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Safety, Income & Growth, Inc.

Fourth Quarter and Fiscal Year 2017 Earnings Call

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Jay Sugarman, *Chairman and Chief Executive Officer*

Geoffrey Jervis, *Chief Operating Officer and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone, *JP Morgan*

Richard Anderson, *Mizuho Securities*

Collin Mings, *Raymond James & Associates*

John Massocca, *Ladenburg Thalmann*

Joshua Dennerlein, *Bank of America Merrill Lynch*

PRESENTATION

Operator:

Good day, and welcome to the Safety, Income & Growth's Fourth Quarter and Fiscal Year 2017 Earnings Conference Call. If you should need any assistance during today's call, please press star, zero.

At this time for opening remarks and introductions, I would like to turn the conference over to Jason Fooks, Vice President of Investor Relations and Marketing. Please go ahead, sir.

Jason Fooks:

Thank you. Good afternoon everyone and thank you for joining us today to review SAFE's fourth quarter and fiscal year 2017 earnings report. With me today are Jay Sugarman, Chairman and Chief Executive Officer, and Geoff Jervis, our Chief Operating Officer and Chief Financial Officer.

On this call, we plan to walk through a presentation that details our fourth quarter and full year results. That presentation can be found on our website at safetyincomegrowth.com in the Investor Relations section. There will be a replay of this conference call, beginning at 8:00 p.m. Eastern Time today.

Before I turn it over to Jay, let me point you to our forward-looking statements disclaimer on Slide 1. I'd like to remind everyone that statements made on our conference call which are not historical facts may be forward-looking. SAFE's actual results may differ materially from these forward-looking statements, and the risk factors that could cause these differences are detailed on this slide, as well as in our SEC reports. SAFE disclaims any intent or obligation to update these forward-looking statements except as expressly required by law.

With that, I'd like to turn the call over to our Chairman and CEO, Jay Sugarman. Jay?

Jay Sugarman:

Thanks Jason and thanks to those of you joining us on the call today. We started Safety, Income & Growth less than a year ago to completely reinvent the ground lease business and to the make ground leases a compelling capital choice for owners, operators and developers of high quality real estate around the country.

Having watched and helped the real estate finance and net lease businesses grow and modernize over the past 25 years, we were struck by the limited size and antiquated nature of the ground lease business in mainstream commercial real estate. Drawing on everything we've learned in the finance and net lease world, we set out to build a Company that could change the way people think about ground leases, deliver better capital to owners of real estate and provide a unique mix of principal safety, growing dividends and capital appreciation to shareholders.

Since going public in June, we've slowly but surely begun to introduce the market to a new type of ground lease, attractively structured to meet the needs of lenders and capable of unlocking higher returns for building owners. We have trademarked this new type of transaction-friendly ground lease, the SAFE ground lease and have begun working with property owners around the country on ways to maximize the returns with the SAFE ground lease. Over the past six months, we've seen clear examples, why this represents a very large market opportunity, but also why it will take time to help educate the market on how to think about both SAFE ground leases and Safety, Income & Growth as a whole. The good news is we're making real progress and continue to have conviction in our potential to build an exceptional Company.

The fourth quarter was a reflection of this, as we closed a deal early in the quarter but had a number of promising deals not quite get to the finish line. Each deal process has given us new insight into how best to translate our ground lease structure into a compelling capital choice going forward. Some of those lessons are already paying dividends in 2018.

In particular, we're starting to get real traction in the multi-family space, having closed a solid deal in Washington DC last month and starting to field reverse inquiries from owners in other markets, interested in utilizing a SAFE ground lease to optimize their capital structures. With our regional teams working to plant seeds around the country, we have several deals under LOI and hope to continue gathering momentum as more deals close and the benefits of a SAFE ground lease become more widely known.

With that, I'll turn it over to Geoff to walk through the quarter and the fiscal year in more detail. Geoff?

Geoffrey Jervis:

Thank you Jay and good afternoon, everyone. Our remarks this afternoon, we'll refer to slides from our earnings release that was posted on our website today. Starting on Slide 2, when we evaluate the performance at Safety, we look not only at GAAP net income but also at non-GAAP financial measures, such as funds from operation or FFO and adjusted funds from operations or AFFO. For the quarter, net income was a loss of $0.07 per share, FFO was positive $0.05 per share and AFFO was $0.06 per share.

There are several items worth highlighting that impacted our quarterly earnings. These include percentage rent related to our Park Hotel portfolio, which skews quarterly results because it is only paid once a year, management fees and expenses that are waived but still recorded as expenses under GAAP, and some additional items specific to Q4 activities. Taking those items into account, our net income and FFO per share would have been impacted by $0.15 for the quarter and AFFO per share would have been impacted by $0.08 for the quarter. The resulting adjusted AFFO was in line with our expectations and our dividend payout guidance.

Other highlights include closing one ground lease during the period and another shortly thereafter; both are multi-family projects, with one in Northern California and one in Washington DC. These two transactions represent the fruits of our labor over the last few months as we have been planting seeds that are starting to sprout. As of February 13, our pipeline stood at $960 million, with $98 million of the pipeline in active negotiation and another $72 million of transactions with signed LOIs.

Moving to Slide 3, Slide 3 shows earnings for 2017 and since we were formed in April 2017, we only show partial year results. Since inception, net income was a loss of $0.25 per share, FFO was positive $0.19 per share and AFFO was $0.28 per share. During the period, the aggregate impact for the adjustments I discussed earlier was $0.42 to net income and FFO and $0.19 to AFFO.

Slides 4, 5 and 6 give further details on our income statement and the adjustments that I just discussed so I will skip to Slide 7. Slide 7 shows our G&A at SAFE. Last quarter we had a few questions regarding management fees and I'd like to take a moment to explain how these fees are treated on our financial statements. As we've discussed, SAFE's management contract waives 100% of the management fee through June 2018. iStar has also agreed to waive reimbursables for the same period. That said, under GAAP, both the management fees and the reimbursables are still recorded as G&A expenses during the waiver period. However the fees and expenses are never paid and equity is adjusted to eliminate the impact of the phantom charges.

Slide 8 shows our dividend history. As we have said, we plan to pay a $0.15 per share dividend until we can raise the dividend once we have invested the IPO proceeds. Our target is to pay out a relatively high percentage of distributable cash flow as we have no operating or capital expenses on any of our properties.

On to Slide 9, Slide 9 gives details on the Great Oaks deal that we close this period and discussed on the last quarter's call. The $34 million ground lease is under a 301-unit luxury multi-family property and has stabilized exposure of 26% of value and rent coverage of more than five times. This transaction is being built and we have committed to purchase the ground lease from iStar in three years after expected completion of construction. This transaction represents a vein of opportunity that we believe could be a rich source of deal flow, the multi-family merchant builder community.

Over to Slide 10, Slide 10 gives details on our Onyx on First ground lease. This $38.5 million transaction closed in January and the property is a 14 story, 266-unit multi-family project in Washington DC. Our exposure to value is 39% and going in coverage is 3.2 times. In this transaction, we worked with the agencies to provide a comprehensive capital solution for the buyer. We are very pleased with this transaction, not only because it represents a solid investment for SAFE, but also because this opened the doors to the universe of agency funded multi-family. In fact since closing we have received several reverse inquiries from other multi-family investors.

Slides 11 and 12 contain graphics of our portfolio, and demonstrate the diversification that we are endeavoring to create at SAFE.

Slide 13 is a new slide and has some new and valuable statistics. As you'll see in the chart on top of the page, our total GAAP annualized rent is $29.5 million and cash rent is $23.4 million. Our portfolio cash-on-cash yield is 4.7% with average fixed bumps of 1.6% and this does not include the growth in percentage rent or any CPI linked rent bumps. The chart on the bottom of the page shows our weighted average exposure to combined property value of 33%, our rent coverage of 4.7 times and our extended lease-term of 67 years. It is this set of statistics that we believe sets our brand of ground leases apart from other investment opportunities in terms of safety and relative value.

Moving to Slide 14, our pipeline remains robust in terms of gross dollars, but is changed in terms of what percentage of the transactions are in ongoing negotiations and under LOI. Over $170 million of the $960 million pipeline is in one of these two categories. It is our expectation that these transactions will work towards closing in the near to medium term. It's important to note that as we have done in the past, our pipeline excludes well over a $1.5 billion of large transactions, or whales. We are more than aware that our origination pace has been less than we forecasted. That said, we are confident that our volume will ultimately meet or exceed expectation, even if it's a few quarters behind our initially projected pace.

On to Slide 15, Slide 15 shows the $989 million of value bank embedded in our ground lease portfolio. To remind investors, value bank is the difference between the total value of the property and the cost of our ground leases. This value will come back to the Company when the leases terminate. We have hired CBRE to appraise all of our properties at closing and to reappraise every asset at least annually. We continue to believe Value Bank, which is $54 per share represents a significant opportunity for capital appreciation for our shareholders.

Flipping to Slide 16, the left-hand table shows that we continue to be conservatively leveraged at 0.9 times debt-to-equity and our debt-to-equity represents only 21% of the portfolio's combined property value. The table on the right shows our fixed charge coverage ratio, which stood at 1.6 times and on a look through basis to the underlying properties at 7.4 times. We are very comfortable with our leverage levels and coverage metrics.

On to Slide 17, our debt is very straightforward, a $300 million revolver of which we have drawn $10 million and a $227 million fixed rate 10-year secured financing on our initial portfolio of assets. In addition, during the quarter, we raised $71 million of five years secured debt against our Hollywood investment at LIBOR plus 133 basis points. Utilizing shorter term, pre-payable secured debt gives us the flexibility to convert to unsecured debt once we achieve our objective of an investment grade rating.

Over to Slide 18, our policy is to hedge interest rate exposure for the first 10 years of financing for every asset. Since we expect our first investment grade financing to occur in two to three years, we have entered into short-term three year LIBOR hedges as well as long-term three year forward starting 10-year swaps. As you can see in the graphic, our hedges provide protection in the cases where interest rates rise faster than our rent bumps, a situation we expect could occur on a short-term basis, but should not occur on a medium or long-term basis.

In summary, our hedge strategy is designed for any interest rate environment. However, we have seen extraordinary volatility in rates recently and our hedges have become very valuable. We will continue to enter into these hedges with every acquisition.

Turning to Slide 19, finally, I'd like to discuss interest rates from another perspective. As we've heard some investors' concerns with respect to how SAFE and ground leases fare in a rising interest rate environment. First, it is important to remember that ground leases are not fixed rate bonds. We typically have contractual bumps in our rents; you can see this expressed in the chart on the left side of the page. In fact, more and more of our lease bumps are either tied to inflation or have CPI look backs. The chart to the right shows how fixed rate leverage magnifies the impact of these bumps. Again, because our rents don't stay flat, but rather have built-in escalators, the effective fixed rate leverage magnifies those bumps. It's not just our rent bumps that are growing. Our land also grows in value with inflation. With a bond the best you can ever get back is your principal, par value, but we own land and that is an effective inflation hedge.

Historically, studies have shown that lands correlation to inflation is approximately 85% and its beta is greater than one. So, we are very comfortable that over time our land should track or exceed inflation. Turning the page, in addition, the value of our real estate on top of the land, or the Value Bank is also expected to grow with inflation. As you can see, with 2% inflation, our Value Bank rose almost 250% in 50 years. If you predict higher inflation, the chart on the right shows 3% inflation resulting in 500% growth in Value Bank.

In summary, our cash flows grow, our land values grow, our Value Bank grows, all of these components of our portfolio point to the strength of our strategy and create an investment opportunity that has not only multi-faceted protection from inflation but its potential for a leveraged return highly correlated to inflation.

With that, I will turn it back to Jay.

Jay Sugarman:

Thanks, Geoff. So, we have some pretty straightforward goals for 2018. Close more deals, increase our repeat customer business, expand our footprint and drive value for customers and shareholders as the market leader in our space. We think the fair value of our existing rent streams is well north of today's share price and that's before the sizable Value Bank of over $50 a share that Geoff mentioned. We believe this large discount will begin shrinking as we begin closing more transactions that demonstrate the innovative power of the SAFE ground lease. Obviously, we believe in the sizable upside, and both iStar and Management have purchased additional shares in the market since the IPO to capitalize on this mis-priced opportunity.

With that Operator, let's go ahead and open it up for questions.

Operator:

Thank you. To ask a question, please press star, one at this time. We will take as many questions as time permits. Once again please press star, one to ask a question. We'll pause for just a moment to assemble the roster.

Your first question comes from the line of Anthony Paolone from JPMorgan. Please go ahead, your line is open.

Anthony Paolone:

Okay, thanks and good afternoon. You talked about learning a number of things, as you've been out in the market trying to do deals. Can you just talk a little bit more specifically about what maybe some of the impediments to getting things closed has been of late?

Jay Sugarman:

Sure, Tony. I think of couple things we've learned is, we're introducing a fairly new and reinvented type of a structure that is a lot different than what people have seen in the past. Oftentimes we'll meet with a principal and we'll make great progress and then we'll have to do it again with another party in that deal and then another party, and then another party. So we figured out, we need to get them all in the room early in the transaction, so they can all understand why this is so powerful together rather than having this daisy chain of questions between the leasehold lender and then other parties for the deal. So, we've been able to starting to shorten these timeframes where the entire concept goes from beginning to end. I think the deal in DC took under a month to go from start to finish and that's a new record for us.

So, we're really starting to see how to present it, how to show its power, and then how to quickly put it together with all three components, the equity, the leasehold lender and the ground lease all working quickly and efficiently together. Documents are getting a little more streamlined. We're figuring out what questions we need to answer upfront to make this work. It's something we've lived through before in our past, when you introduce new concept, it does take some time to get to the most efficient place and we're starting to see that.

Anthony Paolone:

Okay, and why do you think apartments seem to be landing in your strike zone so frequently? I just—I don't know if it's counterintuitive or not just given it's a lower yielding property type to begin with. So, it seems like you all would have to go even inside of that to provide leverage to the lease holders, just trying to think how about that's emerged as a key area?

Jay Sugarman:

Well again, I think it's this idea of efficiency, that's a market that is relatively liquid and fluid. So, we've been able to craft a lease that is structured to meet the needs of the largest lenders to that sector, and so we shortened the timeframe, made it simpler and it's one of those businesses where, if you can do it once or twice, you are not going to have change a lot of variables to do a lot more. So, it's one of the reasons we are optimistic given what we saw in DC and some other markets we're working in, that once we have a smooth efficient process, people are finding the cash on cash returns they can earn as owners are better and it's a compelling proposition for them.

Anthony Paolone:

Okay. Can you remind us of the yield on the forward and then maybe give us the yield on the deal that closed post 4Q?

Jay Sugarman:

I don't have the DC multi-deal. Yes, both of those were in the 3.7%, 3.8% range on initial caps, both included bumps in the 2% range. I know at least the DC deal has a CPI catch up after a certain period of time.

Anthony Paolone:

Okay, great. Thank you.

Operator:

Your next question comes from the line of Rich Anderson of Mizuho Securities. Please go ahead, your line is open.

Richard Anderson:

Thanks, good afternoon. So, when I think about this, the SAFE ground lease there, as you describe it, I am not sure if your—if that's a copyrightable or whatever, but I'm curious if a part of that kind of sort of moniker or whatever you want to call it, includes when you're out – kind of discussing your product, the relative lack of restrictions that you have, when you're doing business relative to what is—maybe the comment, fear of ground leases, which is—ground lease owner is going to restrict what I can do as a leasehold owner. Is that something that's part of the conversation in your meetings?

Jay Sugarman:

It's a great question. I mean, one of the reasons we're trademarking in this is to really distinguish it from a lot of the ground leases that are still around, unfortunately they have created a bit of a bad reputation for the industry, but they were set up long before the current finance and modern real estate investment markets that we see today were in place. So, they are inefficient and they are problematic. Many of them were written in fairly ambiguous terms on a typewriter 50 years ago and there's no question why those are struggling in today's market to help owners create value.

We wanted to distinguish a SAFE ground lease as absolutely attuned to both the leasehold lending market, the cap rate sale market and the ongoing business environment we find ourselves in. iStar as a lender, iStar as an owner, operator real estate. We are sensitive across the spectrum to what makes a transaction, a win-win-win. So, we can very quickly get to the heart of the matter and figure out a way to unlock value as opposed to what I think some of the old style ground leases that are still hanging around which are again ambiguous, uncertain and have provisions that by no means unlock value, they actually create problems.

So, we want to be really clear with the marketplace that this is a different structure, it is a different way to approach the business, and much like iStar's background in finance and net lease, we're trying to find solutions where one plus one equals more than two. We think a modern SAFE ground lease combined with what we know about the leasehold lending world and the ownership world, we can achieve that with owners across multiple property types and multiple markets.

Richard Anderson:

Great. So, looking at how your stock has performed so far this year, down 4% would probably put you in the top five of all REITs, maybe not a big surprise to you, Geoff for what you described, land as inflation hedge and rent escalators and how they compare to fixed rate debt. Do you—does it come as a bit of a surprise to you that you're not doing better, if the REITs are underperforming mostly as a function of rising interest rates?

Geoffrey Jervis:

Yes, I think there's two things to point out. One is, yes, we are disappointed where our share price is again relative to our value, both the rent stream and the Value Bank, we think there is a deep discount to what we believe value is. But, we have to demonstrate how big this market opportunity is to get people excited. So, I think once—so once the deals start coming in, once we can sit down and really show people how we think, the valuation of each individual deal to the portfolio fit together into a very compelling investment opportunity, we think the market will begin to respond. It's on us to get these deals done to be able to show people across multiple product types, all over the country, why owners are attracted to it and why investors should be equally attracted to it and that's—we are six months in and that's the work we have to put in and we think the market will respond to that success.

Richard Anderson:

Now, at least the market is showing some amount of appreciation for the product, I suppose in this environment. Then last question, Geoff you mentioned first IG financing in two or three years. What are some of the—is just having enough of a portfolio the main drag on getting there, if you don't grow by some amount of activity per year, two to three might become four to five. So, ultimately it again comes down to being big enough to deserve that, or there are other considerations, rating agencies are having to wrestle with to grant you that wish?

Geoffrey Jervis:

So we have, we, we've been in contact and in dialog with all three of the major rating agencies and typically the impediment is the duration of your business model and the scale of your business model. We're getting credit for having been invested in this space since 1995. So, we don't have the duration of the business model concern, but you are spot on with respect to size, we need to be bigger in order to—in order to be rated or at least to be rated efficiently, and I think that that is hopefully something we'll be able to solve this year, but the bogey is somewhere over a billion dollars of assets.

Richard Anderson:

Over a billion in assets, okay. So, market cap wise, some number less than that?

Geoffrey Jervis:

Well, market cap would be somewhere in the 300 million to 500 million range depending upon how we are leveraged.

Richard Anderson:

Okay. Thanks very much.

Operator:

Your next question comes from the line of Collin Mings of Raymond James. Please go ahead. Your line is open.

Collin Mings:

Thanks, good afternoon, guys. A few questions from me. First, just maybe given the late timeline ramping up the external growth which you guys talked about some of the issues you run into there, maybe just give us, can you give us a sense of maybe the deal volume you're hoping to close here in 2018. I recognize not providing maybe formal guidance, but just should we think about, probably doubling the portfolio by mid-year this year, or can you give us some more guardrails and guideposts to think about that.

Jay Sugarman:

Look, I think a fair goal is to have a billion dollars of assets by year-end. As Geoff said, it's a key milestone for some of the constituents that are important to our future. So, that would be a great goal and you can work backwards knowing we started with 340 of assets, we're up to about 500 now and we'd like to be at a billion by year-end.

Collin Mings:

Okay, that's helpful, and then as we think about kind of what's under LOI, can you maybe just talk about the cap rate on kind of the range under—that's under LOI, and then just more broadly just talk about, as you're having these origination discussions, how is kind of the move in interest rates impacting that in terms of initial cap rate discussions.

Jay Sugarman:

The pipeline, it remains this mix between some fairly large urban typically office and some stuff that we're seeing in good markets outside the gateway cities in the multi-family space and some other residential pipe assets. I think the—clearly, there is a premium for assets in the gateway cities and there is a little bit more spread on those assets that are outside the gateway cities, but we try to stay in the top 25 markets. We're trying to stay in product types but we have some knowledge in history and we continue to believe there is a mix of both in the pipeline that we will be able to close throughout the year.

Collin Mings:

Okay, and then just maybe in terms of pricing on those and how that's being impacted?

Geoffrey Jervis:

So, our matrix is, as I think we said when we went public was 3.5% to 5%, but obviously the umbrella for creating compelling capital for investors is to beat on the land component, some benchmark that the CMBS world or the insurance Company finance world is putting out there in the agency world. So, as interest rates move, all of those prices move up, we can stay under that umbrella and move up as well, but we still want to create an advantageous capital structure for our clients, our owners, operators, developers of real estate. So, it's not a one-for-one correlation, but it is definitely directionally moving with rates.

Collin Mings:

Okay. Then as we think about—and you touched on this a little bit in the prepared remarks talking about over a billion and a half as it relates to maybe some larger opportunities, but anything as you are having some of those discussions with GIC, anything that you think stands out that might be near-term over the next quarter or two, or is there going to be a longer gestation period for some of those larger deals still?

Geoffrey Jervis:

We're working on that stuff every day. There is an active pipeline, but I'll also tell you those deals take longer to pull together. So, we are not going to go out over our skis and tell you, we've got something that we're sure was going to get done. But, I like the tenor of the dialogue. I think the people who are talking to us see the merits of why this is a better solution, why it gives them another arrow in their quiver in terms of how they think about capitalizing the properties they're looking at or own. So, good tenor, but I'm not going to tell you we know we can knock down one of these big urban deals that we've been working on until we are little bit closer to the finish line.

Collin Mings:

Okay. Then just one last one from me, just going back to, again some of the comments about iStar's obviously been active in purchasing some shares. Just maybe given the value that you guys see, maybe just talk about how you think about the runway for iStar to make additional share purchases and/or maybe allocating some of your guidance on capital just to buying back stock down, at least a degree below the IPO price.

Jay Sugarman:

Yes, it is a—believe me, we think this is unusually attractive. We thought it was usually attractive frankly with the IPO price. We've continued to buy. The share price has underperformed, I think we do want an active and vibrant marketplace out there, but to the extent the marketplace is not going to recognize value, we've got some pretty large appetites in the existing shareholder base, but we're hoping with some of the volume coming down the pike here, with some of the deals we will be able to announce, hopefully over the next two quarters, that we'll see a lot of investors who might have been on the sideline waiting to see the kind of deal flow we were able to knock down, we're hoping to bring them in. Again, we want to create more liquidity, bigger capitalization, bigger asset base and really start to make this part of the mainstream conversation.

Geoffrey Jervis:

I would just add to that, our General Counsel I think is very happy that the blackout is about to be lifted because the number of questions that he has shielded from senior Management is very high in volume. People are very eager here to take advantage of purchasing this investment.

Collin Mings:

Great. I appreciate the color, guys. I'll turn it over.

Operator:

Your next question comes from the line of John Massocca of Ladenburg Thalmann. Please go ahead, your line is open.

John Massocca:

Great. Good evening everyone.

Jay Sugarman:

Hi John.

John Massocca:

So, first question, I noticed the pipeline—the dynamics of the pipeline changed a little bit, directly acquirable GNL from the 20% at 3Q '17 and to 7% now. What was kind of the driver of that? Was there a big deal that fell out, or has it just been a shift in what you guys are going towards in terms of investments, any color there would be helpful?

Jay Sugarman:

Yes. We were trying to shake lose our portfolio of ground leases that we thought was—in fact there was in the market. Nothing has happened on that and so we're not out of it, we're probably the only one who got the dialogue advanced as far as it did, but no trade has taken place. As we said, the existing ground lease market, sales market is pretty thin. So, we can't really rely on that. We try to pick our spots for things that we try to shake lose that maybe there is a reason why we should be best bid, but in terms of the amount of time and effort and frankly the traction we're getting, we've redirected some of the things that appear actionable in the near term. It is not to say we're giving up on these longer-term, longer lead time-like conversations, but we're not going to sit and wait either. I think, Tim Doherty and his teams are all working actively on things that look like they are real, and some of the things that are just simmering and percolating, we will check in on, but they just seem to not have the same momentum.

John Massocca:

Okay. Then kind of outside of the pipeline, those potential whale-type transactions you guys alluded to, would those more likely be something that you originate or would those more likely be a large portfolio that comes to market? I mean, are you trying to originate these kind of very sizable deals, or is this just you have to kind of wait for those to kind of hit the marketplace?

Jay Sugarman:

No, the primary goal is to originate them again, we think the numbers are compelling. We think owners, operators have come to us and said that they want to do it with us. In some cases, it's in bid situations where our bidder has not won. Some of those deals haven't traded and with the move in interest rates, I think sellers are having to rethink their sales price and we think we're still in the hunt on a number of them.

John Massocca:

Okay, then shifting gears a little bit, the cash G&A portion, or I should say that the G&A portion that isn't kind of forgiven by the manager picked up a little bit this quarter, what was driving that?

Geoffrey Jervis:

Two things, one there were some, if you look on Page 6—or Slide 6, you can see that there were some additional legal expenses associated with a registration statement that we did. Those are I would call them non-recurring, and then there's also, inside that number, sorry I said 6, the right number is actually…

John Massocca:

Other expense items line, I think it is 6, isn't it?

Geoffrey Jervis:

No, it’s seven and you can see under the description in public Company costs, on Page 7 at the bottom, there were some auditor legal and listing fees that were all non-recurring one-time period specific events.

John Massocca:

Okay. But, will those be kind of annual, it's just—they hit at this time of year, that's kind of part of the annual G&A, and then we had a quarterly run rate or is this kind of purely one time?

Geoffrey Jervis:

It was about—of that 1,039,000, 250,000, 300,000 of it was expenses that we don't believe will occur again.

John Massocca:

Okay, that makes sense. That's it from me. Thank you very much.

Operator:

Your next question comes from the line of Joshua Dennerlein of Bank of America Merrill Lynch. Please go ahead. Your line is open.

Joshua Dennerlein:

Hey, guys. For deals where you've gotten letter of intent out there before, how—what was kind of the hit rate for getting it closed? Just trying to figure out, like those four deals you have under letter of intent, like how likely you are to close on them?

Jay Sugarman:

Yes, most of those are things we expect to get to the finish line, something has to knock it off course. So, we would expect well north of 50% of those would get to the finish line. I think again some of the education process we're going through, both in terms of how to get people through the pipeline quickly, their partners, their leasehold lenders, we're getting better at. So, we'd expect to close more and more of those things that make it to LOI.

But literally we are educating in many transactions, most of the players at the table just to make sure they understand how this all works, why it works, why it's better capital ultimately, and again we're trying to overcome a lot of the outdated and frankly harmful types of ground leases that everybody's got a horror story about. So, it does take a couple of flights at it to make sure everybody is comfortable. When now once we feel like we're getting in the groove on deals, we can see the path of finish, I'd expect once it's gets under LOI to be a pretty high hit rate.

Joshua Dennerlein:

Okay, and just to confirm, is there any issues like GSEs, financing a multi-family property when you have a ground lease on them, or is it pretty—does it make any more complicated for the borrower?

Geoffrey Jervis:

No, as I said, I think the DC deal was a great example. That deal start to finish with the GSEs, was 11 days. So, once we get the form, the lease form down, which took us a pretty good amount of time over the last quarter to figure out how to check the box on the key criteria and then fashion a we'll call it a GSE friendly ground lease, we think that one's a stamp and repeat with the agencies, because again, we know what they're sensitive to, we know what our customers and our owners need, and we think we've cracked that code and can now provide the capital quickly, efficiently together with a GSA financing and to the equity owner.

Joshua Dennerlein:

That's it from me, thanks.

Jay Sugarman:

Thank you.

Operator:

Your next question comes from the line of Anthony Paolone of JPMorgan. Please go ahead. Your line is open.

Anthony Paolone:

Thanks. Just on the GSE subject, do you all have the ability to use GSE financing against your ground positions at this point?

Geoffrey Jervis:

Great question. We have, we certainly knocked on that door and the answer is not yet. Not sure if we'll get there, but obviously very attractive capital. We have—to-date, our understanding is that they have not been willing to finance ground leases, but we're going to keep trying.

Anthony Paolone:

Okay, thanks, and then just last question here. Any update, I know it's still a little bit further out, but you talked about it around the IPO and stuff on potentially doing something with the hotel lease, any update there?

Jay Sugarman:

We've had some friendly conversations, but no, no real business update to give you.

Anthony Paolone:

Okay. Thanks.

Operator:

Mr. Fooks, we have no further questions.

Jason Fooks:

Thank you, and thanks everyone for joining us this afternoon. If you should have any additional questions on today's earnings release, please feel free to contact me directly. Would you give the conference call replay instructions once again?

Operator:

A replay of the presentation will be available today at 8:00 p.m. Eastern Standard Time. To access the presentation, please dial 855-859-2056 then enter the code, 2296716. This concludes today's conference call, you may now disconnect.