming Acquisition Corp., or Wyoming, Wyoming Acquisition GP LLC, Wyoming Acquisition Partnership LP, Reckson and Reckson Operating Partnership, L.P. or ROP. Pursuant to the terms of the Merger Agreement, each of the issued and outstanding shares of common stock of Reckson were converted into the right to receive (i) $31.68 in cash, (ii) 0.10387 of a share of the common stock, par value $0.01 per share, of SL Green and (iii) a prorated dividend in an amount equal to approximately $0.0977 in cash. We also assumed an aggregate of approximately $226.3 million of Reckson mortgage debt, approximately $287.5 million of Reckson convertible public debt and approximately $967.8 million of Reckson public unsecured notes.

On January 25, 2007, we completed the sale, or Asset Sale, of certain assets of ROP to an asset purchasing venture led by certain of Reckson's former executive management, or the Buyer, for a total consideration of approximately $2.0 billion. SL Green caused ROP to transfer the following assets to the Buyer in the Asset Sale: (1) certain real property assets and/or entities owning such real property assets, in either case, of ROP and 100% of certain loans secured by real property, all of which are located in Long Island, New York; (2) certain real property assets and/or entities owning such real property assets, in either case, of ROP located in White Plains and Harrison, New York; (3) all of the real property assets and/or entities owning 100% of the interests in such real property assets, in either case, of ROP located in New Jersey; (4) the entity owning a 25% interest in Reckson Australia Operating Company LLC, Reckson's Australian management company (including its Australian licensed responsible entity), and other related entities, and ROP and ROP subsidiaries' rights to and interests in, all related contracts and assets, including, without limitation, property management and leasing, construction services and asset management contracts and services contracts; (5) the direct or indirect interest of Reckson in Reckson Asset Partners, LLC, an affiliate of Reckson Strategic Venture Partners, LLC, or RSVP, and all of ROP's rights in and to certain loans made by ROP to Frontline Capital Group, the bankrupt parent of RSVP, and other related entities, which were purchased by a 50/50 joint venture with an affiliate of SL Green; (6) a 50% participation interest in certain loans made by a subsidiary of ROP that are secured by four real property assets located in Long Island, New York; and (7) 100% of certain loans secured by real property located in White Plains and New Rochelle, New York.

Beginning in the third quarter of 2007, the sub-prime residential lending and single family housing markets in the U.S. began to experience significant default rates, declining real estate values and increasing backlog of housing supply, and other lending markets experienced higher volatility and decreased liquidity resulting from the poor credit performance in the residential lending markets. The residential sector capital markets issues quickly spread more broadly into the asset-backed commercial real estate, corporate and other credit and equity markets. These factors have resulted in substantially reduced mortgage loan originations and securitizations, and caused more generalized credit market dislocations and a significant contraction in available credit. As a result, most financial industry participants, including commercial real estate owners, operators, investors and lenders continue to find it extremely difficult to obtain cost-effective debt capital to finance new investment activity or to refinance maturing debt. In the few instances in which debt is available, it is at a cost much higher than in the recent past.

Credit spreads on commercial mortgages (i.e., the interest rate spread over given benchmarks such as LIBOR or U.S. Treasury securities) are significantly influenced by: (a) supply and demand for such mortgage loans; (b) perceived risk of the underlying real estate collateral cash flow; and (c) capital markets execution for the sale or financing of such commercial mortgage assets. In the case of (a), the number of potential lenders in the marketplace and the amount of funds they are willing to devote to commercial mortgage assets will impact credit spreads. As liquidity increases, spreads on equivalent commercial mortgage loans will decrease. Conversely, a lack of liquidity will result in credit spreads increasing. During periods of volatility, such as the markets are currently experiencing, the number of lenders participating in the market may change at an accelerated pace.

For existing loans, when credit spreads widen, the fair value of these existing loans decreases. If a lender were to originate a similar loan today, such loan would carry a greater credit spread than the existing loan. Even though a loan may be performing in accordance with its loan agreement and the underlying collateral has not changed, the fair value of the loan may be negatively impacted by the incremental interest foregone from the widened credit spread. Accordingly, when a lender wishes to sell or finance the loan, the reduced value of the loan will impact the total proceeds that the lender will receive.

The recent credit crisis has put many borrowers, including some of our borrowers, on our structured finance portfolio under increasing amounts of financial and capital distress. For the year ended December 31, 2008, we recorded a gross provision for loan losses of approximately $98.9 million primarily related to non-New York City structured finance investments.

The New York City real estate market has seen an increase in the direct vacancy rate as well as an increase in the amount of sublease space on the market. We expect that the total vacancy rate in Manhattan will continue to rise in 2009. This directly impacts a landlord's ability to increase rents and may also result in a landlord needing to reduce its rents and provide a longer free rent period or a greater tenant improvement allowance in order to attract a tenant to rent the space. Property sales have slowed down to a trickle, primarily due to a lack of financing for purchasers due to tighter lending standards and the other factors noted above.

New York City sales activity in 2008 decreased by approximately $27.4 billion when compared to 2007, as total volume only reached approximately $20.4 billion. In 2007, 16 transactions were consummated at prices in excess of $1,000.00 per square foot, including three deals that closed in the fourth quarter of 2007. This compares to only four such deals in 2008.

Leasing activity for Manhattan, a borough of New York City, totaled approximately 19.1 million square feet compared to approximately 23.6 million square feet in 2007. Of the total 2008 leasing activity in Manhattan, the Midtown submarket accounted for approximately 13.0 million square feet, or 67.9%. As a result, Midtown's overall vacancy increased from 5.8% in 2007 to 8.5% in 2008.

Overall asking rents for direct space in Midtown decreased from $77.57 at year-end 2007 to $72.08 at year-end 2008, a decrease of 7.1%. The decrease in rents has been driven by the financial crisis. Management believes that rental rates will continue to decrease during 2009.

During 2008, minimal new office space was added to the Midtown office inventory. In a supply-constrained market, there is only 1.8 million square feet under construction in Midtown as of year-end and which becomes available in the next two years, 2.3% of which is already pre-leased.

We saw significant fluctuations in short-term interest rates, although they still remain low compared to historical levels. The 30-day LIBOR rate ended 2008 at 0.44%, a 416 basis point decrease from the end of 2007. Ten-year US Treasuries ended 2008 at 2.21%, a 182 basis point decrease from the end of 2007.

Our activities for 2008 included:

- Acquired a fee position and a retail redevelopment property for approximately $62.8 million;
- Sold four properties for an aggregate gross sales price of approximately $792.0 million generating gains to us of approximately $442.3 million;
- Signed 243 office leases totaling 3.3 million square feet during 2008 while increasing the cash rents paid by new tenants on previously occupied space by 31.1% and 14.4% over the most recent cash rent paid by the previous tenants for the same space for the Manhattan and Suburban properties, respectively.
- Repurchased approximately $262.6 million of our convertible bonds, realizing gains on early extinguishment of debt of approximately $77.5 million;
- Originated approximately $41.5 million of new structured finance investments, net of redemptions and recorded approximately $98.9 million in loan loss reserves;
- Wrote down our investment in Gramercy Capital Corp. by approximately $147.5 million and in GKK Manager LLC by approximately $14.9 million;
- Closed on approximately $496.0 million of mortgage financings; and
- We purchased and settled approximately $300.0 million, or 3.3 million shares of our common stock, at an average price of approximately $90.49 per share pursuant to our stock repurchase program, which expired on December 31, 2008.

As of December 31, 2008, we owned the following interests in commercial office properties in the New York Metro area, primarily in midtown Manhattan, a borough of New York City, or Manhattan. Our investments in the New York Metro area also include investments in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey, which are collectively known as the Suburban assets:

Location	Ownership	Number of Properties	Square Feet	Weighted Average Occupancy(1)
Manhattan	Consolidated properties	21	13,782,200	97.5%
	Unconsolidated properties	8	9,429,000	95.4%
Suburban	Consolidated properties	28	4,714,800	89.0%
	Unconsolidated properties	6	2,941,700	93.8%

	63	30,867,700

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

We also own investments in eight retail properties encompassing approximately 400,212 square feet, two development properties encompassing approximately 363,000 square feet and two land interests. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

As of December 31, 2008, we also owned approximately 12.48% of the outstanding common stock of Gramercy Capital Corp. (NYSE: GKK), or Gramercy, as well as all the units of the Class B limited partner interest in Gramercy's operating partnership. See Item 8 Financial Statements, Note 6.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Rental Property

On a periodic basis, our management team assesses whether there are any indicators that the value of our real estate properties, including joint venture properties and assets held for sale, and structured finance investments may be impaired. If the carrying amount of the property is greater than the estimated expected future cash flow (undiscounted and without interest charges for consolidated properties and discounted for unconsolidated properties) of the asset or sales price, impairment has occurred. We will then record an impairment loss equal to the difference between the carrying amount and the fair value of the asset. We do not believe that the value of any of our rental properties or development properties was impaired at December 31, 2008 and 2007.

A variety of costs are incurred in the acquisition, development and leasing of our properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on our development properties is guided by SFAS No. 34 "Capitalization of Interest Cost" and SFAS No. 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects." The costs of land and building under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portions substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portions under construction.

In accordance with SFAS 141, "Business Combinations," we allocate the purchase price of real estate to land and building and, if determined to be material, intangibles, such as the value of above-, below-, and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building and other intangible assets over their estimated useful lives, which generally range from three to 40 years and from one to 14 years, respectively. The values of the above-and below-market leases are amortized and recorded as either an increase (in the case of below-market leases) or a decrease (in the case of above-market leases) to rental income over the remaining term of the associated lease, which range from one to 14 years. The value associated with in-place leases are amortized over the expected term of the associated lease, which includes an estimated probability of the lease renewal, and its estimated term, which range from one to 14 years. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). We assess fair value of the leases based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Investment in Unconsolidated Joint Ventures

We account for our investments in unconsolidated joint ventures under the equity method of accounting in cases where we exercise significant influence, but do not control these entities and are not considered to be the primary beneficiary under FIN 46R. We consolidate those joint ventures where we are considered to be the primary beneficiary, even though we do not control the entity. In all these joint ventures, the rights of the noncontrolling investor are both protective as well as participating. Unless we are determined to be the primary beneficiary, these rights preclude us from consolidating these investments. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in net income (loss) of unconsolidated joint ventures over the lesser of the joint venture term or 10 years. Equity income (loss) from unconsolidated joint ventures is allocated based on our ownership interest in each joint venture. When a capital event (as defined in each joint venture agreement) such as a refinancing occurs, if return thresholds are met, future equity income will be allocated at our increased economic percentage. We recognize incentive income from unconsolidated real estate joint ventures as income to the extent it is earned and not subject to a clawback feature. Distributions we receive from unconsolidated real estate joint ventures in excess of our basis in the investment are recorded as offsets to our investment balance if we remain liable for future obligations of the joint venture or may otherwise be committed to provide future additional financial support. None of the joint venture debt is recourse to us.

Revenue Recognition

Rental revenue is recognized on a straight-line basis over the term of the lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rents receivable on the accompanying balance sheets. We establish, on a current basis, an allowance for future potential tenant credit losses, which may occur against this account. The balance reflected on the balance sheet is net of such allowance.

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

Income recognition is generally suspended for structured finance investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required.

Reserve for Possible Credit Losses

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

Where impairment is indicated, a valuation allowance is measured based upon the excess of the recorded investment amount over the net fair value of the collateral, as reduced by selling costs. Any deficiency between the carrying amount of an asset and the net sales price of repossessed collateral is charged to expense. In 2008, we recorded approximately $45.8 million in loan loss reserves. No reserve for impairment was required at December 31, 2007.

Structured finance investments held for sale are carried at the lower of cost or fair market value using available market information obtained through consultation with dealers or other originators of such investments as well as discounted cash flow models. During the year ended December 31, 2008, we redesignated loans with a gross carrying value of $121.2 million from structured finance investments to assets held for sale. We recorded a mark-to-market adjustment of approximately $53.1 million against these investments.

Derivative Instruments

In the normal course of business, we use a variety of derivative instruments to manage, or hedge, interest rate risk. We require that hedging derivative instruments be effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential for qualifying for hedge accounting. Some derivative instruments are associated with an anticipated transaction. In those cases, hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract.

To determine the fair values of derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option-pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Results of Operations

Comparison of the year ended December 31, 2008 to the year ended December 31, 2007

The following comparison for the year ended December 31, 2008, or 2008, to the year ended December 31, 2007, or 2007, makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by us at January 1, 2007 and at December 31, 2008 and total 40 of our 49 consolidated properties, inclusive of the Reckson assets (January 2007), representing approximately 69.2% of our share of annualized rental revenue, and the effect of the "Acquisitions," which represents all properties or interests in properties acquired in 2007, namely, 300 Main Street, 399 Knollwood (all January 2007), 333 West 34th Street, 331 Madison Avenue and 48 East 43rd Street (April), 1010 Washington Avenue, CT, and 500 West Putnam Avenue, CT (June), and 180 Broadway and One Madison Avenue (August) and (iii) "Other," which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. There were no acquisitions of commercial office properties in 2008. Assets classified as held for sale, are excluded from the following discussion.

Rental Revenues (in millions)	**2008**	**2007**	**$ Change**	**% Change**
Rental revenue	$777.3	$665.7	$ 111.6	16.8%
Escalation and reimbursement revenue	123.6	109.5	14.1	12.9
Total	$900.9	$775.2	$ 125.7	16.2%
Same-Store Properties	$765.3	$691.4	$ 73.9	10.7%
Acquisitions	130.0	77.9	52.1	66.9
Other	5.6	5.9	(0.3)	(5.1)
Total	$900.9	$775.2	$ 125.7	16.2%

Occupancy in the Same-Store Properties increased from 95.0% at December 30, 2007 to 95.2% at December 31, 2008. The increase in the Acquisitions is primarily due to owning these properties for a period during the year in 2008 compared to a partial period or not being included in 2007. This includes the Reckson properties.

At December 31, 2008, we estimated that the current market rents on our consolidated Manhattan properties and consolidated Suburban properties were approximately 20.2% and 14.4% higher, respectively, than then existing in-place fully escalated rents. Approximately 8.1% of the space leased at our consolidated properties expires during 2009. We believe that occupancy rates at the Same-Store Properties will remain relatively unchanged in 2009.

The increase in escalation and reimbursement revenue was due to the recoveries at the Acquisitions ($0.9 million) and the Same-Store Properties ($13.4 million). The increase in recoveries at the Same-Store Properties was primarily due to operating expense escalations ($9.0 million) and electric reimbursement ($3.7 million) and was primarily offset by decreases in real estate tax recoveries ($0.7 million).

Investment and Other Income (in millions)	**2008**	**2007**	**$ Change**	**% Change**
Equity in net income of unconsolidated joint ventures	$ 60.0	$ 46.8	$ 13.2	28.2%
Investment and preferred equity income	119.1	91.0	28.1	30.9
Other income	74.0	120.7	(46.7)	(38.7)
Total	$253.1	$258.5	$ (5.4)	(2.1)%

The increase in equity in net income of unconsolidated joint ventures was primarily due to higher net income contributions from 388 Greenwich Street ($6.4 million), 1515 Broadway ($11.4 million), 1250 Broadway ($1.7 million), 521 Fifth Avenue ($1.5 million), 2 Herald Square ($1.9 million), One Madison Avenue ($1.0 million), Mack-Green ($1.9 million), 800 Third Avenue ($1.3 million) and 885 Third Avenue ($3.7 million). This was partially offset by lower net income contributions primarily from our investments in 100 Park which was under redevelopment ($3.3 million), Gramercy ($9.9 million) and 16 Court Street ($1.0 million). Occupancy at our joint venture properties decreased from 95.2% in 2007 to 95.0% in 2008. At December 31, 2008, we estimated that current market rents at our Manhattan and Suburban joint venture properties were approximately 25.0% and 6.7% higher, respectively, than then existing in-place fully escalated rents. Approximately 3.8% of the space leased at our joint venture properties expires during 2009.

Investment and preferred equity income increased during the current period. The weighted average investment balance outstanding and weighted average yield were $816.9 million and 10.5%, respectively, for 2008 compared to $717.1 million and 10.3%, respectively, for 2007. During 2008, we sold approximately $99.7 million of structured finance investments and realized net gains of approximately $9.3 million. We also settled the RSVP investment which resulted in a gain of approximately $6.9 million. No structured finance investments were sold in 2007.

The decrease in other income was primarily due to an incentive distribution earned in 2007 upon the sale of One Park Avenue (approximately $77.2 million) and One Madison Clocktower (approximately $5.1 million). This was partially offset by an incentive distribution earned in 2008 upon the sale of 1250 Broadway ($25.0 million) and an advisory fee earned by us in connection with Gramercy closing its acquisition of AFR ($6.6 million).

Property Operating Expenses (in millions)	**2008**	**2007**	**$ Change**	**% Change**
Operating expenses	$229.7	$209.4	$ 20.3	9.7%
Real estate taxes	127.1	121.6	5.5	4.5
Ground rent	31.5	32.4	(0.9)	(2.8)
Total	$388.3	$363.4	$ 24.9	6.9%
Same-Store Properties	$348.5	$325.1	$ 23.4	7.2%
Acquisitions	24.3	20.8	3.5	16.8
Other	15.5	17.5	(2.0)	(11.4)
Total	$388.3	$363.4	$ 24.9	6.9%

Same-Store Properties operating expenses increased approximately $18.7 million. There were increases in payroll expenses ($3.8 million), contract maintenance and repairs and maintenance ($2.1 million), utilities ($8.4 million), insurance ($1.0 million), ground rent expense ($0.3 million) and other miscellaneous expenses ($3.1 million), respectively.

The increase in real estate taxes was primarily attributable to the Same-Store Properties ($4.7 million) due to higher assessed property values and the Acquisitions ($0.8 million).

Other Expenses (in millions)	**2008**	**2007**	**$ Change**	**% Change**
Interest expense	$307.2	$282.2	$ 25.0	8.9%
Depreciation and amortization expense	217.6	175.2	42.4	24.2
Loan loss and other investment reserves	115.9		115.9	100.0
Marketing, general and administrative expense	107.0	93.0	14.0	15.1
Total	$747.7	$550.4	$ 197.3	35.9%

The increase in interest expense was primarily attributable draw downs on our 2007 unsecured revolving credit facility which were done in response to uncertainty in the financial sector. The weighted average interest rate decreased from 5.66% for the year ended December 31, 2007 to 5.24% for the year ended December 31, 2008. As a result of the new investment activity in 2007 and drawing down on our 2007 unsecured revolving credit facility in 2008, the weighted average debt balance increased from $4.7 billion as of December 31, 2007 to $5.7 billion as of December 31, 2008.

In 2008, we recorded approximately $98.9 million in loan loss reserves primarily against our non-New York City structured finance investments. During the fourth quarter of 2008, we entered into an agreement with Gramercy which, among other matters, obligates Gramercy and us to use commercially reasonable efforts to obtain the consents of certain lenders of Gramercy and its subsidiaries to a potential internalization.

Marketing, general and administrative expenses, or MG&A, represented 9.8% of total revenues in 2008 compared to 9.4% in 2007. During the fourth quarter, we and certain of our employees agreed to cancel, without compensation, certain employee stock options as well as a portion of our 2006 long-term outperformance plan. These cancellations resulted in a non-cash charge of approximately $18.0 million. MG&A for 2008 includes non-recurring expense of approximately $2.0 million for costs incurred in connection with the pursuit of redevelopment projects.

Due to market conditions, we recognized a loss on our investment in Gramercy of approximately $147.5 million. In addition, we repurchased approximately $262.6 million of our convertible bonds in 2008 and realized approximately $77.5 million of gains due to the early extinguishment of debt.

Comparison of the year ended December 31, 2007 to the year ended December 31, 2006

The following comparison for the year ended December 31, 2007, or 2007, to the year ended December 31, 2006, or 2006, makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by us at January 1, 2006 and at December 31, 2007 and total 12 of our 53 consolidated properties, representing approximately 31.0% of our share of annualized rental revenue, (ii) the effect of the "Acquisitions," which represents all properties or interests in properties acquired in 2006, namely, 25-27 and 29 West 34th Street (January), 521 Fifth Avenue (March), 609 Fifth Avenue (June), 717 Fifth Avenue (September), 485 Lexington (December) and in 2007, namely, 300 Main Street, 399 Knollwood, and the Reckson assets (January), 333 West 34th Street, 331 Madison Avenue and 48 East 43rd Street (April), 1010 Washington Avenue, CT, and 500 West Putnam Avenue, CT (June), and 180 Broadway and One Madison Avenue (August) and (iii) "Other," which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. Assets classified as held for sale, are excluded from the following discussion.

Rental Revenues (in millions)	**2007**	**2006**	**$ Change**	**% Change**
Rental revenue	$665.7	$302.0	$363.7	120.4%
Escalation and reimbursement revenue	109.5	53.9	55.6	103.2
Total	$775.2	$355.9	$419.3	117.8%
Same-Store Properties	$392.1	$321.8	$70.3	21.9%
Acquisitions	377.2	25.4	351.8	1,385.0
Other	5.9	8.7	(2.8)	(32.2)
Total	$775.2	$355.9	$419.3	117.8%

Occupancy in the Same-Store Properties decreased from 97.3% at December 31, 2006 to 97.1% at December 31, 2007. This was offset by increases in rental rates on new leases signed in 2007.

At December 31, 2007, we estimated that the current market rents at our consolidated Manhattan properties and consolidated Suburban properties were approximately 37.4% and 19.1% higher, respectively, than then existing in-place fully escalated rents. We believe that rental rates will moderate during 2008. Approximately 4.8% of the space leased at our consolidated properties expires during 2008. We believe that occupancy rates will moderate at the Same-Store Properties in 2008.

The increase in the Acquisitions is primarily due to owning these properties for a period during 2007 compared to a partial period or not being included in 2006.

The increase in escalation and reimbursement revenue was due to the recoveries at the Same-Store Properties ($2.9 million) and the Acquisitions ($53.6 million). The increase in recoveries at the Same-Store Properties was primarily due to electric reimbursements ($1.7 million), and operating expense escalations ($2.4 million) which were partially offset by a reduction in recoveries from real estate tax escalations ($1.2 million).

Investment and Other Income (in millions)	**2007**	**2006**	**$ Change**	**% Change**
Equity in net income of unconsolidated joint ventures	$ 46.8	$ 40.8	$ 6.0	14.7%
Investment and preferred equity income	91.0	61.4	29.6	48.2
Other income	120.7	33.8	86.9	257.1
Total	$258.5	$136.0	$ 122.5	90.1%

The increase in equity in net income of unconsolidated joint ventures was primarily due to increased net income contributions from Gramercy ($6.1 million), 2 Herald Square ($4.1 million), 885 Third Avenue ($3.5 million), One Court Square ($1.3 million) and 800 Third Avenue ($2.3 million). This was partially offset by lower net income contributions from our investments in 521 Fifth Avenue which was under redevelopment ($1.4 million), 485 Lexington Avenue which is wholly-owned since December 2006 ($1.0 million), 1745 Broadway ($2.7 million), 100 Park Avenue which is under redevelopment ($2.3 million), 1221 Avenue of the Americas due to planned vacancy ($1.6 million) and the Mack-Green joint venture ($2.1 million). Occupancy at our joint venture same-store properties decreased from 96.1% in 2006 to 93.1% in 2007 primarily due to the redevelopment at 100 Park Avenue and the planned vacancy at 1221 Avenue of the Americas. At December 31, 2007, we estimated that current market rents at our Manhattan and Suburban unconsolidated joint venture properties were approximately 47.5% and 11.2% higher, respectively, than then existing in-place fully escalated rents. Approximately 6.2% of the space leased at our unconsolidated joint venture properties expires during 2008.

The increase in investment and preferred equity income was primarily due to higher outstanding balances during the current period. The weighted average investment balance outstanding and weighted average yield were $717.1 million and 10.3%, respectively, for 2007 compared to $398.5 million and 10.3%, respectively, for 2006.

The increase in other income was primarily due to an incentive distribution earned in 2007 upon the sale of One Park Avenue (approximately $77.2 million) and Five Madison Avenue-the Clock Tower ($5.1 million), other incentive distributions and asset management fees ($1.9 million) as well as fee income earned by the Service Corporation ($3.2 million). This was offset by an incentive distribution earned in 2006 ($5.0 million).

Property Operating Expenses (in millions)	2007	2006	$ Change	% Change
Operating expenses	$209.4	$102.5	$106.9	104.3%
Real estate taxes	121.6	62.9	58.7	93.3
Ground rent	32.4	20.2	12.2	60.4
Total	$363.4	$185.6	$177.8	95.8%
Same-Store Properties	$188.4	$161.8	$26.6	16.4%
Acquisitions	157.5	9.3	148.2	1,593.6
Other	17.5	14.5	3.0	20.7
Total	$363.4	$185.6	$177.8	95.8%

Same-Store Properties operating expenses, excluding real estate taxes ($0.1 million), increased approximately $8.8 million. There were increases in repairs, maintenance and payroll expenses ($1.9 million), utilities ($5.2 million), ground rent expense ($3.1 million) and other miscellaneous expenses ($0.5 million), respectively. This was partially offset by a decrease in insurance costs ($1.9 million).

The increase in real estate taxes was primarily attributable to the Acquisitions ($60.5 million). This was partially offset by a reduction in real estate taxes at the Same-Store properties ($0.1 million) and due to properties that were sold and other ($0.5 million).

Other Expenses (in millions)	2007	2006	$ Change	% Change
Interest expense	$282.2	$93.8	$188.4	200.9%
Depreciation and amortization expense	175.2	62.5	112.7	180.3
Marketing, general and administrative expense	93.0	57.9	35.1	60.6
Total	$550.4	$214.2	$336.2	157.0%

The increase in interest expense was primarily attributable to borrowings associated with new investment activity, primarily the Reckson Merger, and the funding of ongoing capital projects and working capital requirements as well as the write-off for exit fees, make-whole payments and the write-off of unamortized deferred financing costs in connection with the early redemption of unsecured notes and loans ($9.1 million). The weighted average interest rate decreased from 5.93% for the year ended December 31, 2006 to 5.66% for the year ended December 31, 2007. As a result of the new investment activity, the weighted average debt balance increased from $1.95 billion as of December 31, 2006 to $4.7 billion as of December 31, 2007.

Marketing, general and administrative expense represented 9.4% of total revenues in 2007 compared to 12.8% in 2006. The increase in actual cost is primarily due to higher compensation costs due to increased hiring primarily as a result of the Reckson Merger as well as the amended and restated employment agreements entered into with certain of our executive officers in 2007.

Liquidity and Capital Resources

We are currently experiencing a global economic downturn and credit crunch. As a result, many financial industry participants, including commercial real estate owners, operators, investors and lenders continue to find it extremely difficult to obtain cost-effective debt capital to finance new investment activity or to refinance maturing debt. In the few instances in which debt is available, it is at a cost much higher than in the recent past.

We currently expect that our principal sources of working capital and funds for acquisition and redevelopment of properties, tenant improvements and leasing costs and for structured finance investments will include:

(1) Cash flow from operations;

(2) Cash on hand;

(3) Borrowings under our 2007 unsecured revolving credit facility;

(4) Other forms of secured or unsecured financing;

(5) Net proceeds from divestitures of properties and redemptions, participations and dispositions of structured finance investments; and

(6) Proceeds from common or preferred equity or debt offerings by us or the operating partnership (including issuances of limited partnership units in the operating partnership and trust preferred securities).

Cash flow from operations is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates achieved on our leases, the collectability of rent and operating escalations and recoveries from our tenants and the level of operating and other costs. Additionally, we believe that our joint venture investment programs will also continue to serve as a source of capital for acquisitions.

We believe that our sources of working capital, specifically our cash flow from operations, borrowings available under our 2007 unsecured revolving credit facility, cash on hand and our ability to access private and public debt and equity capital, are adequate for us to meet our short-term and long-term liquidity requirements for the foreseeable future.

Cash Flows

The following summary discussion of our cash flows is based on our consolidated statements of cash flows in "Item 8. Financial Statements" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were $726.9 million and $46.0 million at December 31, 2008 and December 31, 2007, respectively, representing an increase of $680.9 million. The increase was a result of the following increases and decreases in cash flows (in thousands):

	Year ended December 31,		
	2008	**2007**	**Increase (Decrease)**
Net cash provided by operating activities	$296,011	$ 406,705	$ (110,694)
Net cash used in investing activities	$396,219	$(2,334,337)	$ 2,730,556
Net cash provided by financing activities	$ (11,305)	$ 1,856,418	$(1,867,723)

Our principal source of operating cash flow is related to the leasing and operating of the properties in our portfolio. Our properties provide a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements. At December 31, 2008, our portfolio was 95.2% occupied. Our structured finance and joint venture investments also provide a steady stream of operating cash flow to us.

Cash is used in investing activities to fund acquisitions, redevelopment projects and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings that meet our investment criteria. In the first quarter of 2007, we acquired Reckson for approximately $4.0 billion which included the assumption of approximately $1.5 billion of consolidated debt and the issuance of approximately $1.0 billion of common stock. During the year ended December 31, 2008, when compared to the year ended December 31, 2007, we used cash primarily for the following investing activities (in thousands):

Acquisitions of real estate	$(4,120,567)
Capital expenditures and capitalized interest	38,613
Escrow cash-capital improvements/acquisition deposits	137,961
Joint venture investments	(777,267)
Distributions from joint ventures	(375,787)
Proceeds from sales of real estate	814,934
Structured finance and other investments	(413,357)
Proceeds from asset sale	1,964,914

We generally fund our investment activity through property-level financing, our 2007 unsecured revolving credit facility, term loans, unsecured notes, construction loans and, from time to time, we issue common and preferred stock. During the year ended December 31, 2008, when compared to the year ended December 31, 2007, the following financing activities provided the funds to complete the investing activity noted above (in thousands):

Proceeds from our debt obligations	$ 2,818,706
Repayments under our debt obligations	(1,501,807)
Repurchases of common stock	1,267
Noncontrolling interest in other partnerships and other financing activities	527,738
Dividends and distributions paid	21,819

Capitalization

As of December 31, 2008, we had 57,043,835 shares of common stock, 2,339,853 units of limited partnership interest in our operating partnership, 6,300,000 shares of our 7.625% Series C cumulative redeemable preferred stock, or Series C preferred stock and 4,000,000 shares of our 7.875% Series D cumulative redeemable preferred stock, or Series D preferred stock, outstanding.

In March 2007, our board of directors approved a stock repurchase plan under which we can buy up to $300.0 million shares of our common stock. This plan expired on December 31, 2008. As of December 31, 2008, we purchased and settled approximately $300.0 million, or 3.3 million shares of our common stock, at an average price of $90.49 per share.

Rights Plan

We adopted a shareholder rights plan which provides, among other things, that when specified events occur, our common stockholders will be entitled to purchase from us a newly created series of junior preferred shares, subject to our ownership limit described below. The preferred share purchase rights are triggered by the earlier to occur of (1) ten days after the date of a purchase 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.

Dividend Reinvestment and Stock Purchase Plan

We filed a registration statement with the SEC for our dividend reinvestment and stock purchase plan, or DRIP, which was declared effective on September 10, 2001. The DRIP commenced on September 24, 2001. We registered 3,000,000 shares of common stock under the DRIP.

During the years ended December 31, 2008 and 2007, we issued approximately 4,300 and 108,000 shares of our common stock and received approximately $0.3 million and $13.8 million of proceeds from dividend reinvestments and/or stock purchases under the DRIP, respectively. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors adopted a long-term, seven-year compensation program for certain members of senior management. The program, which measured our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provided that holders of our common equity were to achieve a 40% total return during the measurement period over a base share price of $30.07 per share before any restricted stock awards were granted. Plan participants would receive an award of restricted stock in an amount between 8% and 10% of the excess total return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our 2005 Stock Option and Incentive Plan (as defined below), which was previously approved through a stockholder vote in May 2002. In April 2007, the Compensation Committee determined that under the terms of the 2003 Outperformance Plan, as of March 31, 2007, the performance hurdles had been met and the maximum performance pool of $22,825,000, taking into account forfeitures, was established. In connection with this event, approximately 166,312 shares of restricted stock (as adjusted for forfeitures) were allocated under the 2005 Stock Option and Incentive Plan. These awards are subject to vesting as noted above. We record the expense of the restricted stock award in accordance with SFAS 123-R. The fair value of the award on the date of grant was determined to be $3.2 million. Forty percent of the value of the award was amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six, and 14.29% of year seven will be recorded in year one. Compensation expense of $0.2 million, $0.4 million and $0.65 million related to this plan was recorded during the years ended December 31, 2008, 2007 and 2006, respectively.

2005 Long-Term Outperformance Compensation Program

In December 2005, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2005 Outperformance Plan. Participants in the 2005 Outperformance Plan will share in a "performance pool" if our total return to stockholders for the period from December 1, 2005 through November 30, 2008 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of $68.51 per share. The size of the pool was to be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum dilution cap equal to the lesser of 3% of our outstanding shares and units of limited partnership interest as of December 1, 2005 or $50.0 million. In the event the potential performance pool reached this dilution cap before November 30, 2008 and remained at that level or higher for 30 consecutive days, the performance period was to end early and the pool would be formed on the last day of such 30 day period. Each participant's award under the 2005 Outperformance Plan would be designated as a specified percentage of the aggregate performance pool to be allocated to him or her assuming the 30% benchmark is achieved. Individual awards would be made in the form of partnership units, or LTIP Units, that may ultimately become exchangeable for shares of our common stock or cash, at our election. LTIP Units would be granted prior to the determination of the performance pool;

however, they were only to vest upon satisfaction of performance and other thresholds, and were not entitled to distributions until after the performance pool was established. The 2005 Outperformance Plan provides that if the pool was established, each participant would also be entitled to the distributions that would have been paid on the number of LTIP Units earned, had they been issued at the beginning of the performance period. Those distributions were to be paid in the form of additional LTIP Units.

After the performance pool was established, the earned LTIP Units are to receive regular quarterly distributions on a per unit basis equal to the dividends per share paid on our common stock, whether or not they are vested. Any LTIP Units not earned upon the establishment of the performance pool were to be automatically forfeited, and the LTIP Units that are earned are subject to time-based vesting, with one-third of the LTIP Units earned vesting on November 30, 2008 and each of the first two anniversaries thereafter based on continued employment. On June 14, 2006, the Compensation Committee determined that under the terms of the 2005 Outperformance Plan, as of June 8, 2006, the performance period had accelerated and the maximum performance pool of $49,250,000, taking into account forfeitures, was established. Individual awards under the 2005 Outperformance Plan are in the form of partnership units, or LTIP Units, in our operating partnership, that, subject to certain conditions, are convertible into shares of the Company's common stock or cash, at our election. The total number of LTIP Units earned by all participants as a result of the establishment of the performance pool was 490,475 and are subject to time-based vesting.

The cost of the 2005 Outperformance Plan (approximately $8.0 million, subject to adjustment for forfeitures) will continue to be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately $3.9 million, $2.1 million and $2.0 million of compensation expense during the years ended December 31, 2008, 2007 and 2006, respectively, in connection with the 2005 Outperformance Plan.

2006 Long-Term Outperformance Compensation Program

On August 14, 2006, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2006 Outperformance Plan. Participants in the 2006 Outperformance Plan will share in a "performance pool" if our total return to stockholders for the period from August 1, 2006 through July 31, 2009 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of $106.39 per share. The size of the pool will be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum award of $60 million. The maximum award will be reduced by the amount of any unallocated or forfeited awards. In the event the potential performance pool reaches the maximum award before July 31, 2009 and remains at that level or higher for 30 consecutive days, the performance period will end early and the pool will be formed on the last day of such 30 day period. Each participant's award under the 2006 Outperformance Plan will be designated as a specified percentage of the aggregate performance pool. Assuming the 30% benchmark is achieved, the pool will be allocated among the participants in accordance with the percentage specified in each participant's participation agreement. Individual awards will be made in the form of partnership units, or LTIP Units, that, subject to vesting and the satisfaction of other conditions, are exchangeable for a per unit value equal to the then trading price of one share of our common stock. This value is payable in cash or, at our election, in shares of common stock. LTIP Units will be granted prior to the determination of the performance pool; however, they will only vest upon satisfaction of performance and time vesting thresholds under the 2006 Outperformance Plan, and will not be entitled to distributions until after the performance pool is established. Distributions on LTIP Units will equal the dividends paid on our common stock on a per unit basis. The 2006 Outperformance Plan provides that if the pool is established, each participant will also be entitled to the distributions that would have been paid had the number of earned LTIP Units been issued at the beginning of the performance period. Those distributions will be paid in the form of additional LTIP Units. Thereafter, distributions will be paid currently with respect to all earned LTIP Units that are a part of the performance pool, whether vested or unvested. Although the amount of earned awards under the 2006 Outperformance Plan (i.e. the number of LTIP Units earned) will be determined when the performance pool is established, not all of the awards will vest at that time. Instead, one-third of the awards will vest on July 31, 2009 and each of the first two anniversaries thereafter based on continued employment.

In the event of a change in control of our company on or after August 1, 2007 but before July 31, 2009, the performance pool will be calculated assuming the performance period ended on July 31, 2009 and the total return continued at the same annualized rate from the date of the change in control to July 31, 2009 as was achieved from August 1, 2006 to the date of the change in control; provided that the performance pool may not exceed 200% of what it would have been if it was calculated using the total return from August 1, 2006 to the date of the change in control and a pro rated benchmark. In either case, the performance pool will be formed as described above if the adjusted benchmark target is achieved and all earned awards will be fully vested upon the change in control. If a change in control occurs after the performance period has ended, all unvested awards issued under our 2006 Outperformance Plan will become fully vested upon the change in control.

The cost of the 2006 Outperformance Plan (approximately $9.6 million, subject to adjustment for forfeitures) will be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately $12.2 million, $2.5 million and $1.1 million of compensation expense during the years ended December 31, 2008, 2007 and 2006, respectively, in connection with the 2006 Outperformance Plan. During the fourth quarter of 2008, we and certain of our employees, including our executive officers, mutually agreed to cancel a portion of the 2006 Outperformance Plan. This charge of approximately $9.2 million is included in the compensation expense above.

Amended and Restated 2005 Stock Option and Incentive Plan

Subject to adjustments upon certain corporate transactions or events, up to a maximum of 6,000,000 shares, or the Fungible Pool Limit, may be granted as options, restricted stock, phantom shares, dividend equivalent rights and other equity-based awards under the amended and restated 2005 Stock Option and Incentive Plan, or the 2005 Plan. At December 31, 2008, approximately 4.5 million shares of our common stock, calculated on a weighted basis, were available for issuance under the 2005 Plan, or 6.5 million shares if all shares available under the 2005 Plan were issued as five-year options.

Deferred Stock Compensation Plan for Directors

Under our Independent Director's Deferral Program, which commenced July 2004, our non-employee directors may elect to defer up to 100% of their annual retainer fee, chairman fees and meeting fees. Unless otherwise elected by a participant, fees deferred under the program shall be credited in the form of phantom stock units. The phantom stock units are convertible into an equal number of shares of common stock upon such directors' termination of service from the board of directors or a change in control by us, as defined by the program. Phantom stock units are credited to each non-employee director quarterly using the closing price of our common stock on the applicable dividend record date for the respective quarter. Each participating non-employee director's account is also credited for an equivalent amount of phantom stock units based on the dividend rate for each quarter.

During the year ended December 31, 2008, approximately 7,000 phantom stock units were earned. As of December 31, 2008, there were approximately 22,513 phantom stock units outstanding.

Employee Stock Purchase Plan

On September 18, 2007, our board of directors adopted the 2008 Employee Stock Purchase Plan, or ESPP, to encourage our employees to increase their efforts to make our business more successful by providing equity-based incentives to eligible employees. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended, and has been adopted by the board to enable our eligible employees to purchase our shares of common stock through payroll deductions. The ESPP became effective on January 1, 2008 with a maximum of 500,000 shares of the common stock available for issuance, subject to adjustment upon a merger, reorganization, stock split or other similar corporate change. We filed a registration statement on Form S-8 with the Securities and Exchange Commission with respect to the ESPP. The common stock will be offered for purchase through a series of successive offering periods. Each offering period will be three months in duration and will begin on the first day of each calendar quarter, with the first offering period having commenced on January 1, 2008. The ESPP provides for eligible employees to purchase the common stock at a purchase price equal to 85% of the lesser of (1) the market value of the common stock on the first day of the offering period or (2) the market value of the common stock on the last day of the offering period. The ESPP was approved by our stockholders at our 2008 annual meeting of stockholders. As of December 31, 2008, approximately 4,900 shares of our common stock had been issued under the ESPP.

Market Capitalization

At December 31, 2008, borrowings under our mortgage loans, 2007 unsecured revolving credit facility, senior unsecured notes, and trust preferred securities (including our share of joint venture debt of approximately $1.9 billion) represented 81.0% of our combined market capitalization of approximately $9.4 billion (based on a common stock price of $25.90 per share, the closing price of our common stock on the New York Stock Exchange on December 31, 2008). Market capitalization includes our consolidated debt, common and preferred stock and the conversion of all units of limited partnership interest in our operating partnership, and our share of joint venture debt. This ratio has increased significantly compared to 2007 primarily due to the significant decrease in our stock price in 2008.

Indebtedness

The table below summarizes our consolidated mortgage debt, 2007 unsecured revolving credit facility, senior unsecured notes and trust preferred securities outstanding at December 31, 2008 and 2007, respectively (dollars in thousands).

Debt Summary:	December 31, 2008	2007
Balance		
Fixed rate	**$ 3,918,454**	$ 4,542,211
Variable rate hedged	**60,000**	160,000
Total fixed rate	**3,978,454**	4,702,211
Variable rate	**1,427,677**	764,011
Variable rate supporting variable rate assets	**175,428**	191,927
Total variable rate	**1,603,105**	955,938
Total	**$ 5,581,559**	$ 5,658,149
Percent of Total Debt:		
Total fixed rate	**71.3%**	83.1%
Variable rate	**28.7%**	16.9%
Total	**100.0%**	100.0%
Effective Interest Rate for the Year(1):		
Fixed rate	**5.37%**	5.35%
Variable rate	**4.05%**	6.57%
Effective interest rate	**5.24%**	5.66%

(1) Based on contractual coupon rate of the underlying debt.

The variable rate debt shown above bears interest at an interest rate based on 30-day LIBOR (0.44% and 4.60% at December 31, 2008 and 2007, respectively). Our consolidated debt at December 31, 2008 had a weighted average term to maturity of approximately 7.0 years.

Certain of our structured finance investments, totaling approximately $175.4 million, are variable rate investments which mitigate our exposure to interest rate changes on our unhedged variable rate debt at December 31, 2008.

Mortgage Financing

As of December 31, 2008, our total mortgage debt (excluding our share of joint venture debt of approximately $1.9 billion) consisted of approximately $2.3 billion of fixed rate debt, including hedged variable rate debt, with an effective weighted average interest rate of approximately 5.95% and approximately $274.0 million of variable rate debt with an effective weighted average interest rate of approximately 5.25%.

Corporate Indebtedness

2007 Unsecured Revolving Credit Facility

We have a $1.5 billion unsecured revolving credit facility, or the 2007 unsecured revolving credit facility. We increased the capacity under the 2007 unsecured revolving credit facility by $300.00 million

in January 2007, by an additional $450.0 million in June 2007 and by an additional $250.0 million in October 2007. The 2007 unsecured revolving credit facility bears interest at a spread ranging from 70 basis points to 110 basis points over the 30-day LIBOR, based on our leverage ratio. As of December 31, 2008, the spread was 90 basis points. This facility matures in June 2011 and has a one-year extension option. The 2007 unsecured revolving credit facility also requires a 12.5 to 20 basis point fee on the unused balance payable annually in arrears. The 2007 unsecured revolving credit facility had approximately $1.4 billion outstanding at December 31, 2008. Availability under the 2007 unsecured revolving credit facility was further reduced at December 31, 2008 by the issuance of approximately $22.0 million in letters of credit and by a defaulted lender's unfunded committed amount of approximately $33.4 million. The 2007 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Term Loans

We had a $325.0 million unsecured term loan, which was scheduled to mature in August 2009. This unsecured term loan bore interest at a spread ranging from 110 basis points to 140 basis points over the 30-day LIBOR. The unsecured term loan was repaid and terminated in March 2007.

We had a $200.0 million five-year non-recourse term loan, secured by a pledge of our ownership interest in 1221 Avenue of the Americas. The loan was scheduled to mature in May 2010. This term loan had a floating rate of 125 basis points over the current 30-day LIBOR rate. The secured term loan was repaid and terminated in June 2007.

In January 2007, we closed on a $500.0 million unsecured bridge loan, which matures in January 2010. This term loan bore interest at a spread ranging from 85 basis points to 125 basis points over the 30-day LIBOR, based on our leverage ratio. This unsecured bridge loan was repaid and terminated in June 2007.

In December 2007, we closed on a $276.7 million ten-year term loan which carried an effective fixed interest rate of 5.19%. This loan was secured by our interest in 388 and 390 Greenwich Street. This secured term loan, which was scheduled to mature in December 2017, was repaid and terminated in May 2008.

Senior Unsecured Notes

The following table sets forth our senior unsecured notes and other related disclosures by scheduled maturity date as of December 31, 2008 (in thousands):

Issuance	Accreted Balance	Coupon Rate(4)	Term (in Years)	Maturity
March 26, 1999(1)	$ 200,000	7.75%	10	March 15, 2009
January 22, 2004(1)	150,000	5.15%	7	January 15, 2011
August 13, 2004(1)	150,000	5.875%	10	August 15, 2014
March 31, 2006(1)	274,693	6.00%	10	March 31, 2016
June 27, 2005(1)(2)	179,622	4.00%	20	June 15, 2025
March 26, 2007(3)	546,819	3.00%	20	March 30, 2027
	$ **1,501,134**			

(1) Assumed as part of the Reckson Merger.

(2) Exchangeable senior debentures which are callable after June 17, 2010 at 100% of par. In addition, the debentures can be put to us, at the option of the holder at par plus accrued and unpaid interest, on June 15, 2010, 2015 and 2020 and upon the occurrence of certain change of control transactions. As a result of the Reckson Merger, the adjusted exchange rate for the debentures is 7.7461 shares of our common stock per $1,000 of principal amount of debentures and the adjusted reference dividend for the debentures is $1.3491. In 2008 we repurchased approximately $102.4 million of these bonds and realized net gains on early extinguishment of debt of approximately $16.7 million.

(3) In March 2007, we issued $750.0 million of these convertible bonds. Interest on these notes is payable semi-annually on March 30 and September 30. The notes have an initial exchange rate representing an exchange price that is at a 25.0% premium to the last reported sale price of our common stock on March 20, 2007, or $173.30. The initial exchange rate is subject to adjustment under certain circumstances. The notes are senior unsecured obligations of our operating partnership and are exchangeable upon the occurrence of specified events, and during the period beginning on the twenty-second scheduled trading day prior to the maturity date and ending on the second business day prior to the maturity date, into cash or a combination of cash and shares of our common stock, if any, at our option. The notes are redeemable, at our option, on and after April 15, 2012. We may be required to repurchase the notes on March 30, 2012, 2017 and 2022, and upon the occurrence of certain designated events. The net proceeds from the offering were approximately $736.0 million, after deducting estimated fees and expenses. The proceeds of the offering were used to repay certain of our existing indebtedness, make investments in additional properties, and make open market purchases of our common stock and for general corporate purposes. In 2008 we repurchased approximately $160.2 million of these bonds and realized net gains on early extinguishment of debt of approximately $60.8 million.

(4) Interest on the senior unsecured notes is payable semi-annually with principal and unpaid interest due on the scheduled maturity dates.

On April 27, 2007, the $50.0 million 6.0% unsecured notes scheduled to mature in June 2007 and the $150.0 million 7.20% unsecured notes scheduled to mature in August 2007, assumed as part of the Reckson Merger, were redeemed.

Junior Subordinate Deferrable Interest Debentures

In June 2005, we issued $100.0 million of Trust Preferred Securities, which are reflected on the balance sheet at December 31, 2007 as Junior Subordinate Deferrable Interest Debentures. The proceeds were used to repay our unsecured revolving credit facility. The $100.0 million of junior subordinate deferrable interest debentures have a 30-year term ending July 2035. They bear interest at a fixed rate of 5.61% for the first 10 years ending July 2015. Thereafter, the rate will float at three month LIBOR plus 1.25%. The securities are redeemable at par beginning in July 2010.

Restrictive Covenants

The terms of our 2007 unsecured revolving credit facility and senior unsecured notes include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, the minimum amount of fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal income tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 95% of funds from operations for such period, subject to certain other adjustments. As of December 31, 2008 and 2007, we were in compliance with all such covenants.

Market Rate Risk

We are exposed to changes in interest rates primarily from our floating rate borrowing arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point increase in interest rates along the entire interest rate curve for 2008 and 2007, would increase our annual interest cost by approximately $15.3 million and $9.2 million and would increase our share of joint venture annual interest cost by approximately $7.4 million and $6.9 million, respectively.

We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Approximately $4.0 billion of our long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. The interest rate on our variable rate debt and joint venture debt as of December 31, 2008 ranged from LIBOR plus 62.5 basis points to LIBOR plus 275 basis points.

Contractual Obligations

Combined aggregate principal maturities of mortgages and notes payable, 2007 unsecured revolving credit facility, senior unsecured notes and bonds (net of discounts), trust preferred securities, our share of joint venture debt, including as-of-right extension options, estimated interest expense, and our obligations under our capital lease, air rights and ground leases, as of December 31, 2008 are as follows (in thousands):

	2009	2010	2011	2012	2013	Thereafter	Total
Property Mortgages	$ 28,124	$134,252	$266,223	$ 159,538	$451,272	$1,551,948	$ 2,591,357
Revolving Credit Facility				1,389,067			1,389,067
Trust Preferred Securities						100,000	100,000
Senior Unsecured Notes	200,000		150,000			1,151,134	1,501,134
Capital lease	1,416	1,451	1,555	1,555	1,555	47,204	54,736
Ground leases	31,953	31,512	29,388	28,638	28,638	578,636	728,765
Estimated interest expense	273,225	256,493	210,836	172,361	158,602	739,274	1,810,791
Joint venture debt	55,265	459,944	171,285	34,192	1,677	1,211,270	1,933,633
Total	$589,983	$883,652	$829,287	$1,785,351	$641,744	$5,379,466	$10,109,483

Off-Balance Sheet Arrangements

We have a number of off-balance sheet investments, including joint ventures and structured finance investments. These investments all have varying ownership structures. Substantially all of our joint venture arrangements are accounted for under the equity method of accounting as we have the ability to exercise significant influence, but not control over the operating and financial decisions of these joint venture arrangements. Our off-balance sheet arrangements are discussed in Note 5, "Structured Finance Investments" and Note 6, "Investments in Unconsolidated Joint Ventures" in the accompanying financial statements. Additional information about the debt of our unconsolidated joint ventures is included in "Contractual Obligations" above.

Capital Expenditures

We estimate that for the year ending December 31, 2009, we will incur, approximately $93.8 million of capital expenditures (including tenant improvements and leasing commissions) on existing wholly-owned properties and our share of capital expenditures at our joint venture properties will be approximately $28.1 million. We expect to fund these capital expenditures with operating cash flow, additional property level mortgage financings, and cash on hand. Future property acquisitions may require substantial capital investments for refurbishment and leasing costs. We expect that these financing requirements will be met in a similar fashion. We believe that we will have sufficient resources to satisfy our capital needs during the next 12-month period. Thereafter, we expect our capital needs will be met through a combination of cash on hand, net cash provided by operations, borrowings, potential asset sales or additional equity or debt issuances.

Dividends

We expect to pay dividends to our stockholders based on the distributions we receive from the operating partnership primarily from property revenues net of operating expenses or, if necessary, from working capital or borrowings.

To maintain our qualification as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined before taking into consideration the dividends paid deduction and net capital gains. We intend to continue to pay regular quarterly dividends to our stockholders. Based on our current annual dividend rate of $1.50 per share, we would pay approximately $85.9 million in dividends to our common stockholders on an annual basis. Before we pay any dividend, whether for Federal income tax purposes or otherwise, which would only be paid out of available cash to the extent permitted under our unsecured revolving credit facility, we must first meet both our operating requirements and scheduled debt service on our mortgages and loans payable. We reduced our annual dividend from $3.15 in 2008 in order to conserve liquidity.

Related Party Transactions

Cleaning/ Security/ Messenger and Restoration Services

Through Alliance Building Services, or Alliance, First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services, Classic Security LLC provides security services, Bright Star Couriers LLC provides messenger services, and Onyx Restoration Works provides restoration services with respect to certain properties owned by us. Alliance is owned by Gary Green, a son of Stephen L. Green, the chairman of our board of directors. First Quality also provides additional services directly to tenants on a separately negotiated basis. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. First Quality leases 26,800 square feet of space at 70 West 36th Street pursuant to a lease that expires on December 31, 2015. We received approximately $75,000 in rent from Alliance in 2007. We sold this property in March 2007. We paid Alliance approximately $15.1 million, $14.8 million and $13.6 million for three years ended December 31, 2008, respectively, for these services (excluding services provided directly to tenants).

Leases

Nancy Peck and Company leases 1,003 square feet of space at 420 Lexington Avenue under a lease that ends in August 2015. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due under the lease is $35,516 per year. From February 2007 through December 2008, Nancy Peck and Company leased 507 square feet of space at 420 Lexington Avenue pursuant to a lease which provided for annual rental payments of approximately $15,210. Prior to February 2007, Nancy Peck and Company leased 2,013 square feet of space at 420 Lexington Avenue, pursuant to a lease that expired on June 30, 2005 and which provided for annual rental payments of approximately $66,000. The rent due pursuant to that lease was offset against a consulting fee of $11,025 per month an affiliate paid to her pursuant to a consulting agreement, which was canceled in July 2006.

Management Fees

S.L. Green Management Corp. receives property management fees from certain entities in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entities was approximately $353,500 in 2008, $297,100 in 2007 and $205,000 in 2006.

Brokerage Services

Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2007, our 1604-1610 Broadway joint venture paid approximately $146,500 to Sonnenblick in connection with obtaining a $27.0 million first mortgage and we paid $759,000 in connection with the refinancing of 485 Lexington Avenue. In 2008, our 1250 Broadway joint venture paid approximately $1.7 million to Sonnenblick in connection with the sale of 1250 Broadway.

In 2007, we paid a consulting fee of $525,000 to Stephen Wolff, the brother-in-law of Marc Holliday, in connection with our aggregate investment of $119.1 million in the joint venture that owns 800 Third Avenue and approximately $68,000 in connection with our acquisition of 16 Court Street for $107.5 million.

Gramercy Capital Corp.

Our related party transactions with Gramercy are discussed in Note 13, "Related Party Transactions" in the accompanying financial statements. Management has evaluated its investment in Gramercy in accordance with notice 2008-234 issued by the joint SEC Office of the Chief Accountant and the FASB Staff which provided further guidance on fair value accounting. Management evaluated (1) the length of time and the extent to which the market value of our investment in Gramercy has been less than cost, (2) the financial condition and near-term prospects of Gramercy, the issuer, and (3) the intent and ability of SL Green, the holder, to retain its investment for a period of time sufficient enough to allow for anticipated recovery. Based on this evaluation, we recognized a loss on our investment in Gramercy of approximately $147.5 million in the fourth quarter of 2008.

Insurance

We maintain "all-risk" property and rental value coverage (including coverage regarding the perils of flood, earthquake and terrorism) within two property insurance portfolios and liability insurance. The first property portfolio maintains a blanket limit of $600.0 million per occurrence for the majority of the New York City properties in our portfolio with a sub-limit of $450.0 million for acts of terrorism. The second portfolio maintains a limit of $600.0 million per occurrence, including terrorism, for a few New York City properties and the majority of the Suburban properties. Both property policies expire on December 31, 2009. Additional coverage may be purchased on a stand-alone basis for certain assets. The liability policies cover all our properties and provide limits of $200.0 million per property. The liability policies expire on October 31, 2009.

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

Terrorism: Belmont acts as a direct property insurer with respect to a portion of our terrorism coverage for the New York City properties. Effective December 31, 2008, Belmont increased its terrorism coverage from $50 million to $250 million in an upper layer. In addition Belmont purchased reinsurance to reinsure the retained insurable risk not otherwise covered under Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007, or TRIPRA, as detailed below.

NBCR: Belmont acts as a direct insurer of NBCR coverage up to $250 million on the entire property portfolio.

General Liability: Belmont insures a deductible on the general liability insurance with a $250,000 deductible per occurrence and a $2.4 million annual aggregate stop loss limit. We have secured an excess insurer to protect against catastrophic liability losses above the $250,000 deductible per occurrence and a stop loss if aggregate claims exceed $2.4 million. Belmont has 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. In addition, we have an umbrella liability policy of $200.0 million.

D&O: Effective August 10, 2008, a directors and officers liability policy was added by Belmont to provide reimbursement for SEC claims reducing the deductible from $2,500,000 to $1,000,000.

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.

TRIA, which was enacted in November 2002, was renewed on December 31, 2007. Congress extended TRIA, now called TRIPRA (Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007) until December 31, 2014. The law extends the federal Terrorism Insurance Program that requires insurance companies to offer terrorism coverage and provides for compensation for insured losses resulting from acts of foreign and domestic terrorism. Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), mezzanine loans, ground leases and our 2007 unsecured revolving credit facility, 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.

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 own One Madison Avenue, which is under a triple net lease with insurance provided by the tenant, Credit Suisse Securities (USA) LLC, or CS. We monitor the coverage provided by CS to make sure that our asset is adequately protected. We own 388 and 390 Greenwich Street, which is leased on a triple net basis to Citigroup, N.A., which provides insurance coverage directly. We monitor all triple net leases to ensure that tenants are providing adequate coverage. 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.

Funds from Operations

Funds From Operations, or FFO, is a widely recognized measure of REIT performance. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do. The revised White Paper on FFO approved by the Board of Governors of NAREIT in April 2002 defines FFO as net income (loss) (computed in accordance with Generally Accepted Accounting Principles, or GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, particularly those that own and operate commercial office properties.

We also use FFO as one of several criteria to determine performance-based bonuses for members of our senior management. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs, providing perspective not immediately apparent from net income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), as an indication of our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

FFO for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Net income attributable to SL Green common stockholders	**$ 360,935**	$ 626,355	$ 200,844
Add:			
Depreciation and amortization	**217,624**	175,171	62,523
FFO from discontinued operations	**10,203**	41,375	51,634
FFO adjustment for unconsolidated joint ventures	**42,515**	27,538	38,338
Net income attributable to noncontrolling interests	**27,067**	43,189	16,639
Loss on equity investment in marketable securities	**147,489**		
Less:			
Income from discontinued operations	**(8,416)**	(36,219)	(42,640)
Gain on sale of discontinued operations	**(348,531)**	(501,812)	(99,269)
Gain on sale of joint venture property/ partial interest	**(103,056)**	(31,509)	(3,451)
Depreciation on non-rental real estate assets	**(974)**	(902)	(984)
Funds from Operations available to common stockholders	**344,856**	343,186	223,634
Dividends on convertible preferred shares			
Funds from Operations available to all stockholders	**$ 344,856**	$ 343,186	$ 223,634
Cash flows provided by operating activities	**$ 296,011**	$ 406,705	$ 225,644
Cash flows used in investing activities	**$ 396,219**	$ (2,334,337)	$ (786,912)
Cash flows provided by financing activities	**$ (11,305)**	$ 1,856,418	