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EDITED TRANSCRIPT

Q4 2023 Safehold Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Safehold's Fourth Quarter and Fiscal Year 2023 Earnings Conference Call. (Operator Instructions). As a reminder, today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Pearse Hoffmann, Senior Vice President of Capital Markets and Investor Relations. Please go ahead, Sir.

Pearse Hoffmann ***Safehold Inc. - SVP of Capital Markets & IR***

Good morning, everyone. Thank you for joining us today for Safehold's earnings call. On the call, we have Jay Sugarman, Chairman and Chief Executive Officer; Brett Asnas, Chief Financial Officer; and Tim Doherty, Chief Investment Officer.

This morning, we plan to walk through a presentation that details our fourth quarter and fiscal year 2023 results. The presentation can be found on our website at safeholdinc.com by clicking on the Investors link. There will be a replay of this conference call beginning at 2:00 p.m. Eastern Time today. The dial-in for the replay is (877) 481-4010 with a confirmation code of 49838. (Operator Instructions).

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, Pearse, and thank you to everyone for joining us today. It's a new year, and we want to make it a good one with a clear focus and the expectation of a more favorable interest rate backdrop. If a consensus is correct and rates begin to finally fall this year, we're optimistic that we can return to solid growth in EPS, restart the deal and capital market engines, and recapture the interest that was building in Caret. As most of you know and experienced with us, 2023 was a frustrating year. We reached a lot of key milestones and added important long-term positives for the company, but rapidly rising interest rates overshadowed these positives, slowing deal flow and hurting our share price. But as you'll see in today's presentation, 2023's achievements have set the table for us going forward as we wait for the headwinds we have been dealing with to begin to turn into tailwinds. Now let's have Brett take you through the fourth quarter and the year.

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

Thank you Jay, and good morning everyone.

Let's begin on Slide 3:

2023 was an important year for Safehold. While the overall operating environment was challenged by rate uncertainty and volatility,

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both of which weighed on transaction activity and our stock price, we were able to achieve a number of positive outcomes that we believe have the company positioned for success as stability and growth return.

Internalizing management simplified our corporate architecture, improved ownership dynamics, brought all competitive advantages in-house, meaningfully improved governance, and put a cost structure in place that we believe should achieve long-term synergies as we scale the business.

On the investor front, we were pleased to add MSD Partners as a large investor in the business. Not only did they invest $200 million into our common stock when the internalization closed, but they also led our second Caret investment round at a $2 billion valuation.

On the credit side, both Moody's and Fitch appreciated the cleaner corporate structure and consistency in our strategy, which led to positive action from both. Fitch changed our outlook to positive and Moody's upgraded us to A3, which elevates our credit profile and is expected to result in improved cost and access to capital over the long term.

On the capital raising front, we raised $152 million through the issuance of common equity to a diverse investor base, again led by MSD Partners, who participated at their pro-rata ownership level. We accessed the bank market early in 2023, increasing the size of our revolving credit facilities to $1.85 billion, adding a new bank partner, and underscoring our deep relationships with our banking group. We also put in place a $500 million joint venture with a sovereign wealth fund partner that adds liquidity and flexibility to pursue new ground lease opportunities.

At year-end, the total portfolio was $6.4 billion, UCA was estimated at $9.8 billion, GLTV was 44% and rent coverage was 3.6x. We ended the year with $752 million of liquidity, which is further enhanced by the unused capacity in our joint venture.

Slide 4 provides a snapshot of our portfolio growth:

During the fourth quarter, we originated 3 new multifamily ground leases for $56 million. All 3 originations were fully funded at closing. Two of the originations are wholly owned, one was done in the joint venture. The credit metrics associated with these deals are in line with our portfolio targets -GLTV of 39%, rent coverage of 2.8x, and an economic yield of 7.4%.

In the fourth quarter, we funded a total of $122 million across 3 categories: $46 million of Q4 new originations earning a 7.4% economic yield. That figure is net of our partner's $10 million JV interest in one deal. $68 million of ground lease fundings on pre-existing commitments that have a 6.3% economic yield. And lastly, $8 million related to our 53% share of the leasehold loan fund, which earned interest at a weighted average spread of SOFR+604 for the quarter.

For the full year, we closed on 7 multifamily ground leases for a gross commitment of $204 million. Safehold share is $177 million, of which $63 million remains unfunded. The credit metrics associated with these deals are consistent with our portfolio targets with a weighted average GLTV of 34%, rent coverage of 2.7x, and an economic yield of 7.4%.

For the full year, we funded a total of $529 million across 5 categories: $114 million of new ground lease originations earning a 7.4% economic yield. $227 million of ground lease fundings on pre-existing commitments that have a 5.6% economic yield. $43 million related to our 53% share of the leasehold loan fund, which earned interest at a weighted average spread of SOFR+500 for the year. $29 million related to our 53% share of the ground lease plus fund, which earned a 7.2% economic yield. And the $115 million Star Holdings term loan earning 8%.

Our ground lease portfolio now has 137 assets, and the portfolio has grown 19x since IPO, while the estimated unrealized capital appreciation sitting above our ground leases has grown 22x.

In total, the UCA portfolio is comprised of approximately 35 million square feet of institutional quality commercial real estate, consisting of approximately 18,000 units of multifamily, 12.5 million square feet of office, over 5,000 hotel keys, and 2 million square feet of life science and other property types.

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Continuing on Slide 5, let me detail our quarterly and annual earnings results:

For the fourth quarter, GAAP revenue was $103.0 million, net income was $41.2 million and earnings per share was $0.58. For the full year, GAAP revenues were $352.6 million, net income was negative $55.0 million and earnings per share was negative $0.82.

2023 was a noisy year for the P&L with several nonrecurring items, primarily merger-related, obscuring true run rate earnings. After backing out one-time items, net income for the fourth quarter was $25.5 million and earnings per share was $0.36. Making the same adjustments for the full year along with backing out merger and care-related costs, which were incurred in Q4, net income was $96.8 million and earnings per share was $1.45.

I won't spend time on adjustments from Q3 that were discussed on previous calls, but did want to highlight one notable nonrecurring item in the fourth quarter.During the quarter, we realized a $15.2 million hedge gain through other income in our GAAP financials. We employ hedge accounting to reduce P&L volatility because it allows us to attach specific hedges to debt instruments and therefore recognize any gains or losses over the life of the debt rather than on a mark-to-market basis each quarter. In order to qualify for this accounting, we are required to attach the hedge to debt through a defined forecast date. In this case, we allowed a hedge forecast date to expire without attaching debt, and we're required to recognize the value of the gain on that hedge all at once. I'll provide more detail on our overall hedging shortly, but I want to be clear that this is strictly an accounting requirement and we remain economically hedged at an appropriate level. This gain has been excluded from our previously mentioned adjusted earnings.

Moving to Q4 and full-year EPS, excluding nonrecurring items of $0.36 and $1.45, I will highlight a few reasons for the year-over-year decreases:

First, total G&A net of the Star Holdings management fee was approximately $0.8 million higher in the fourth quarter 2023 and approximately $4.4 million higher for the full year 2023 than the same respective periods in 2022. This increase was expected and has been communicated to the market prior to and when we internalize. Over time we expect our cost structure to provide meaningful savings versus the previous growing and uncapped external management structure. I will return to G&A after highlighting 2 more variances.

Next, as we mentioned on the last quarter's earnings call, in the third quarter, we recognized a $1.9 million GAAP loss related to terminating an option to purchase a 215 million ground lease beneath a spec office development in the greater Seattle area.

Lastly, interest expense for the fourth quarter and full year 2023 was higher due to elevated SOFR and a larger average drawn balance. Over the last 18 months, we have mitigated the impact of higher rates by putting in place $500 million floating to fixed swaps, fixing SOFR at approximately 3% as well as lagging into $400 million of long-term hedges for permanent debt that are meaningfully in the money but not yet flowing through the P&L.

With that, let me now return to our cost structure and provide color on where we stand relative to initial projections.

We initially messaged at the time of internalization that target G&A would be approximately $50 million per year, net of STHO management fees. That cost structure was intended to support growth and benefit from strong operating leverage given the lack of variable costs required to manage the ground lease portfolio. Over the course of 2023, costs trended better than projections. Post internalization results indicated that net G&A was approximately 10% lower than expectations.

Due to a pullback in overall real estate transaction activity, we have seen our origination volume slow accordingly. While we believe that this is a temporary slowdown, we are beholden to stakeholders and want to be responsive in how we manage items in our control, including taking a critical view of costs. As such, we made certain headcount reductions during the fourth quarter in areas that we believe we have grown to be more efficient in. We expect additional savings from these changes.

We're expecting net G&A in 2024 to be reduced by approximately 5% from what we incurred in 2023. While we are forecasting a lower

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cost structure and we'll be emphasizing efficiency, this in no way alters our growth ambitions. We will continue to invest in developing talent and growing productivity. Our goal remains to be the best in this large and underserved market, and we have a fantastic team in place to get us there.

On Slide 6, we detail our portfolio yields:

Our ground leases have 2 different components of value. The first is the rent stream of compounding cash flows, which is akin to a high-grade bond except our leases have additional inflation protection on top of that bonds do not provide. The second value component is the future ownership rights in the building at lease expiration.

As we discussed in depth last quarter, there is a significant disconnect between what we recognize for GAAP versus what we underwrite and expect to earn economically. On our $6.3 billion portfolio, this yield delta equates to real earnings power, and we will continue to speak about this difference and highlight the value components within our business that are less apparent in the financials.

The portfolio currently earns a 3.5% cash yield and a 5.2% annualized yield for GAAP earnings. That GAAP annualized yield is punitive for certain legacy-style ground leases that we acquired that have a variable rent component such as fair market value resets, percentage rent or CPI-based escalators. For GAAP, we're required to assume 0 go-forward growth and 0 go-forward inflation for these components over the term of the lease. As such, we have a number of assets earning unrealistic or atypically low yields relative to our underwriting. To put a finer point on it, approximately 17% of our portfolio earns a 3.0% for GAAP annualized yields, although we expect to earn 5.8% under a standard 2% CPI or growth assumption.

The second box utilizes basic bond or IRR math that applies conservative underwriting and standard growth expectations of 2%. That approach generates an expected 5.7% economic yield on the portfolio which is in line with how we have underwritten these assets. The 50-basis point delta between the 5.2% GAAP yield versus the 5.7% economic yield on a $6.3 billion portfolio is a meaningful value component over time.

Our yields have further upside when you layer in our periodic CPI lookbacks. Under the Federal Reserve's current long-term breakeven rate of 2.24%, our 5.7% economic yield increases to a 5.8% inflation-adjusted yield.

The second component of value in the portfolio is our future ownership rights, which is the unrealized capital appreciation we track quarterly. Caret is a subsidiary that owns UCA and save shareholders own 82% of Caret. Caret Adjusted Yield uses the inflation-adjusted yield as a starting point and enumerates the estimated yield benefit from Safehold's 82% interest in Caret at its latest $2 billion valuation. This adjustment produces a 7.4% Caret adjusted yield, which is an illustrative metric intended to highlight this important value component that remains largely unrecognized by the market today.

Turning to Slide 7. We show a geographic breakdown of our portfolio:

This slide highlights the portfolio's diversification by location and underlying property type. Our top 10 markets by GBV are highlighted on the right representing approximately 70% of the portfolio. We include key metrics such as rent coverage and GLTV for each of these markets, and we have additional detail at the bottom of the page separating the portfolio by region and property type.

It is clear that office as an asset class is going through a period of structural change and revaluation and as a result, we are not surprised to see our office GLTV increase. Based on the natural timing lag from the appraisal process, we would expect these figures to continue to increase over the coming quarters, even after certain assets reach their cyclical bottom. Conversely, when certain assets begin to see more capital flows and better valuation prospects, we would expect a delay in recognizing that benefit.

We continue to believe that investing in well-located institutional quality ground leases in the top 30 markets that have attractive risk-adjusted returns will benefit the company and its stakeholders over long periods of time.

Lastly, on Slide 8, we provide an overview on our capital structure:

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At the end of the fourth quarter, we had approximately $4.4 billion of debt comprised of $1.5 billion of unsecured notes, $1.5 billion of nonrecourse secured debt, $1.1 billion drawn on our unsecured revolver, and $272 million of our pro-rata share of debt on ground leases, which we own in joint ventures. Our weighted average debt maturity is approximately 22.2 years, and we have no corporate maturities due until 2026, which was by our revolving credit facility. At quarter end, we had approximately $752 million of cash and credit facility availability.

We look to manage interest rate risk on floating rate borrowings appropriately and have put a number of hedges in place to do so. Of the approximately $1.1 billion revolver balance outstanding: $500 million is swapped to fixed SOFR at 3%. This is a 5-year swap that we have protection on through April 2028.We currently receive swap payments on a current cash basis each month and at today's rates, produce cash interest savings of approximately $3 million per quarter that is currently flowing through the P&L.

Of the remaining approximately $600 million drawn: We have $400 million of long-term treasury locks at a weighted average rate of approximately 3.6%. Today, our long-term hedges are approximately $55 million in the money. The outstanding hedges are mark-to-market, so no cash changes hands each month. And while we do recognize these gains on our balance sheet in AOCI, they are not yet recognized in the P&L. While these hedges can be utilized through the end of 2025, they can be unwound for cash at any point prior. As we look to term out revolver borrowings with long-term debt, we may unwind the hedges and attach the gain to the debt, lowering the effective economic rate we pay while amortizing the gain over a long period of time.

The remaining unhedged exposure is largely offset by our higher-yielding investments connected with the internalization, including the floating rate income we received on our leasehold loan fund interest. The weighted average credit spread we earn on those loans exceeds what we pay on our line by 405 basis points.

We are levered 1.9x on a total debt-to-book equity basis. The effective interest rate on permanent debt is 3.9%, which is a 138-basis point spread to the 5.2% GAAP annualized yield on the portfolio. The portfolio's cash interest rate on permanent debt is 3.3%, which is an 18-basis point spread to the 3.5% annualized cash yield.

On the credit ratings front, we have previously discussed the Moody's A3 upgrade, which was a strong outcome at a difficult time that underscores the fundamental credit strength of the business, and we believe it should have long-term benefits for the company.

Subsequent to quarter end, Fitch, who had put up some positive outlook in the beginning of 2023, recently affirmed our positive outlook. While we have accomplished numerous key drivers for an upgrade and the credit has improved in many important facets we will continue to work with their team to accomplish our goal of reaching an A- rating.

So to conclude, 2023 was a busy year that brought its fair share of challenges, but we took a number of important steps to solidify the business and position ourselves for success as markets begin to stabilize and inevitably rebound. We remain focused on delivering value to our customers through our attractive capital solution and look forward to what 2024 has to offer. And with that, let me turn it back to Jay.

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

Thanks, Brett. As Brett mentioned, organizationally, we've tightened the ship had been working to run leaner and more efficiently. We will, of course, add talent as growth justifies it, but feel very good with the team we have in place today. Ultimately, serving our customers and seeking to generate strong risk-adjusted returns for investors is the path forward. So we will focus on these dual missions to help get the value of our business more appropriately recognized in the marketplace. And with that, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

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Operator

Thank you. (Operator Instructions). We will take as many questions as time permits. (Operator Instructions). Our first question is coming from Nate Crossett with BNP.

Nathan Daniel Crossett ***Joh. Berenberg, Gossler & Co. KG, Research Division - Former Analyst***

Two questions. First, Jay, maybe you can just speak to the pipeline right now. Have you closed anything so far in Q1? When do you think we should maybe expect more activity to ramp this year? And then question two for Brett to give a lot of commentary on the balance sheet. On the revolver specifically, how should we be thinking about when you may look to turn that out? And what would maybe pricing look like?

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

Nate, good morning. Yes, I would say on the pipeline, I like what I'm starting to see, not likely to see an impact until the second quarter, but definitely feels like a better foundation to work from than maybe the last couple of quarters of last year where I think the rate uncertainty was really hitting the pipeline. We had a lot of deals almost get to the finish line, but one way or the other didn't get there. So I like the level of activity we're seeing, but it's going to take some time to build and turn those into real deals. So the first quarter is definitely going to suffer, in the second quarter, I think we're going to start to see the benefits of all the work our guys are putting in.

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

Yes. Nate, it's Brett. As far as the balance sheet and the revolver, as I mentioned, we're drawn $1.1 billion. We are appropriately hedged so the current mark-to-market and in the money gains that we have are roughly $55 million. So it feels like from a from a margin standpoint that we're locked in but we certainly want to be able to term out some of those borrowings.

The market obviously has been much more constructive to start the year versus when we were on our last earnings call a few months ago when the 30-year and the 10-year were both above 5%. So now we're sitting at a much better level, but we're going to be opportunistic and think about what the right pocket is, think about what the right structure is. We have different options when it comes to tenor, so we really need to be thoughtful about either a public or a private execution but we're hedged and we have ample liquidity of our revolver as well as the joint venture. So we feel pretty good about our capital position as well as our hedging.

Operator

Thank you. Our next question is coming from Anthony Paolone with JPMorgan.

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

My first question is, I was wondering if you can maybe give us either an example or some color around what a ground lease structure looks like for a multifamily sponsor today? And what kind of leasehold proceeds they would get on GSE debt versus them just keeping a fee simple interest in their property? Just trying to understand sort of the value proposition that you've all been providing there.

Timothy Doherty

Anthony, it's Tim Doherty. Yes, so on the proposition for, I guess, you used multifamily as an example, our success there in terms of 70-plus multifamily transactions, I think shows what we're able to provide there with some of these deals now that are being recapitalized as predominantly where the volume's coming in on the multifamily side coming to us with our cost of capital. So we're typically in that 65 over the 30-year treasury or somewhere depending on where treasuries are that day in that period of time, it's somewhere around 5%.

And then they're going to the capital markets and getting that capitalized on the debt side, getting similar debt yield dynamics on the leasehold cash flow. And so the difference in capital on a traditional deal fee simple is somewhere in the 55% to 60% leverage. And then with the ground lease providing approximately 30-ish percent of the capital stack, leasehold debt coming in, we're getting to roughly around the low 60s capitalization at a lower blended cost of capital. So that's the value proposition for our clients that we're talking to.

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

Okay. So 5 is, if I caught all that, right about 5 to 10 points of extra proceeds going the ground lease route, slightly less, maybe blended cash and then obviously, you have the growth in the ground lease payments over time. That's the sort of picture. Is that -- did I catch that at all?

Timothy Doherty

Correct, yes. Yes, correct. And on the fee simple side, you're seeing that the agencies are in the high hundreds to 200 spread is where they're pricing. So their capital today is in the mid-6's versus our capital closer to 5, and you can get to the blend there.

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

Okay. And then the second question, you commented about just the ground lease value to total kind of creeping up a little in office. But in general, do you -- are there any of your leaseholders where the equity is in default? Or can you talk about just the monitoring process just in terms of the underlying what's happening where there's debt on the leasehold and what's happening with the sponsors there?

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

Yes. I think, obviously, take a step back. I think all office markets are definitely in a recession. The supply and demand is still somewhat out of whack, Anthony. So leasing has not really recovered in many gateway cities and that won't really change until we see demand pick back up. We have seen a few green shoots, particularly in New York City. You think about the best buildings in the best locations, we recently shopped the market, definitely have seen tightening. It's not just also the very best buildings, it's location-driven and I would say, anecdotally, we're in a 50-year-old building with low ceilings, no amenities and we've seen rates actually jumping much higher.

So it is going to be a market-by-market situation, but we haven't seen that in the other gateway cities. So our customers are obviously dependent on leasing activity, that's their driver. It reminds me a little bit of the hotels in the COVID cycle is we kind of have to watch the whole sector when a sector gets under pressure and under that kind of stress. We're watching everything and definitely expect some of our customers to have a difficult time here. That means they're going to have conversations with their capital providers and we are here to be thoughtful and helpful if somebody needs to do something and reposition an asset but first and foremost, it's their responsibility and any other capital providers to them. So we're watching that dynamic and certainly think in 2024, we're going to see a lot of offices come under that kind of stress. So something we need to watch.

Operator

Our next question is coming from Stephen Laws with Raymond James.

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

Follow-up on Nate's question. I think, Jay, you mentioned in your remarks, some deals are getting close to the finish line but just weren't quite getting over. Can you talk about where those deals get hung up or what the discussion points are? Is it an uncertain outlook? Is it something at the property level from a valuation standpoint? Kind of what's preventing more deals from getting over the finish line?

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

Yes. I would tell you that this interest rate environment is as volatile as I've ever seen. So we help craft the capital stack with the leasehold lender, with the equity. Sometimes they've got either mezz or preferred in that stack, everybody is kind of tracking along and rates move 50 basis points, and it just throws everything out of kilter. Some of those deals come back, we're definitely working on deals that we put our pens down on and rates of at least early in the year started to look a little more favorable and those customers have come back.

So Tim's got a whole bunch of transactions that are going to be rate sensitive so we're watching the information come through. And I know this morning is a step back but long term, we definitely see the trend turning more favorably. Customers are definitely trying to activate more than they were last year. But to get a deal across the finish line, all those pieces need to line up. So a little bit of help from the macro-environment would certainly be a positive.

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

Then as a follow-up around the new investment side, all multifamily deals, can you talk about what markets those were in? Were they previous borrowers coming back for additional loans on new assets, were they new borrowers that you haven't worked with before? Can you give us a little more color on those 3 deals from Q4 and then kind of what the building pipeline looks like? Any markets that appear more active than others?

Timothy Doherty

Sure. It's Tim. The 3 deals we closed were in the student housing space and one that was a multifamily affordable deal. And then there's a good mix, there were existing clients as well as new clients. And I would say, look, on the student housing side we're always focused on top-tier university systems and top schools within these systems. Those were in the Sunbelt where it fit that bill. And then the multifamily deal is in the affordable space was out in California a super high barrier to entry market new clients. So that was the existing... In terms of the pipeline and where it's building, it's predominantly in the multifamily space, both conventional student housing, age and income restricted, is where we're seeing the most volume and also, I would say, is most actionable deals. So back to your question where the market is going.

Look, the capital markets are going to drive the recovery in transaction volume and you're seeing a desire for, especially like in the CMBS space is a good example or the agencies in the multifamily space, that's where liquidity is and so that's driving volume there. That's our focus -- is to go into areas that we see that are actionable and we actually can close on transactions that there's not multiple speed bumps where you're dependent on other market factors other than just the capital market side. So we're paying attention to all the other product types. Per Jay's comments, you always have to keep an eye on them to understand where recoveries or lack thereof occurring. But again, the pipeline, I would say, is predominantly on the multifamily side.

Operator

Our next question is coming from Mitch Germain with (inaudible) JMP.

Mitchell Bradley Germain ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

So it seems like rent coverage for new originations dipped a little relative to the overall portfolio, what's driving that factor?

Timothy Doherty

This is Tim again. Predominantly, look, I mean, rates impact the deals, also we're underwriting standards in terms of how we factor in coverage when we close transactions like Brett has alluded to, those factors that what coverage is based on our underwriting versus actual performance on the development side in particular. But look, these are high-quality transactions that some of them are going through stabilization. So that's where you see some of these on -- I think, some of the coverages in particular, on the new investments.

Mitchell Bradley Germain ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

So coverage will likely improve over time as the asset stabilizes is what you're implying?

Timothy Doherty

Yes. And I think the other factor you're seeing too is on the multifamily transactions tend to be tighter coverages than the other asset classes. It's a market that has a lot of stability of embedded growth in terms of the macro-economics of those transactions in the markets we play in versus other product types. So I think you're seeing a natural tightening with our portfolio leaning heavier into multifamily space as well.

Mitchell Bradley Germain ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

And does the slowdown in overall development activity potentially reduce an area where you guys have had some success in the past?

Timothy Doherty

Sorry, repeat the question again?

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Mitchell Bradley Germain ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

Just talking about development activity volumes declining and it seems like that was an area where you guys had some success after, obviously, replacing the capital stack as deals were completed. So is that an area where you're not seeing as much activity these days?

Timothy Doherty

Development pipelines are down across the country. It's hard to make those transactions work when there hasn't been enough volume on the sales side to see where people should transact. So again, as the transaction side in terms of investment sales picks up those transactions that could work are being picked up on the development side, you're seeing a trickle of those come back in high-quality markets where people aren't seeing transactions like in the multifamily space see trade at wide cap rates. They're still tight in a lot of good high-quality markets. You're seeing people pick up their pens on the development deals there, so you're seeing some transactions.

In terms of our pipeline, look, we're looking across the board from development to existing value-add transactions, different product types. So sure, we've done some development transactions in the past when we feel that's the right place to be, and that's where there's, again, actionable transactions. So there's some development deals but as you can see from our -- the deals we closed, it's a solid mix.

Operator

Our next question is coming from Harsh Hemnani from Green Street.

Harsh Hemnani ***Green Street Advisors, LLC, Research Division - Analyst***

Thinking through the pipeline on the pricing side, a lot of the deals in the fourth quarter were priced, I want to say early in October. How good do you feel about achieving yields in the mid-7s going forward thinking through 2024?

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

Harsh, yes, look, we think anything in the high 6s, nominally speaking, is a very attractive yield. You just look back historically, and that's where you'd like to play. I think we got a little bit of a benefit in the fourth quarter, caught some timing just right as I said. These deals take time to put together, so by between where you start and where you finish there's a lot of moving parts. So I would always guide us right now to kind of what Tim said the T plus 65 over the 30 year with the bump structures and the inflation kickers is still a sweet spot. So high 4s feels good, nominally and sort of relatively. I don't think sort of the mid-7s is the target range where rates are today.

Harsh Hemnani ***Green Street Advisors, LLC, Research Division - Analyst***

Okay. And then I noticed there was a small gain on sale of an asset of about $0.5 million. Was the ground lease assets sold this quarter? And then if so, could you provide the aggregate value of the sale, any sort of yield that you were able to receive on the sale? And if there was any Caret implication associated with the sale?

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

Small situation, started to take up more time than it was worth. So it wasn't really a strategic move, it was a dual ground lease with 2 separate assets. We just decided it was more complicated than it needed to be and let one of those go so we could focus on the more stable of the assets. So not a big deal in terms of dollars but it was taken up too much time and made a small profit and just moved on from that one. Do you have any other color, Brett?

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

Yes. As you said this is a small ground lease from years ago. So again, the size of the trade was pretty immaterial, I would say.

Operator

Our next question is coming from Rich Anderson with Wedbush.

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Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

On the topic of G&A, maybe you can -- and I know you had to make some tough decisions in the fourth quarter and you're trending lower than you had originally expected. What is the cadence of G&A? Just if you can remind us for this year, I believe the fees from Star Holdings come down, is it in April from $25 million to $15 million? I might have that wrong. But if you could give sort of like the sort of the quarter-by-quarter sort of movement of G&A in 2024 as you see it now?

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

Rich, it's Brett. So you're right, G&A has come down from last year to what we expect to occur this coming year. I think the quarter-to-quarter fluctuations will be a result of what you mentioned, which is the Star Holdings management fee that we received. So we received that after internalization from Q2 last year through Q1 of '24, and then it will continue to step down. The year 1 through year 4, $25 million, $15 million, $10 million, $5 million is somewhat different for GAAP accrual. It's based on time sheets and time spent.

So that amount could fluctuate quarter-to-quarter, but also concurrently, as part of the internalization, the LTIP will also be coming down, so it's somewhat of an offset. So quarter-to-quarter over the course of the year, should continue to decline. We should see some of the efficiencies gained in the fourth quarter from that reduced headcount flow through in Q1 and thereafter. But as I said in my remarks, it certainly feels like the opportunity to take '24 to G&A down another 5% from this past year is an achievable target for the year.

Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

But the 5% down isn't relative to 2023 because you didn't -- the net number is there's a lower fee component? Or are you saying the LTIP more than offsets that so ultimately is down 5% from 2023?

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

It's actually less than offsets it, right, because the Star Holdings management fee comes down at a faster clip than that LTIP accrual. So we're actually picking up and benefiting even more from the reductions as the LTIP is slower than the management fee decline.

Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

All right. Okay. In terms of the Caret, what happens with Marcos' Caret ownership and how does that change? I know you said Safe sold 82% but will that number change slightly with his departure?

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

Yes. Just Marcos has forfeited by contract, approximately 1/4 of his units, so those go back to the company. So the 82% that Safehold owns will go up by the units coming back into the pot. Our long-term goal Rich is obviously to target long-term investors and put those in hand that can demonstrate the value. So I think SAFE's's goal here really is to get that value realized and so they have a little bit more flexibility now just in terms of those units coming back.

Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

Understood. So does the 82% go to just a nominal increase or is it -- can you share what that change?

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

Sort of a percent.

Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

Fair enough. Okay. Great. Thanks, everyone.

Operator

Our next question is coming from Kelly Kunnah with Morgan Stanley.

Kelley Kunnah ***Morgan Stanley***

I just wanted to dig back into the G&A quickly. Is all of that 5% structural and ongoing savings or is there a portion of that, that needs to turn back on as origination volumes start to ramp back up?

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

Yes. As I said in my remarks, we will definitely want to add some talent as we grow. We think this opportunity is going to be very, very large, but we feel great about the team as it is today. So we've got the resources we need, but I wouldn't tell you this is a static number.

Operator

Thank you. Our next question is coming from Kenneth Lee with RBC Capital Markets.

Kenneth S. Lee ***RBC Capital Markets, Research Division - VP of Equity Research***

Just one around capital position and leverage. Wondering if you could just talk a little bit more about how you expect leverage to trend over the near term?

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

Ken. So from a leverage standpoint, we've always said that 2x debt to equity on our ground lease position is how we want to be able to fund this business, 2/3 debt, 1/3 equity. Right now, we're creeping closer to that 2x. We've always said there may be moments here and there where that could creep a touch above 2x. When you think about our capital position, both on existing commitments as well as having the joint venture on new deals that we do, ones that will go through that joint venture, we fund 55% of those dollars.

So when you start thinking about the available capital we have in addition to the pipeline that Tim and Jay both spoke about, and we still feel like that's the appropriate leverage target. I think it's also an important one that we're always monitoring when we think about ratings actions. As I mentioned in my remarks, Fitch recently affirmed our positive outlook. They would like to see us continue to maintain leverage around that 2x level. So we're cognizant of that but we certainly have enough capital tools in the toolkit to be able to continue to deploy capital here over the coming quarters. So we'll monitor accordingly and think about how and when to term out some of those borrowings on the revolver.

Operator

Our next question is coming from Matt Howlett with B. Riley.

Matthew Philip Howlett ***B. Riley Securities, Inc., Research Division - Director of Equity Research***

With the rally in your bond, did I -- maybe you talked about it, but are you looking at a 30-year public or private? On the term deal, what are you kind of looking at given the recent rally?

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

Yes. The start of the year here has been much more constructive than where we were a few months ago. It feels like the options that we have today are exactly what you point to, which is it could be somewhere between 10 to 30 years. We could execute in the public markets, the private markets, you've seen us do everything from flat fixed-rate debt to our stepped coupons. So we're continuing to monitor those options and certainly, we'll look at the appropriate time to term out some of those borrowings. As I mentioned earlier, too, we are hedged. We think that's a significant savings from what the headline cost will be when you start to factor in those mark-to-market gains and we unwind those hedges. So to your point, we're going to actively look to those markets and see what the best execution is for both the short, medium, and long term.

Matthew Philip Howlett ***B. Riley Securities, Inc., Research Division - Director of Equity Research***

And that was my question. To recognize that cash, it's over $50 million, that would be -- is that going to be timed around the bond deal or when the Fed starts cutting just significant, just that cash coming in. Can you give us any more color on when that may be?

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

Yes. It's hung up right now as mark-to-market on our balance sheet. And when we execute long-term debt, we would look to unwind the hedges at the same time simultaneously. Just to give you an example, if we lock in 10-year or 30-year debt at a specific coupon and we unwind those hedges, today, that could be 75 to 100 basis point savings versus the headline cost. That's material, right? That's

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significant for our business, both from a cash flow standpoint, we could use that cash to pay down the revolver from the headline cost versus the effective cost we're paying. And then also, we get to take those gains and amortize them over the life of the debt, which helps earnings going forward as well.

Matthew Philip Howlett ***B. Riley Securities, Inc., Research Division - Director of Equity Research***

Great. And then just one follow-up, a bigger-picture question. You've got a lot of off-balance sheet items that aren't the GAAP doesn't recognize. I mean obviously, the Caret, fair market value leases. What -- I mean, going -- is there anything you can do big picture strategically? Do you have any -- I think of the purchase ground leases, do you have anything coming due like the next 10 years, you could kind of demonstrate to the market the value underneath it, selling some of these ground leases that GAAP doesn't give you full credit for? Just strategically, how can you get the market? Maybe it's Jay a bigger picture to recognize the off-balance sheet value, the non-GAAP value in the company today?

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

Yes, it's a great question. We're always looking to chip away at sort of what we think is a little bit of a misperception or misunderstanding of the value in the balance sheet that the biggest catalyst, obviously, is Caret in our minds, it's a multibillion-dollar asset that doesn't show up on our balance sheet. We think the best way to demonstrate that is to have smart third-party capital validated intrinsic worth, but there are also a lot of little things like you point out, some assets that we think from a GAAP accounting probably don't show as well as we feel like economically, they really are. Hate to sell stuff just to make a point, but sometimes that is the right decision.

So we'll look at a couple of things where we think that opportunity to really unlock value is worth it and there's a fair economic deal to do. I think you're right. Every one of those just helps to tell the story a little bit better and clearly, we need to sharpen the story on some of those assets. I think Brett's done a great job sort of putting out every quarter, what we think the real underlying economic values are and yields are, but obviously, doing something in the real world is always helpful.

Operator

Thank you. Mr. Hoffmann, we have no further questions at this time.

Pearse Hoffmann ***Safehold Inc. - SVP of Capital Markets & IR***

Great. Thank you. If you should have more questions, please feel free to reach out to me directly. Ali, could you please give me replay instructions once more?

Operator

Yes, indeed. The dial-in for the replay is as follows; please call (877) 481-4010 with the confirmation code of 49838. This will be available from 2:00 p.m. today. This concludes today's call, and we thank you for your participation.

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