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Q3 2022 Safehold Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Safehold's Third Quarter 2022 Earnings Conference Call. (Operator Instructions) At this time, for opening remarks and introductions, I would like to turn the conference over to Jason Fooks, Senior Vice President of Investor Relations and Marketing. Please go ahead, sir.

Jason Fooks ***Safehold Inc. - SVP of IR***

Good morning, everyone, and thank you for joining us today for Safehold's earnings call. On the call today, we have Jay Sugarman, Chairman and Chief Executive Officer; Marcos Alvarado, President and Chief Investment Officer; and Brett Asnas, Chief Financial Officer. This morning, we plan to walk through a presentation that details our third quarter results. The presentation can be found on our website at safeholdinc.com and by clicking on the Investors link. There will be a replay of this conference call beginning today at 2:00 p.m. Eastern Time, and the dial-in for the replay is (877) 481-4010 with the confirmation code of (46957).

Before I turn the call over to Jay, I'd like to remind everyone that statements in this earnings call, which are not historical facts may be forward-looking. Our actual results may differ materially from these forward-looking statements, and the risk factors that could cause these differences are detailed in our SEC reports. Safehold disclaims any intent or obligation to update these forward-looking statements, except as expressly required by law. Now with that, I'd like to turn it over to Chairman and CEO, Jay Sugarman. Jay?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Thanks, Jason. Thanks to everyone for joining us today. The third quarter was marked by 2 important events with opposite impacts on Safehold. Our announcement of an agreement with iStar to create a better platform for expanding our modern ground lease business was a strong plus on a number of fronts and addressed several key constraints in the minds of equity and debt investors. Unfortunately, the third quarter was also a period of historic volatility in the interest rate and credit markets, the impact on Safehold's share price has been painful. Higher rates and spreads will impact both asset and liability pricing. And while we remain focused on expanding our footprint through this period, we are also willing to be patient for markets to eventually stabilize, and we believe the impact on our share price for future projected rate declines and less volatile markets should be quite favorable. In the meantime, we'll work to highlight that while the contractual cash flows from our $6 billion ground lease portfolio are certainly impacted by higher discount rates for assets with a similar credit profile.

We also need to continue drawing attention to the benefits of our now below market long-term debt, the contractual inflation kickers in many of our assets and our portfolio of embedded capital appreciation that over the long term, will act as a powerful inflation hedge. We've included a few updates on Caret in the deck as it remains an important catalyst for our long-term vision, and we're pleased to continue taking small steps in the right direction and pointing towards success. Let's turn to the quarter with Brett and Marcos. Marcos?

Marcos Alvarado ***Safehold Inc. - President & CIO***

Thank you, Jay, and good morning, everyone. Let's begin on Slide 4:

As a quick recap to the merger we announced during the quarter, Safehold and iStar reached a definitive agreement to combine their businesses to create the largest and only self-managed pure-play ground lease company in the public markets. This transaction should achieve several goals for New Safehold.

First, we believe New Safehold will be better positioned for its next phase of growth by putting into place a more efficient and stable long-term cost structure as opposed to the costs we would incur with the existing externally managed architecture. As new Safe scales over time, these potential cost savings become more substantial.

While we acknowledge the disruption in the capital markets has had an impact on everyone's cost of capital, we believe over the long term, New Safe should have enhanced access to capital by addressing many of the concerns around governance, we've heard both from debt and equity investors, along with the rating agencies.

Notably, this new transaction will significantly increase our free float, which should allow us to broaden and diversify our shareholder base and create greater liquidity and access to our company. Finally, we are excited about bringing in MSD as a strategic investor. At merger closing, MSD will become one of the largest investors in New Safe and the largest third-party investor in Caret.

Our next step is to file our proxy statement with the SEC, which will subsequently go through the SEC approval process. While we are presently well into the documentation drafting process, it is not yet completed, and so we will be limited to what we can say today regarding certain specifics of the merger transaction until the proxy is filed.

Moving on to Slide 5, we provide highlights for the quarter:

During the third quarter, we delivered strong earnings driven by new investment activity as well as the gain from the sale of one ground lease, which we recently announced. Brett will discuss this in more depth, but this sale demonstrates the power and value of owning high-quality land. As we often say internally, it's not always what sits on top of our land today, but rather what someone envisions in the future. We're excited about being able to recycle the net proceeds from the sale accretively while simultaneously creating a positive data point for Caret. Additionally, originations during the quarter continued to grow both the portfolio and UCA, and we ended the period with ample capital sources to fund our pipeline.

With that, let me discuss our investment activity on Slide 6:

During the third quarter, we originated 6 new ground leases totaling $284 million. Across the 6 ground leases, we funded $255 million and expect to fund the $29 million unfunded balance in the near term. Additionally, we funded $48 million associated with prior ground lease commitments. These 6 new originations were all multifamily properties spanning 5 different markets. The new ground leases originated during the quarter generated a weighted average yield of 5.8%, assuming 0% inflation, which is approximately a 30 basis points higher than the 5.5% yield for the deals we closed in the second quarter, also with a 0% inflation assumption.

The credit metrics associated with these investments are in line with our targets with a ground lease to value of 37% and rent coverage of 3x.

As rates continue to rise over the last few weeks, more recent pricing is in the mid- to high 6% effective yield range before our inflation look backs. As base rates and credit spreads move, we continue to monitor and shift pricing that works for our customers and for our business. It's our belief that creating ground leases at the current market levels will lead to significant long-term value creation. However, given the volatility in the capital markets, we expect a slowdown in originations in the coming quarters as assets in the private markets reprice.

Slide 7 provides a snapshot of our portfolio growth for the quarter:

We hit another milestone with our aggregate portfolio crossing the $6 billion threshold, ending the quarter at $6.1 billion, representing 18x growth since our IPO. The 6 institutional quality multifamily assets, which we originated during the period can be seen on the right side of this slide. With that, let me turn it over to Brett to go through the financials. Brett?

Brett Asnas ***Safehold Inc. - CFO***

Thank you, Marcos, and good morning, everyone. Continuing on Slide 8, let me detail our quarterly earnings results:

Revenues were $71.7 million for the third quarter. Net income was $66.1 million and earnings per share was $1.06. However, it should be noted that the third quarter of both periods included one-time gains associated with ground leases and this year also included costs related to the merger transaction. Excluding those items, net income for the third quarter would have been $25.5 million, an increase of 40% versus the same period last year, and earnings per share was $0.41, 20% above the $0.34 we earned in the prior year period.

Slide 9 provides more detail about the sale of a ground lease during the quarter:

As we previously mentioned, during the third quarter, we sold a ground lease in the Washington, D.C. MSA for $136 million. We were not actively marketing this property, Rather, the buyer came to us with a compelling, unsolicited offer at a price 77% above where we purchased the ground lease approximately 2 years ago. After evaluating this offer with our Board of Directors, we felt that the negotiated price represented an attractive value and agreed to the sale.

Based on Safehold's 83% ownership in Caret, we recognized a $46.4 million gain. Additionally, Safehold will net $126 million of cash proceeds from this transaction, which will be reinvested in creating more value for our stakeholders.

On Slide 10, we detail our portfolio's yield under several inflation scenarios:

As we've previously discussed, the market generally values our cash flows relative to long-term high-grade bonds and what we've seen year-to-date is a high correlation between our stock price and the yield on those notes. As our benchmark discount rates have moved higher, there's been a corresponding decrease in the present value of our contractual cash flows and by extension in our stock price.

However, this does not take into account that our cash flows are not fixed and 95% of our portfolio has some form of inflation protection built in, thereby creating a positive correlation between portfolio cash flow and inflation.

The current portfolio generates a cash yield of 3.3% and an annualized yield of 5.1%. However, these metrics presume a 0% inflationary environment for the duration of our ground leases. If you take into account the latest long-term inflation expectations of 2.27%, our inflation-based rent increases will push the portfolio to yield 5.7%. If inflation drops back down to 2.0% for the next 99 years, our portfolio will yield 5.5%. If it moves up to 3.0%, our portfolio will yield 6.1%. This additional yield is significant when compounded over the long duration of our ground leases and is an essential calculation for investors to price and to value our stock appropriately.

Additional portfolio metrics can be seen on Slide 11:

At the end of the third quarter, our portfolio has a weighted average ground lease to value of 40% and a weighted average rent coverage of 3.9x.

By book value, the portfolio consists of 45% office, 35% multifamily, 12% hotel, 5% life science and 3% mixed-use and other. By asset count, the portfolio is comprised of 66 multifamily ground leases, 36 office, 16 hotel, 5 life science and 5 mixed-use and other. Our weighted average lease term is 93 years.

On Slide 12, you can see the geographic breakdown of the portfolio as we continue to expand our nationwide footprint. We have 35 ground leases in the West, 29 in the Southeast, 22 in the Northeast, 22 in the Mid-Atlantic, 14 in the Southwest and 6 in the central region.

Moving on to Slide 13. We provide an overview on our capital structure:

At the end of the third quarter, we had $3.8 billion of debt comprised approximately $1.5 billion of non-recourse secured debt, $1.4 billion of unsecured notes and $272 million of our pro rata share of debt on ground leases, which we own in partnership. Our weighted average debt maturity is 24 years.In addition, we had $630 million drawn on our unsecured revolver. Combined with cash on hand, we had $756 million of liquidity at quarter end.

We are levered 1.8x on a total debt to book equity basis and the effective interest rate booked on our non-revolver debt is 3.7%, which is a 138 basis point spread to the 5.1% annualized yield on our portfolio. The portfolio's annualized cash yield is 3.3%, 15 basis point spread to our 3.2% cash interest rate.

Notably, during the quarter, in response to our combination transaction with iStar, Moody's upgraded Safehold to positive outlook, opening the path to a potential upgrade to become an A credit as we continue to deliver on the benefits and value of our franchise.

On Slide 14, we present an update on estimated UCA:

Including the sale of a ground lease during the quarter, the estimated value of all of the unrealized capital appreciation above our cost basis grew to an estimated $10.5 billion, a $597 million increase from our last update by the previous quarter, equating to an 80% compound annual growth rate since our IPO in 2017. That being said, it is worth noting that CBRE's appraisals, which for each asset are completed on an annual basis do not yet fully reflect potential impacts from higher rates for an uncertain economic backdrop on commercial real estate values. As a result, we could see quarterly fluctuations in this balance should commercial real estate values reprice.

The assets that sit on top of our land consists of approximately 32.7 million square feet of institutional quality commercial real estate located in the top markets throughout the country, comprised of 14.4 million square feet of multifamily, 13.2 million square feet of office, 3.8 million square feet of hotels, 700,000 square feet of life science and 700,000 square feet of mixed-use in other property types.

With that, let me turn it back over to Jay. Jay?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Thanks, Brett. I think we can go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Okay. No problem at all. I will now read the instructions for asking any questions. We will take as many questions as time permits. We will pause a moment to assemble the roster. Thank you. Your first question is coming from Anthony Paolone from JP Morgan.

Anthony Paolone ***JPMorgan Chase & Co, Research Division - Senior Analyst***

I guess my first question is, can you talk about just how much of the change in interest rates and discount rates was reflected in the deal volume in the third quarter or where we should expect those to go as we look ahead in the next couple of quarters.

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Marcos, do you want to talk about that?

Marcos Alvarado ***Safehold Inc. - President & CIO***

Yes. Anthony, I don't think the third quarter volumes fully reflect the slowdown. I think our anticipation is that we'll have slower origination volumes in the coming quarters as the private markets reprice and as hopefully some liquidity comes back in the system. So I don't think you'll see us in Q4 or Q1 hitting these volumes.

Anthony Paolone ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Yes. I'm sorry, I guess, maybe I wasn't clear on the question. I'm just trying to think through the -- what looks like about a, close 4% cash yield, 6% IRR on the deals in the third quarter. What does that number look like in the next couple of quarters? I'm guessing some of that activity was maybe entered into before some of -- Sort of the bigger moves in rates in the last couple of months?

Marcos Alvarado ***Safehold Inc. - President & CIO***

Yes. So sorry about that, Tony. I misunderstood the question. I think pricing today, as I said in my remarks, is probably in the kind of mid-6% range, but we do expect volumes to slow down. So call it, 4.5% cash, 6.5% IRR, but probably on lower volumes going forward.

Anthony Paolone ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Okay. And where do you think your incremental debt cost, I mean we can see kind of where your bonds trade, but I don't know if you have access to other instruments or how you're thinking about financing on that side and also just general capacity given kind of where the balance sheet is today and cost of equity.

Brett Asnas ***Safehold Inc. - CFO***

Yes, I'm happy to take that. It's Brett. Tony. Yes. When we look at our existing debt cap structure, I mean, right now, we have $3 billion plus that's 100% fixed rate, termed out 3.2% cash rate. So, it's certainly a low cost. I think what you've seen us do more recently is some more structured, unsecured issuances, keeping our cash costs lower. From an effective standpoint, obviously, we've all seen IG or REIT or single A or BBB credit spreads widen. So the cost of debt that we do see on the screen is wider than what we'd like. But I do think we've been able to show that, especially, as you point out, using other liquidity tools or even what we've done this year in the private markets have been able to price inside of what is on the screen. So we're at a moment here now we're going to let our credit story and the momentum we've exhibited here over the last couple of years within both sides of the balance sheet work itself out as the market finds equilibrium, but we have lots of tools at our disposal for sure.

Operator

Your next question is coming from Rich Anderson from SMBC. Rich, I'm not sure if you're on mute.

Richard Charles Anderson ***SMBC Nikko Securities America, Inc., Research Division - Research Analyst***

Sorry about that. First, potentially, perhaps ignorant question, I'm famous for these. But I think it might be in the minds of people. The Caret-- The asset sale and a portion of that going the Caret. If this is a transaction involving land the Caret is an entity that monitors the value of the leasehold on top of the land. Why would a gain on the land be a Caret event?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes, what Caret is -- It's meant to capture the capital appreciation above the bond economics of the underlying cash flows. So, we really do think the embedded values reflect 2 different components. One is the cash flows, contractual inflation protected. The other is the capital appreciation we're building up, which can be realized in a number of ways. In this case, somebody was willing to pay a significant premium. So, we think there are 2 assets that can be monetized inside of Safehold. I think the best way to capture them is to be really clear on what each is. When there's a bond there is capital appreciation. This was an unusual one-off. This is not something that's going to happen very often, but it does highlight a couple of key things. It shows a lot of the embedded value. But we think people are completely undervaluing the capital appreciation component.

Right now, it looks like our shares are very much pricing just the sort of the contractual bond cash flows. We think it helped to highlight the 2 components. And as you know, we're trying to capture that larger second component in a fundamentally separate way. So capital appreciation and bonds will be kind of highlighted as separate investments, and this one, we're really highlighting the capital appreciation possibilities in the portfolio.

Richard Charles Anderson ***SMBC Nikko Securities America, Inc., Research Division - Research Analyst***

Okay. Maybe I'll take it off-line, but the Caret is not only the value, the $10.5 billion is not just the -- That's just the assets at top of the land, but if you have an event where the land appreciates then that's also a Caret event is -- obviously, that answer is correct. But I mean, I guess, I don't know if that's abundantly clear to people listening to this call.

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Okay. Well, look, we've just begun talking about Caret I think. Again, it's capital appreciation. We're going to make that as clear as possible in these documents that you'll see coming out. So I think the rules of the road will be really clear. I think this was an unusual opportunity. But I think if you see what comes in our filings, it will be clear how we and Dell and some of the other investors in Caret see how to monetize this very large embedded value, we think, exists in Safehold.

Richard Charles Anderson ***SMBC Nikko Securities America, Inc., Research Division - Research Analyst***

Okay. And then on the actual transaction itself, I know it's a one-off-ish thing that you don't expect. But the purchaser, it's sort of a reverse inquiry event for you, is pretty low cap rate even when the deal was announced relative to what was going on in the macro environment, I mean, do you have any idea what the game plan is there for this investor and why they would be willing to take such a small return in light of what's going on around them?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes, look, we always say we try to find land that is really valuable. Sometimes that's by virtue of what's around it. Sometimes it's by virtue of where it is in the city. Strategic land has a lot of different value to different people. We think when there's compelling dynamics surrounding a piece of our land. We can capture value in lots of different ways. This was certainly one of those. So this is not just a random third-party investor. This is somebody who had a long-term vision.

Richard Charles Anderson ***SMBC Nikko Securities America, Inc., Research Division - Research Analyst***

Fair enough. Last question for me. On Slide 15, there's a footnote that says subject to Caret modifications. I'm wondering what those potential modifications might be. In the case of MSD, are they still getting safe stock at $37 or is that being adjusted in light of the market?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes. There's been no proposed changes. The clarifications and modifications have carried really the next step to really vet with a third-party investor, how to make this the valuable asset we believe it is. Again, you'll see those in the proxy, and we think they are another step forward in giving people a clear vision of how we're going to capture this value for them in a unique way. We think it's a valuable asset. But more than that, we think it's something that once people have clarity around how it works and certainly, Dell did a ton of work on this. I think we're in a point where we can answer all the questions that I think you and others have had with a lot more clarity and a lot more view towards how we're going to get this value capture to Safehold shareholders.

Richard Charles Anderson ***SMBC Nikko Securities America, Inc., Research Division - Research Analyst***

On the MSD question? Are they still getting a talk at $37?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes, nothing has changed.

Marcos Alvarado ***Safehold Inc. - President & CIO***

Apologies, Jay. Nothing has changed as it relates to any of the merger document.

Operator

Your next question is coming from Stephen Laws of Raymond James.

Stephen Albert Laws ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Jay, you touched on this a little bit, but I wanted to follow up on the sales. As we think about portfolio seasoning over time, I mean, how many of these sales do you think we'll see annually? Does it depend on cost capital elsewhere versus recycling and then harvesting gains? How should we think about that more on a medium-term or annual type basis?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

This is not part of our business plan, just to be clear. When we are presented with opportunities to recycle capital and do so, we think is a highly accretive way, we'll certainly consider those. As you know, we think ground leases are something that's just beginning to be understood by the market and customers. So we're not really planning to turn around and turn the portfolio. That was never part of the business plan. But we're thoughtful about capital. I just, I caution everybody, this is a fairly unique set of circumstances. So it's not part of our core business plan.

Stephen Albert Laws ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Great. Well, to the core portfolio on that, you look at the Q3 volumes, all multifamily, Q2, I think it was 5 investments from 5 different property types. But can you talk about how pricing is on different types of collateral? How you're viewing things? Is there a risk reward that makes office more attractive in some scenarios or maybe seeing stress there that would push those people to look for other ways that they haven't considered previously like ground leases for liquidity and capital? Maybe some updated thoughts on across those topics.

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Marcos, that was a good question for you.

Marcos Alvarado ***Safehold Inc. - President & CIO***

So naturally, you can sort of see where there is liquidity in the market through kind of the asset classes that we originated in Q3 and in Q2. There is still lending going on in the multifamily space. And so we're able to capture some share with our existing customers and new customers in the multi space. As you start to kind of go to some of the other asset classes, there's a fair amount of illiquidity. And you're sort of at the beginning of this, what I would call, repricing of the assets. I'm not saying that the assets haven't repriced in the multifamily space, there's just a little bit better clarity there. So we've selectively looked at some office assets that are infill at the right basis. But ultimately, those transactions haven't come together. I think you'll see us continuing to push in the multi-space in the coming quarters.

Operator

Your next question is coming from Spenser Allaway of Green Street.

Spenser Bowes Allaway ***Green Street Advisors, LLC, Research Division - Senior Analyst of Net Lease, Gaming and Self-Storage***

Just going back to the slowdown you cited in the transaction market. How confident are you guys today in achieving your investment target of $7.5 billion portfolio by the end of '23.

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes. Look, I think we're at a moment where we should be patient and thoughtful here. This is certainly one of the most difficult markets we've seen. I don't think we're trying to be heroes here. We think this is another moment where we're going to prove to a lot of our customers, why it makes sense to have long-term locked in the capital for their land. We think it's going to help a lot of our customers move through this period in a fundamentally better way than some of the alternatives that they might have otherwise considered. I think we're going to be patient and thoughtful with our customers. There's certainly going to be demand. A little bit of it depends on our cost of capital, our access to what we think is appropriately priced debt and equity. I don't think we're going to tell you we don't think we can meet that number. But I'd also tell you, we're being thoughtful and patient here as these markets have gone from volatile to extremely volatile. I don't think we have quite the line of sight we've had before.

Spenser Bowes Allaway ***Green Street Advisors, LLC, Research Division - Senior Analyst of Net Lease, Gaming and Self-Storage***

Okay. That makes sense. So if I'm understanding correctly, too. I mean, it seems as though you might not be as aggressive until perhaps spread kind of become a little bit more attractive again considering they've narrowed quite considerably in recent quarters?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes, I think we have to look at both sides of the equation, where our customers are transacting. Can they transact? As Marcos said, there's likely to be some slowdown here as the overall markets transition to this higher short-term rate environment. Brett has talked a lot about how we're trying to match our liability structure to our asset structure. That's a process. We've done some really innovative structured deals, but we're still early in that process. Obviously, we don't like where our share price is. That's a factor as well. I think we're just -- We're looking at this market certainly as we go into the end of the last 2 months of this year and thinking it's wise to be patient here. We're in the middle of a merger, and we need to get that work through. So, the business is going to be here whenever we want it to be. We know we're providing a solution that lots of customers want. So we just need to get things to line up on our side. When they do, we will continue to be the best provider of this modern ground lease capital.

Spenser Bowes Allaway ***Green Street Advisors, LLC, Research Division - Senior Analyst of Net Lease, Gaming and Self-Storage***

Okay. And then maybe just one on rent coverage. So on Q3 acquisitions, it was around 3x what I believe was the lowest we've seen in the portfolio, can you just remind us of where your cutoff is in terms of rent coverage and how you're kind of thinking about that in terms of new [locations].

Marcos Alvarado ***Safehold Inc. - President & CIO***

Spencer, I'll take that. Generally, kind of that 3 threshold, high 2s is probably as low as we'll go. We always quote you everything on a blended basis. Historically, the multi-assets have been closer to that lower 3 level range and other assets with potentially more volatility, hospitality and office are wider, which sort of push up the overall averages. I think it's still consistent with our benchmarks. Also when we cite coverages they're either TTM or our underwritten coverages. As you know better than I do, some of the inflation numbers that are ripping through the rental market should increase that coverage over time.

Operator

Your next question is coming from Jade Rahmani of KBW.

Jade Joseph Rahmani ***Keefe, Bruyette, & Woods, Inc., Research Division - Director***

I was wondering if you could give your view as to how much commercial real estate prices will decline. What implications there are for the value of Caret in that scenario?

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

Yes. Look, Marcos probably can give you on the ground viewpoint. I think, again, Jade, long term, we look at hard assets are generally positively correlated with inflation over long periods of time that in the short term is disrupted by the correlation between inflation rates and interest rates. As we see the rates moving much higher, that's clearly going to have an impact on financing costs, which is going to have an impact on cap rates. We've seen 15%, 20%, 10%. Various people have come out and said, look, just take the impact of interest rates on values and depending on the asset class and the growth of revenues, people are coming out with some meaningful declines in the short term.

I would caution you, Caret has always meant to be a long-term compounder of well. What we have seen over long periods of time is that inflation, replacement cost is a very good predictor of long-term value in these core infill urban locations that we tend to focus on. I can't tell you there won't be moments in time during Caret's growth that there will be blips. But as you've seen it, I think in the first couple of years, the growth from both the internal and the external give us quite a bit of confidence that over any meaningful period of time, Caret's trajectory will continue to be a very positive one.

Marcos Alvarado ***Safehold Inc. - President & CIO***

Jay, just to add to that. I'll give you some direct data points in the multi-space because we've obviously closed some transactions. This is a rough estimate, but roughly 15% down on the multi space on the new originations from where kind of the BOVs were at the beginning of the year. I'm not going to say that's across every single asset, but that feels like a good benchmark. We haven't seen a fair amount of office trade, as you know. There's so much liquidity in that asset class and sort of buyer-sellers at somewhat of an impact. Brett alluded to this. We appraise our assets on an annual basis. So we do expect some down decreases, especially in the office portfolio as the year progresses.

Jade Joseph Rahmani ***Keefe, Bruyette, & Woods, Inc., Research Division - Director***

Regarding the merger, is there anything in capital market pricing dynamics that could change the construct of the merger? It seems to me that with the shape and structure of borrowing costs today, iStar's liabilities could have potentially more value than what was contemplated when the merger was conceived. Do you have any comment on that? Thank you very much.

Jay S. Sugarman ***Safehold Inc. - CEO & Chairman***

That's a good thought, Jade. We have no proposed changes at this time. I'm sure the special committees are both watching the market. At this point, there's nothing to report.

Operator

Thank you very much. Mr. Fooks, there appear to be no further questions.

Jason Fooks ***Safehold Inc. - SVP of IR***

Sounds good. If you should have any additional questions on today's earnings release, please feel free to contact me directly. Jenny, would you please give the conference call replay instructions once again? Thanks.

Operator

Absolutely no problem. In order to access the replay, you need to call (877) 481-4010 with a confirmation code of 469 57. I repeat (877) 481-4010 confirmation code of 469 57. The replay will be available at 2:00 p.m. Eastern Time today. Thank you very much. Ladies and gentlemen, this does conclude the conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.