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PRESENTATION

Operator

Good morning, and welcome to Safehold's Third Quarter 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 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 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 49301.

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, everyone, for joining us today. There's no way around it. This has been a very difficult part of the interest rate cycle for us. By some measures, this has been the worst market for fixed income investments on record, and long-dated cash flows are obviously some of the most impacted when rates rise.

But cycles end, and we believe we have been through 90, 95% for straight moves in this cycle. Higher rates also mean our in-place long-dated liabilities are more valuable, and our embedded inflation kickers should be more valuable as well. And Caret remains, in our minds, a unique asset for Safehold shareholders that is deeply undervalued.

So we continue to position Safehold to be a winner when the cycle finally ends, and to continue to look for ways to expand the modern ground lease ecosystem to find new ways to make real estate capital structures more efficient, more resilient, and more like other parts of the modern capital markets.

With that, let's have Marcos and Brett take you through the quarter.

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

Thank you, Jay, and good morning, everyone. Since our last earnings call, we've seen a number of macro and geopolitical events occur that have further increased volatility and uncertainty globally. In our market, commercial real estate investment activity remains muted with a wide gap between buyers and sellers. Given the volatility in rates, the dearth of liquidity and the increased cost of that limited liquidity, there is great uncertainty about value.

However, we remain confident that we've built an asset base and balance sheet that has durability. And we will look to be opportunistic but disciplined in capital allocation going forward. As we navigate this choppy macro backdrop, we remain steadfast in our mission to own the ground lease ecosystem and continue to explore other sources of capital and new product initiatives to take advantage of the current environment.

Let's begin on Slide 3:

The company raised $152 million of new equity at a gross price of $21.40 per share in early August. MSD Partners, who has been a strong supporter and partner for the business, anchored this transaction by participating at their pro rata ownership level of approximately 8.5%, along with management who invested approximately $1.4 million. This equity raise was not an easy decision given the headline share price relative to our views on the underlying value of the business.

However, we decided that increasing liquidity in uncertain times, deleveraging the balance sheet to pay off the relatively high-cost revolver debt, and putting our best foot forward for a ratings upgrade would provide long-term benefits that outweigh the short-term pain of the raise.

This equity raise was viewed favorably by creditors and rating agencies, as Moody's revised and upgraded our ratings from Baa1 to A3 in early October. We are pleased with this recognition and outcome, which we expect to help achieve long-term benefits in both cost and access to capital as we scale.

At quarter end, the total portfolio was $6.4 billion, UCA was $10 billion, and GLTV was 42% and rent coverage was 3.7x. The portfolio of credit metrics remained relatively unchanged from last quarter, and we're happy with how our thesis of investing in high-quality assets and locations and low attachment points is unfolding as real estate reprices.

On the capital front, we ended the quarter with $858 million of liquidity, which is further enhanced by the unused capacity in our joint venture, which is a valuable tool for us to pursue new investments and serve our customers while preserving capital.

Slide 4 provides a snapshot of our portfolio growth for the quarter:

During the third quarter, we originated 1 new multifamily ground lease for $19 million, which was fully funded at closing. The credit metrics associated with this deal are in line with our portfolio targets with a GLTV of 43%, rent coverage of 3.2x and an economic yield of 7.1%.

Subsequent to quarter end, we closed 2 multifamily ground leases for $34 million. These investments were also fully funded at closing with a GLTV of 40% rent coverage of 3.0x and an economic yield of 7.3%.

The recent rate uptick has had an impact on our pipeline. Of the 6 letters of intent executed last quarter, we saw 2 not close due to buyers and sellers not agreeing on a change in price as rates rose and another to be delayed as our customers had to raise incremental capital to close these transactions.

In the third quarter, we funded a total of $88 million, earning a blended 6.6% across 3 categories:

The previously mentioned $19 million Q3 origination earning a 7.1% economic yield.

$60 million of pre-existing ground lease commitments earning 5.8%. On these commitments, we expect this yield to increase in future quarters as older commitments originated in a lower yield environment burn off in favor of recently originated higher-yielding investments.

And $9 million related to our 53% share of the leasehold loan fund earning approximately 11%.

Our ground lease portfolio now has 135 assets, and the portfolio has grown 19x since our IPO, while the estimated unrealized capital appreciation sitting above our ground leases has grown 23x since our IPO.

In total, the UCA portfolio is comprised of approximately 34 million square feet of institutional quality commercial real estate, consisting of approximately 17,600 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.

And 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 5, let me detail our quarterly earnings results:

For the third quarter, GAAP revenue was $85.6 million. Net income was negative $123.0 million and earnings per share was negative $1.81.When you back out the full impairment of Goodwill we are taking this quarter, along with merger and Caret related costs, net income was positive $22.5 million and earnings per share was positive $0.33.

The Goodwill asset was created when we closed the merger and was recorded on our balance sheet, with the value at the end of last quarter sitting at $145.4 million. Goodwill primarily represented future savings and synergies associated with completing the merger and replacing our prior external management structure. Goodwill assets are recorded under GAAP to be tested for impairment annually. However, we also are required on an ongoing basis to determine if there are indicators of impairment, and if so, test for impairment at such time. We determined that the precipitous and sustained decline in SAFE's stock price during the quarter was an indicator of impairment and that a full impairment of the asset was required. This is entirely an accounting-driven and non-cash impairment and does not speak to the value or durability of our asset base and Safehold certainly still benefits from being an internally managed company.

Moving to Q3 EPS of $0.33, excluding nonrecurring items, I want to highlight a few reasons for the decrease year-over-year:

First, total G&A, net of the Star Holdings management fee, was approximately $2 million higher than the same period last year. This increase was expected and something we've highlighted to the market. Over time, we expect our cost structure to provide meaningful operating leverage versus the previous growing and uncapped external management structure that would have had us paying higher management fees and reimbursables today versus a year ago if that contract were still in place. Separately to note, based on the previous 2 quarters results since merger closing, we are tracking to beat our net G&A targets for the year.

Second, during the quarter, we terminated an option to purchase a $215 million ground lease underneath a spec office development property in the greater-Seattle area. The net effect of this transaction, which also included writing off a nonrefundable option payment along with other accrued deal costs, resulted in a one-time net loss of $1.9 million.

Lastly, interest expense related to our revolver borrowings was higher due to elevated SOFR and a larger average drawn balance. Similar to many borrowers, we have felt the effect of the rapid pace of rate increases. Over the last 1.5 years, we have mitigated the impact by putting in place $500 million floating-to-fixed swaps fixing SOFR at nearly 3%. Additionally over that time, we purchased $400 million of long-term 30-year hedges that are currently in the money but not yet flowing through the P&L. I'll walk through that shortly as the present rate environment continues to be an earnings headwind.

On Slide 6, we detail our portfolios' yields:

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

Let's review the yields that we recognize on the bond-like component of the business, our cash flows. The portfolio currently earns a 3.5% cash yield and a 5.2% annualized yield, which is what we recognized for GAAP earnings. That GAAP annualized deal differs meaningfully from what we believe is a reasonable view on the economic reality of these ground leases. Any ground lease with a variable rent component such as fair market value resets, percentage rent or CPI-based escalators are penalized when looking at GAAP, which assumes zero go-forward economic value for those features.

When looking across our ground lease investments, 17% of our ground leases are legacy acquired existing ground leases, which contains some form of variable rent and currently earn a 3.0% yield for GAAP purposes; yet by using a standard 2.0% growth or CPI assumption, we've underwritten those ground lease cash flows to yield 5.8%. Simply put, while GAAP recognizes a zero growth, zero inflation assumption for the entirety of our 99-year ground leases, we believe the market does not.

This concept is the key piece in moving from the first box on the slide to the second. The first box is GAAP. The second box is simply an IRR calculation on our portfolio's cash flows, assuming 2.0% CPI for any leases with a variable component. For the majority of our ground leases, which have 2.0% annual fixed bumps and periodic CPI lookbacks, this 2.0% growth on economic yield scenario is the same as GAAP. However, it's important to distinguish the 17% subset that has a component of variable rent. When you calculate as such, you'll arrive at a 5.7% total portfolio Economic Yield versus the 5.2% GAAP yield.

Moving on to third box as a continuation from the second box - the only difference is that instead of using a base case 2.0% CPI scenario, we assume the Federal Reserve's current long-term breakeven rate of 2.34%. This not only benefits the 17% segment, but the entire portfolio as we will pick up additional cash flow on our periodic inflation look backs kicked in during the coming years and this results in a 5.9% 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 the subsidiary that owns UCA, with SAFE shareholders owning 82% of Caret. To-date, we've had 2 investment rounds selling small interests and Caret to third parties, the last of which closed at a $2 billion valuation. This fourth box enumerates the illustrative value and yield benefit from Safehold's interest in Caret.

When using the 5.9% Inflation Adjusted Yield in box 3, rather than taking SAFE's basis in the ground leases as the initial outflow in calculating the IRR, we instead offset that basis by SAFE's interest in Caret, which is worth approximately $1.6 billion or 82% of the $2 billion valuation, which produces a 7.4% Caret Adjusted Yield. This is an illustrative metric intended to highlight this important element of our value proposition and remains largely unrecognized by the market today.

Turning to Slide 7, we show a geographic breakdown of our portfolio:

This slide underscores 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 credit 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. We believe that investing in well-located institutional quality ground leases in the top 30 MSAs should appreciate in value over time.

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

At the end of the third quarter, we had approximately $4.3 billion of debt, comprised of $1.5 billion of unsecured notes, $1.5 billion of non-recourse secured debt, $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 22.5 years, and we have no corporate maturities due until 2026, which is our revolving credit facility. At quarter end, we had approximately $858 million of facility availability.

I want to spend a moment on the revolver and detail the fixed versus floating dynamic and the hedges we have put in place to mitigate interest rate risk. Of the approximately $1 billion revolver balance outstanding:

$500 million is swapped to fixed SOFR at 3%. This is a 5-year swap that we executed in early Q2 of this year. We received swap payments on a current cash basis each month, and at current rates, produces cash interest savings of approximately $3 million per quarter that is currently flowing through the P&L.

Of the remaining $500 million drawn:

We have $400 million of long-term treasury locks at a weighted average rate of approximately 3.4%. At current rates, these are approximately $75 million in the money. These hedges are mark-to-market, so no cash changes hands each month, and while we do recognize these gains on our balance sheet in OCI, they are not yet recognized in the P&L. While these hedges protect us through next year, they can be unwound for cash at any point. As we look to term out revolver borrowings with long-term debt, we would unwind the hedges and attach the gain to the debt, lowering the effective economic rate we pay.

The remaining unhedged exposure is largely offset by our higher yielding investments connected with the merger, including the floating rate income we received on our leasehold loan fund interest. The weighted average credit spread we earn on those loans exceed what we pay on our line by 392 basis points.

We are levered 1.8x on a total debt to book equity basis. The effective interest rate on permanent debt is 3.8%, which is a 136-basis point spread to the 5.2% GAAP annualized yield on our portfolio. The portfolio's cash interest rate on permanent debt is 3.3%, which is a 16-basis point spread to the 3.5% annualized cash yield.

Lastly, as Marcos mentioned earlier, after quarter end Safehold received a credit rating upgrade from Moody's to A3 with a stable outlook. Moody's upgrade, which was issued at a time of overall market uncertainty, highlights the inherent credit strength of the assets, capital structure and business we've built, and we expect this upgrade to be a long-term benefit for the company. In the immediate, we've already seen a 12.5 basis point decrease in our revolver costs based on the rating.

We also remain engaged with Fitch, who put us on positive outlook in the beginning of 2023, several months after Moody's had done so. We believe we've addressed a number of their key criteria and targets, and will continue to maintain an active dialogue with their team with the goal of gaining momentum to drive down our cost of capital.

So to conclude, while the market backdrop remains challenged, our asset performance remains strong, we have ample liquidity and capital access, and we have no near-term maturities. As we continue to push on improving our cost of capital, we'll be patient but opportunistic around new investments and look to continue to expand on our market-leading position.

And with that, let me turn it back to Jay.

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

Thanks, Brett. There's a lot of noise this year with the merger, the macro backdrop, and things like Goodwill. And with capital market spreads moving faster than cap rates in the real estate transaction market, it's been hard to generate the spreads we look for despite currently attractive asset economics that offer plus or minus 100 basis points over the benchmark, plus inflation kickers, plus UCA and its potential Caret value.

While this side of the interest cycle has been rough, we are preparing for the other side of the cycle. Peak rates seem near. And once sentiment changes, we believe our existing portfolio will be seen in a new light, and the capital market should be in a better position to help us take advantage of the attractive asset economics in the ground lease market.

And with that, operator, let's go ahead and open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is coming from Nate Crossett with BNP Paribas.

Nathan Daniel Crossett ***BNP Paribas Exane, Research Division - Analyst***

I was wondering if you could talk about just the deal flow pipeline heading into the year. Are there any deals that are currently under LOI right now? And then just maybe on what you're seeing like if rates do stabilize in the near term, like do you foresee things opening up quickly or is there more of an adjustment period? Just some color there on the pipeline would be helpful.

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

Nate, so I think if you go back to the end of the second quarter, which feels like an eternity, but it's not really that long ago, the 10-year was at 3.8%. And today, it's almost 100 basis points wider. I think it's paralyzed the overall market, including our customers. So while we saw some traction sort of at the end of Q2 and the early months of the summer, we've seen that sort of teeter off over the last handful of months.

So I think we have a few things in the pipeline that are progressing towards closing. I'll tell you that we have a little bit less confidence than we have had in the past, and I sort of referenced that in my remarks. We had a handful of transaction that got to the closing table with docs done and fell apart. So I think Q4 is going to continue to remain spotty. I think the psychology that you're sort of describing about when do people capitulate? I think it takes time. If you think about these sort of rate movements, what's the impact on asset values are people willing to give up? Are you going to see distress? And as far as we can tell, that appears to be going very, very slow in today's environment.

Nathan Daniel Crossett ***BNP Paribas Exane, Research Division - Analyst***

Okay. I think you mentioned new product initiatives in the prepared remarks, is there anything to note there? Is there any like new type of products that you've been doing or contemplating? Just wanted to make sure is that right.

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

Yes. We're always in the lab trying to brainstorm and think through different applications of the product. And so nothing that is far enough along to talk about yet, but we're excited about some potential things in the future.

Nathan Daniel Crossett ***BNP Paribas Exane, Research Division - Analyst***

Okay. Maybe -- and then just one for Brett. Just on the upgrade on the credit rating. I'm just curious like how much that would hypothetically save you on debt costs versus where it was before the rating upgrade?

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

So right now, we have a split rating with Moody's and Fitch. We've seen some benefit in our spreads, but I think the majority of that benefit will come when we have a second A rating. What we've typically seen across many borrowers in the A rating category versus BBB, most of them trade at a 30 to 50 basis point differential and some of the debt capital providers that we have regular dialogue with have indicated as such as well, when you start to really think about their ability to tap different pockets to deploy capital for A or better, when you think about the capital charges that they need to take the exposures that they're limited or allowed to take as well. Those should all be benefits to us. So, we're hoping that we can continue to prove and build that track record as we've done over the last year to get to that second A rating so we can get that benefit.

Operator

Your next question is coming from Anthony Paolone with JPMorgan.

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

I guess, historically, it seemed like your value proposition to sponsors was the combination of ground lease and leasehold debt would get them more proceeds and also at very attractive rates. What is -- what do you think the real pitch is right now at higher rates that you're delivering to prospective sponsors when you're pitching ground lease structures?

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

Tony, I think it's the same exact pitch as it was before. On a relative basis, we're still the most efficient source of capital. So if you go down the entire capital structure, right, unlevered yields have blown out, cost of debt is blown out, whether that's fee simple or leasehold loans and obviously, our cost of capital has changed. If I look at a multifamily transaction where there's at least a little bit of transaction volume, the agencies are still providing fixed rate debt, but it's in the north of 6% range at lower leverage levels. So we are still an accretive source of capital to our customers.

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

Okay. And then on the, I guess, land to total property value, I think that used to be 35% to 40%. It's crept up a little bit north of 40%. It seems like do you think that's the new level or is that just maybe some of the more recent deals?

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

I think we've taken probably a more conservative approach than some of the sponsors. Those new acquisitions are based on our actual appraisal -- sorry, our actual internal work. They'll get appraised by CBRE on a rolling annual basis. So I would say we're just taking a more conservative view on the underwriting side. But broadly, the credit metrics remain consistent.

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

Okay. And then just last one for me. On the leasehold loan fund, it looks like that capital is getting extended out at "11%" thereabouts. What's the underlying there to support that yield? And is that current pay or is that a PIK structure -- just kind of what's underneath there.

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

Yes. So each loan is different. But typically, a lot of those either have a component of cash and a component of PIK, or they're current cash pay. So those will flow through the cash flow statement. But I think what you see in the, call it, earnings from equity method investment line is the combination of what we're yielding on the asset as well as the purchase that we made at merger, which was at a discount based on where current rates were at that moment.

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

Right. But like the 11% -- like, I guess, just maybe remind me what's kind of underneath, is it development stuff or is it just current cash flow assets? Like what's supporting it?

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

Yes. So there's one asset that was originally a construction loan. It's actually built and beginning lease-up. It's a brand-new multifamily asset in Nashville. And then there is a trophy Life Science asset in Cambridge that is a development deal. And then the final deal is a repositioning of a mixed-use asset, which includes a life science component in Cambridge as well -- and then, apologies, there's one more, there's a small multifamily existing asset as well in Seattle.

Operator

Your next question is coming from Ron Kamdem with Morgan Stanley.

Ronald Kamdem ***Morgan Stanley, Research Division - Equity Analyst***

Great. A couple of quick ones. Just on back to the originations. Are these -- so the one deal in the quarter and the 2 posts were those existing relationships and sort of when you were talking about the pipeline, maybe can you sort of dissect that in terms of existing versus sort of new relationships?

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

Those 3 were existing customers. So repeat transactions, which is great to see. And I would say the pipeline, I'm looking at it right now, is a mix of new and existing customers.

Ronald Kamdem ***Morgan Stanley, Research Division - Equity Analyst***

Great. And then just looking at the Caret, the revaluation was slightly down, I think 10.0 from 10.1, which doesn't look like a big deal. But just wondering, was there like one asset or what sort of drove that this quarter?

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

Yes, we're seeing the appraiser start to move cap rates up. They're drifting upwards on all property types. And I think they're taking a little sharper pencil certainly to some of the underlying assumptions on the operating side. So appraisals don't move in jump steps, they move in waves, and we're definitely seeing the appraisal community begin to push those cap rates up. So we're not surprised by it. We expect more of it, and we'll see the impacts of that slowly, but we're still going to be in that 10-ish range, it feels like with some parts of the cycle like this where you're going to get more downward adjustments than upward adjustments.

Ronald Kamdem ***Morgan Stanley, Research Division - Equity Analyst***

Great. And then my last one, if I may. Just on the income statement, the provision for credit loss, what was that related to the $336,000 I see here? And any other sort of assets or anything like that, that you guys are looking at for potential more provisions?

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

Of course. Yes. We adopted CECL this year. So we take a provision on amounts we fund based on the relative risk there, which is maybe take a host of factors and use the model to determine that. But typically, we take in the range of, call it, 1 to 4 basis points on new funding. So that's primarily what drives it.

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

Ron, it's on no specific assets. It should be across the portfolio.

Operator

Your next question is coming from Caitlin Burrows with Goldman Sachs.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Maybe you could just start with kind of the properties that did transact in the quarter and October and the ones that are in the pipeline. I know from what we can see, they were multifamily, kind of some other details of maybe what made those properties, the right ones. And as you look forward, does it continue to be a multifamily focus?

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

Yes. As I go back to the remarks, the lack of liquidity is really a driving force to get any sort of transaction done, and there is a little bit of liquidity in the agency space in the housing space broadly. So I think we're going to continue to push on both the believers in sort of the supply-demand and balance long term. And it's an asset class we want to continue to scale and grow in. If I think about those particular transactions, a couple of them were student housing assets, we're seeing in our portfolio as well as on these specific assets, some pretty incredible same-store revenue growth, almost double digits.

And so I think customers, although cap rates are wider for student housing are able to underwrite a decent amount of growth and so that they can tolerate a capital structure that is more expensive. And so that's probably the reason those transactions have been successful.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Got it. And then it looks like the originations in the quarter in October, the economic yields were in the low 7%. So I'm wondering if you can talk a little about how you think about kind of in this rate environment today that you're making those deals, but that there are long-term agreements and kind of how you balance that today versus 99 years?

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

Yes. I think the first premise for us is we always look at the long-term benchmarks and where those are trading, what that cost is today and have increased obviously over the last few quarters, but they're in the 6% range. And so our bogey is can we make a 100 basis point spread above that. And then obviously, we get the benefit of inflation and the benefit of Caret on top of that. So that's kind of how we generally think about our unlevered pricing bogey.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Got it. And then just a quick one on the joint venture. You went through -- I think, $462 million left total. So could you just go through again kind of the benefits of having the JV structure and confirm that all investments will be done in the JV until that amount is kind of used up?

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

Yes. So I think I've mentioned this on a prior call. There are a handful of investments that are on the smaller side, where our partner will most likely not participate. There's a decent amount of friction costs to set up those ventures. And so our expectation is that they will almost do every single transaction, but some of the smaller ones that we have conviction on, they may end up on our balance sheet. We get a base management fee and a promote structure and I'm blanking on it off the top of my head, Brett, if you know what that is?

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

Over 1.275x.

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

Okay. Let me get back to you on the base management in the JV...

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

25 bps.

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

There you go.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Got it. So I guess just you mentioned the smaller ones, I guess, the deal in the origination in 3Q and the 2 since those all seem pretty small. So would it seem like those fall into the category of being just for Safehold?

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

Correct.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

And just as we think about like funding going forward. Okay.

Operator

Your next question is coming from Harsh Hemnani at Green Street.

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

Just a quick one for me. So the option that was terminated this quarter to purchase a ground lease. How many more of those options do you currently have on your balance sheet that would be out of the money just at current rates?

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

There is one other option on our balance sheet currently.

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

That's helpful. And then do you...sorry, go ahead.

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

And Harsh, it's probably too early to determine whether the customer qualifies for that option and if we actually have any P&L exposure on that payment.

Operator

Next question is coming from Kenneth Lee with RBC Capital Markets.

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

Just on the liability side, obviously, no maturities until 2026. I wonder if you could just share some thoughts as to what options could you look at as you look to refinance over time? And would there be any change in approach just given where rates are or where rates could be?

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

Ken, I think our approach is the same. We obviously have access to multiple parts of the capital markets. What we've been able to exhibit over the past few years in growing our unencumbered asset base and being an unsecured borrower is really creating a footprint in the markets. We have access to both the public and private at various tenors with various structures.

So I think what we've been able to exhibit and take action on over the last years is continuing to be creative and create liability streams that better match the asset profile of what we've been able to create. So that's really, in our mind, what we're continuing to push along. I think some of the remarks I made earlier around where rates currently are, where current credit spreads are, and the appreciation of where the business is at in terms of its evolution. We're going to let all of that good work and good progress and set up of the balance sheet.

As you mentioned in your question of no maturities over the coming years here, work to our benefit. And we do think that getting to that second A rating will provide even more pricing power for the business. So, lots of capital solutions. We want to be thoughtful about locking in long-term capital, but we do have those hedges that are significantly in the money that should weigh down that net effective rate for us.

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

Got you. Very helpful there. And then one follow-up, if I may. Any updates around efforts to create public liquidity or liquid market for the Caret units?

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

Yes. We're in contact with those first round Caret investors. Some of them have certainly expressed desire and willingness to push that date out given the current capital market environment, but we're still working on that. I think everybody is realistic about where that opportunity is today in today's capital markets and where it might be in the future. So we'll continue to have those conversations.

Operator

Our next question is coming from Haendel Juste with Mizuho Securities.

Ravi Vaidya ***Mizuho Securities - Analyst***

This is Ravi Vaidya on the line for Haendel. I hope you guys are doing well. Just wanted to talk about the rent coverage for the recent acquisitions. I noticed they're about half a turn, a little bit more than half a turn inside the portfolio average. Is this due to the fact that the apartment rents -- apartment rental growth there are moderating right now or what the -- and what's your minimum threshold when you evaluate different investment opportunities from a rent coverage standpoint?

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

So I would say we take a more conservative approach in our underwriting process than what I would say reality is, it's probably a higher vacancy. We underwrite on an un-trended basis. You are spot on, we are seeing a slowdown in rent growth. I think this coverage metric is consistent with our policy. It's obviously on the lower end. But I think the biggest driver is our cost of capital is more expensive, which is obviously pushing up the amount of ground rent in the structure. So attachment point feels good from a leverage standpoint, look through LTV, but the coverage is a little bit lower.

Ravi Vaidya ***Mizuho Securities - Analyst***

Got it. And just one more here. With regards to property type, are you restricting ourselves to just multifamily in the last couple of quarters? It's been pretty much focused on that. Is there another asset class that you'd look to explore in the hopes of higher yields? And how are you balancing rent coverage, yield and volume given where rates are and given where the recurring cost of capital was?

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

There are other asset classes in the pipeline. I think those other asset classes have less liquidity options than the housing space does. And so they're a little bit more difficult to get across the finish line. But we certainly are searching the markets to find exposure outside of multifamily.

Operator

Next question is coming from Rich Anderson with Wedbush Securities.

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

First, an observation. I'm just looking at the quality of the sell side covering you guys, and you should be, I'd say, proud of that, knowing covering you guys since 2017, that's impressive. And so it's tough times right now, but you got people listening. That's good. In terms of, Marcos, you mentioned behaviors of people just everyone's moving very slow in this environment understood. But won't there also be some events coming that will kind of force action?

Regional banks are cluttered with commercial real estate loans, and there's going to be events that will take place? Or are you -- that maybe you can get involved with in a small way with the liquidity that you have? Or do you think that the tendency is for kicking the can down the road and for there to be sort of a delayed tactics taken so that maybe there won't be transactions that will become available be forced upon real estate owners anytime very soon. Just curious what you think of that dynamic?

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

No, it's a little bit of a puzzle. We are certainly pitching that as a solution as a product, and we think we can help distress capital structures live for another day or live for a new owner. But what we're actually seeing is those transactions are taking extremely long to get done, if at all. And so at least right now, we're seeing a fair amount of kicking the can down the road. I'm not saying that isn't going to change, it could change as we cross over in the year. But as of right now, we don't see this kind of wave of distress starting to hit -- you're asking my personal opinion, I think it will come eventually. It's just not there today.

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

Okay. And Brett, you mentioned the value, or maybe it was Jay, mentioned the value of your long-dated liabilities. Is there a way to quantify that? Like if you were to mark-to-market your debt, is there a number that you sort of monitored to sort of say this is how much it's worth in this environment?

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

Yes. I mean that's precisely what we're trying to get across to folks, which is how we have this laid out in our corporate presentation. When you start to think about our long-dated liabilities, running out those cash flows, discounting them at an appropriate discount rate treating both sides of the balance sheet in a similar manner and fairly. We think that mark-to-market value today is quite meaningful, right? It depends what discount rate you want to use.

But take the middle of the road, even $0.5 billion when you start thinking about that number at today's rates, even could potentially even be greater than that, that's incremental value that we feel like the market is not fully appreciating. And I think part of the reason why also is a lot of folks have shorter maturity profiles, right? They have shorter assets. And I think for us, when you're looking at 99-year cash flows and discounting them back at what we believe is a high-grade risk, so are those 23 years of weighted average maturity profile. We have a lot of pieces of debt due in 30 to 50 years, and we think that's a really important value component. So we try to lay out that kind of net present value sensitivity for people because we think it's certainly underappreciated right now.

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

Okay. Last for me. $858 million of liquidity, not including the joint venture commitments. But -- and you kind of beat your tongue and raised equity, it worked for you from a ratings perspective and to lock up sort of the financial profile of the company for now in a tough environment. But where is it -- what is the trigger where you get to -- what's the liquidity number that you get to where you say, "Well, we got to start thinking about raising more capital." You obviously don't want that $850 to get anywhere near zero. So I'm just wondering when you start thinking about it again. And hopefully, it does become a problem because you've deployed some of that liquidity, but I'm just curious.

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

Yes. That's the real goal here is to be able to take advantage of some of these attractive asset economics, Rich. And right now, I'd say the volume is pretty muted just from a transaction standpoint in the real estate world and then getting our cost of funds to match up in a way that we're comfortable with locking in long term. So we haven't really had to think too much about when the trigger is but we like to have plenty of liquidity on hand.

Historically, we've said $0.5 billion feels comfortable. So between the JV and the lines, we think we're well positioned for that. Candidly, I think we're hoping we're almost at the end of the rate cycle. And I think on the other side of it is a lot of opportunity for us. And we think there's plenty of places to pull capital from once transaction volume picks up.

Operator

Mr. Hoffmann, we have no further questions.

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

Thank you, Kelly. If you do have any other questions, feel free to reach out to me directly. Kelly, could you please give the replay instructions once more?

Operator

Certainly. There will be a replay of this conference call beginning at 2:00 p.m. Eastern today. The dial-in for the replay is (877) 481-4010 with the confirmation code of 49301. This does conclude today's conference call. You may disconnect your phone lines at this time and thank you for your participation. Have a wonderful day.