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Q4 2020 Safehold Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2021 / 3:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to Safehold's Fourth Quarter and Fiscal Year 2020 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 Jason Fooks, Senior Vice President of Investor Relations and Marketing. Please go ahead, sir.

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

Good morning, everyone, and thank you for joining us today for Safehold's earnings call. On the call today, we have Jay Sugarman, Chairman and Chief Executive Officer; Marcos Alvarado, President and Chief Investment Officer; and Jeremy Fox-Geen, Chief Financial Officer.

This morning, we plan to walk through a presentation that details our fourth quarter and fiscal year 2020 results. That presentation can be found on our website at safeholdinc.com and by clicking on the Investors link. There will be a replay of this conference call beginning at 1:00 p.m. Eastern Time today, and the dial-in for that replay is (866) 207-1041 with the confirmation code of 1216793.

Now 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 fact 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 the call over to Chairman and CEO, Jay Sugarman. Jay?

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

Thanks, Jason, and thanks to all of you for joining us today. Safehold's fourth quarter was a busy one and set us up very nicely for 2021. With 13 separate ground-lease transactions closing, we were able to provide a growing pool of customers' access to our value-enhancing modern ground lease and further extend the ground lease ecosystem we've been building over the past 4 years.

Our push into the multifamily space continue to bear fruit as well, increasing multifamily as a percentage of our portfolio and enabling us to break into several new top markets. Deals in Denver, Dallas and Atlanta complemented the multifamily transactions in Seattle, Philadelphia and San Jose that we previewed in our third quarter call.

With the markets growing appreciation for the benefits of a modern ground lease, we continue to look for ways to provide our customers with the most efficient capital possible. And we're very pleased to recently receive Baa1 and BBB+ corporate credit ratings for Moody's and Fitch, respectively. Investment grade ratings enable us to be more efficient and more nimble and bring down our cost of capital.

We continue to target a spread to our cost of funds in the 100 to 125 basis point range and should be able to access more of the market with the increased efficiency investment-grade ratings create. In addition, with our portfolio now surpassing $3 billion, and the embedded capital appreciation we call UCA, exceeding $5 billion, we've now reached the scale and diversity where we can talk not only about the value of the long-term rental streams of our portfolio, but also the value building in the portfolio's long-term real estate ownership interest.

During 2021, we hope to demonstrate our commitment to meeting our customer needs in new and innovative ways as well as demonstrating to investors the long-term growth opportunity ahead of us and its value to our enterprise. We're excited to have established modern ground leases as an important tool for real estate owners around the country and excited to make available to public shareholders this unique -- an uniquely attractive asset class.

With that, let's have Jeremy take you through the quarter and year-end numbers. Jeremy?

Jeremy Fox-Geen ***Safehold Inc. - CFO***

Thank you, Jay, and good morning, everyone. Beginning with Slide 3 with highlights for the quarter and the year. 2020 was a very strong year for Safehold. We collected 100% of our ground rents despite the adverse economic impact of COVID-19, stress testing, the safety of the cash flows from our ground leases.

Earnings per share grew 31% year-over-year as we accretively deploy capital and scale the business. And Safehold was the best-performing Nareit stock for the second consecutive year, reflecting our attractive combination of safety and growth.

And the fourth quarter was a very strong quarter, reflecting growing investment momentum. As Jay said, we closed on 13 ground leases, our largest quarter-to-date by number of deals, totaling $331 million of new investment activity.

For the full year, we closed 21 ground leases, totaling $503 million, bringing our portfolio to $3.2 billion. And as we look ahead, we believe we are well positioned for growth in 2021. We have recently been awarded investment-grade credit ratings from Moody's and Fitch as Jay noted, that will broaden our access to flexible and efficient capital and which we consider an important competitive advantage as we continue to scale our business. As at quarter end, we had approximately $700 million of purchasing power, and we recently upsized our revolver to $600 million.

Moving on to Slide 4. I'll detail the quarter's results. For the quarter, revenue was $39.9 million versus $29.6 million for the fourth quarter last year, a 35% increase. Net income was $15.3 million versus $11.2 million in the prior year period, an increase of 37%. And earnings per share was $0.29 versus $0.25 in the prior period.

For the year, this brought revenue to $155.4 million, up 66%; net income to $59.5 million, up 76%; and earnings to $1.17, up 31%.

Slide 5 provides an overview of our investment activity and portfolio growth for the quarter. During the fourth quarter, we originated $331 million and 13 ground leases. We continue to grow customer awareness and adoption with 8 new clients across a diverse set of geographic markets. And nearly 80% of the capital invested this quarter was associated with multifamily properties.

The ground leases we closed during the quarter have a weighted average underwritten effective yield of 5.1%, which assumes 2% long-term growth for any acquired ground leases that have variable rent escalators. And a weighted average 4.7% effective yield on a GAAP basis, which does not include any growth from acquired ground leases with variable rent escalators. These transactions had a weighted average ground lease to value of 41% and underwritten rent coverage of 3.8x. All these new acquisition metrics are in line with our publicly disclosed targets.

And our portfolio at $3.2 billion represents 10x growth since our IPO 3.5 years ago.

On Slide 6, you can see the geographic breakdown of the portfolio as we continue to diversify our footprint across the United States, focusing on the top-30 markets.

Slide 7 shows key metrics for our portfolio. As at December 31, our in-place portfolio generated an annualized yield of 5.4% and an annualized cash yield of 3.5%. The weighted average rent coverage of the portfolio was 3.4x, down from 3.7x at the end of Q3. And the average ground lease to value was 40%, up slightly from 39% in Q3.

As we've previously discussed, we expect these coverage ratios to evolve with the credit cycle and reflect the ongoing impact of COVID-19. Nevertheless, we continue to remain comfortable with our portfolio based upon our seniority in the capital structure, our long-duration investments and our broad geographic diversification.

With the new multifamily properties, which were added to the portfolio this quarter, multifamily increased to 26% of our portfolio, up from 19% last quarter. And office decreased to 56% from 61%, and hospitality decreased to 17% from 19%. And our weighted average lease term is 88 years.

Turning to Slide 8. During the quarter, we raised $121 million of common equity through a following on offering at a price of $61 a share. As I mentioned, we were the #1 performing NAREIT stock with a total shareholder return of 82% in 2020 and a 47% annualized return since our IPO.

On Slide 9. As Jay noted, Safehold was awarded investment-grade credit ratings earlier this week by Moody's at Baa1 and by Fitch at BBB+. These agencies made these decisions based in part on the Safehold's overall portfolio risk, our long duration of compounding cash flow streams of superior asset quality and our scalable business model. This was an important step for Safehold as we believe these ratings will be a meaningful competitive advantage by providing us increased financial flexibility and diversifying our funding sources with potential access to the deep investment grade unsecured bond market.

Slide 10 presents our capital structure. Our equity market capitalization was $4.3 billion with $1.4 billion of book equity. As at quarter end, we had $233 million of cash and revolver availability. And as at quarter end, we were leveraged 0.4x debt-to-equity market capitalization and 1.2x debt-to-book equity with $1.7 billion of total debt.

The weighted average interest rate of our debt is 4%, which is a 140 basis point spread to our 5.4% portfolio yield. On a cash basis, the cash interest rate was 3.1%. Our debt has a 31-year weighted average maturity. And during and subsequent to quarter end, we brought in 2 additional banking relationships into our revolving credit facility, bringing the total capacity up to $600 million.

And moving to Slide 11, I'll finish with UCA. At the end of the quarter, our unrealized capital appreciation account stood at $5.5 billion, up from $5.1 billion from the third quarter, which represents 12x growth since our IPO mid-2017. We utilize and present this metric as both a measure of the estimated value of the buildings we offset to inherit at the end of our leases as well as a measure of the aggregate value of the subordinate capital protecting those leases. Additionally, as the portfolio continues to scale and our UCA account continues to grow, we believe that this is an important element of an investment in Safehold, and we intend to spend more time going forward, highlighting its value.

In conclusion, it was a strong quarter, marked by a record number of ground leases closed, along with the new investment-grade credit ratings, positioning us well as we look ahead. And we look forward to continuing to execute on our strategy in 2021.

And with that, I'll turn it back to Jay. Jay?

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

Thanks, Jeremy. And with that comprehensive overview, I think I'm going to suggest we just go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Zack Silverberg with Mizuho.

Zachary D. Silverberg ***Mizuho Securities USA LLC, Research Division - Assistant VP***

So first of all, congratulations on the investment-grade rating. I just wanted to dig into that. Can you talk about the balance sheet a little bit? And how the investment-grade rating means to the enterprise? Does this shift any strategy for the firm moving forward? And does this open any doors that might have been closed previously?

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

Yes, Zach. So great question. I'm going to throw it over to Jeremy in a second. But what I would tell you is investment grade not only gives us some incremental pricing power, incremental financial flexibility, as Jeremy pointed out, but we've seen this at iStar long ago. It really opens a bunch of doors. It makes us more responsive to our customers. It gives us a certainty and the speed of execution. So it is a big deal, and we have definitely been looking forward to being able to deploy it not just financially, but also in our ability to serve our customers. So we do think it's more than just a financial issue. It goes really enterprise-wide, but let me flip it to Jeremy.

Jeremy Fox-Geen ***Safehold Inc. - CFO***

Jay, thank you. I think you said it all there. It's -- we feel very obviously happy. And our investment grade rating enables us to broaden our access to the capital markets. And as you expect, we review forms of financing available to enable us to continue to prudently manage our balance sheet, serve our customers and grow our business.

Zachary D. Silverberg ***Mizuho Securities USA LLC, Research Division - Assistant VP***

Appreciate that. One more for me. Just some of the deals that closed in 4Q. It seems like there was a bit of a bunch of smaller deals. Was this a strategic decision on your part? Or is this just how the cards fell as a result of pandemic? And maybe any color on the perceived differential in pricing as a result of smaller deals?

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

Marcos, I want to throw that one to you.

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

Great question, Zach. So yes, I think they're smaller, but they're still high-quality institutional deals. So if you think about ground leases in and around $30 million, the average sizes, you're talking about $100 million assets. So high-quality sponsors, high-quality markets, you're seeing us continue to push into the multifamily space. As Jeremy noted, 80% of the transaction volume this quarter was in the multi-space. And as we look forward to '21, we're going to continue to push that strategy.

Operator

Our next question comes from Rich Anderson with SMBC.

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

Great quarter. So let me go to the IG question or 2 here first. So I understand it creates flexibility, speed and all those good things, and no one would be complaining about getting the ratings. But does it not also risk your average term on your debt to come down? And how do you manage that? Because obviously, matching assets to liabilities is an important part of the story as well?

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

Sure. I mean, I think we haven't really changed our thought process around the longer-term match funding approach on the liabilities. We can't fill in some of the tenors, we think that's prudent as well. But our goal is to be a long-term borrower, whether it's secured or unsecured, given the duration of our assets. But certainly, the ability to fill in some of the tenors is a good thing. And we're going to see a price advantage here. We'll see it in the revolver. We'll likely see it in our ability to work the sweet spots of the market. And so I think you'll see us continue the same liability strategy, but just be a little more fulsome in how we can think about it and really work just as hard on the liability side as we do on the asset side.

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

Okay. And in terms of how you guys are structured, you kind of had this target of 2 parts debt, 1 part equity. It's not where you are now. But I'm curious how the rating agencies viewed that in context with giving you the rating? Or did -- were they able to see this as a very unique business model and kind of focused more on where you are in the capital stack and the safety metrics and all those things? Did that take significant more precedence in their minds in getting over this hurdle?

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

Jeremy, do you want to take that? I know Brett you worked long and hard with the agencies to give them the long-term business model. So I don't know if you want to fill in some color for Rich.

Jeremy Fox-Geen ***Safehold Inc. - CFO***

Rich, look, I think it's a great question. And as to specifics, I think I have to defer you to the rating agencies and their credit reports that they've either published or will be publishing soon, which detail their thinking on this matter. I mean, the real -- we've shared with them as we have with you and the market as a whole, the way we think about our assets and the way as Jay's just said, the way we think about managing our balance sheet. We've shared with them our target investment criteria. We've shared with them our target capital management criteria and strategy, and this is the conclusion they've come to.

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

Okay. Fair enough. And then last for me. You talked a little bit about the UCA or the CARET in terms of the -- kind of the way you could be compensated or everyone could be compensated if and when that gets monetized. I'm wondering if 2021 will be the year, will you really start to look to ways to get some value out of that $5-plus billion long-term sort of asset or security or whatever you want to call it. Will there be work done to do that and sort of educate the market on that? Or is it still too soon? Is $5 billion-plus still not enough to really start moving hard on that CARET issue?

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

Yes, it is an important part of the value proposition at Safehold, but you've kind of watched us do this. Rich, you've been there from the beginning. You've seen us. First, we had to educate the market and the customer, understand the benefits of ground leases. Then we had to help educate the market on the rental streams, the benefits from the combination of long-term call protection, safety, above-market yields to maturity. 2021 will be the beginning of the education process on the next big piece, which really is this ownership interest that we know we can value today. We can have third parties tell us what's sitting on top of our land in today's dollars. We can tell you generically how fast we think it's going to grow, and we can tell you what most real estate discount rates for diversified institutional portfolios are. So we think all the building blocks are there, but there will be an education process. Just like we went through on the customer side and on the cash flow side. We think this is sort of the third leg of the stool, but 2021 is the starting point. We've said in the past, until we get big enough and diversified enough, we'll just track it for folks. We've been doing that for almost 3, 4 years now. We think crossing the $5 billion mark is sort of a milestone that now lets us really show tangibly what we think is the next big piece of the puzzle.

Operator

Our next question comes from Nate Crossett with Berenberg.

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

I was wondering if you guys can give some color on what the current pipeline looks like. I think last quarter, you've put your letters of intent in the deck, and I didn't see anything this time. So I'm just curious what's under LOI now, if anything? And I know you guys don't give formal guidance, but what's kind of your expectation for transaction volumes, I guess, at least in the first half of this year?

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

Marcos, do you want to take that one?

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

Sure. So as you guys know, historically, the business has been relatively lumpy with large transactions periodically occurring and driving a specific quarter's volume. And so we've stated that we look to double our portfolio over the next 3 years. And internally, I would tell you, we'd be disappointed if we didn't hit that target.

With respect to the pipeline, legging off of Q4, we feel really optimistic about the growth prospects in the first half of this year and overall in '21.

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

Okay. And is most of it still coming from multifamily? Or are you seeing some more opportunities from office and even hotel?

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

Yes. We're continuing to drive in the multifamily space, and we're starting to see opportunities in the office and hospitality space selectively.

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

Okay. What about -- maybe you can just comment on competition. We've seen a couple of other funds pop up in the last few months. Just curious to get your guys' thoughts there. Obviously, it's a really big opportunity and is enough for probably everybody to play. But are you seeing any type of competition pressure when you're competing, I guess, for transactions?

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

Well, I'll take that one, Nate. I think when we created this business 4 years ago, the view was we wanted to become a mainstream part of the commercial real estate market, just like net lease have become. And so we always envisioned it as being a very large regular way part of the business. So new entrants spreading the gospel and making it part of that mainstream component of how people think about capitalizing new deals is the natural evolution that we expected to see and frankly, we need to see to know that we succeeded in making this what it should be, which is a valuable tool for owners around the country. The truth is we haven't seen a lot of competition in the past. We think people are starting to understand how we do, what we do. But I would tell you what they're shooting at is probably what we looked at a year ago. And you'll see us continue to be the innovator in the field and bring out ideas that bring this new, more efficient capital to more places in the country and to more owners, developers and sponsors. And so I think the next natural leg here is more and more adoption by the marketplace of the modern ground lease as a value-enhancing tool. Further innovation and expansion by us, certainly, the investment-grade ratings give us the chance to do that even more quickly. And then to other people trying to fill in where we can't be, and we're certainly fine with that. And we think actually having others show the benefits if they do it the right way. And if they don't make the mistakes of the past, it will all be a good thing.

Operator

Our next question comes from Caitlin Burrows with Goldman Sachs.

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

Maybe just looking back to the 4Q acquisitions, could you go through what were some of the events that drove those? Whether it was properties being sold or otherwise? And what made them a good fit for Safehold?

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

Marcos, take that one?

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

Sure. Caitlin, so most of these were based on either a recapitalization, refinance or a sale. If you look at the 13 transactions that we closed, 5 were with existing clients. So 8 of those were, I call it, organically sourced versus repeat client business. If you look at the year overall of the 21 transactions we closed, 3 of those were marketed ground leases. So 18 of them were organically sourced by the team.

And we see that sort of trend continuing. As I mentioned before, we're really pushing on the multifamily space. We're seeing a lot of traction in the Sunbelt markets, selectively looking at office and hospitality, really, really focused on quality and long-term stability of the markets. So I think you'll see a lot of similarities in Q1, Q2 from what we accomplished in Q4.

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

Got it. And I know somebody kind of already asked about this before. But in terms of the volumes going forward, I know you just mentioned the similarity going forward, but I think you might have been talking about type, not necessarily volume. So I guess anything else you can add in terms of -- I mean, looking historically, the volume of acquisitions that you guys have made has been volatile. So do you think going forward that what you achieved in the fourth quarter could be indicative of some sort of normal? Or is it really hard to have a normal and we could continue to see the volatility that we've seen over the past few quarters?

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

Yes. I think you're going to see some of that quarter-to-quarter volatility. These large transactions that we pursue and have in our pipeline will hit here and there. I think the bogey we just put out there, which is trying to double our business over the next 3 years, is a good way to think of that. And I just want to make it clear, we'd be disappointed if we didn't hit that target.

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

Got it. Okay. And then maybe just moving topics to the G&A side. I guess if iStar wasn't managing Safehold, could you give some context to what the cost to Safehold would be? Or if that's not really the right way to think about it because we're not there yet? When you think about the G&A load longer term, when the contract expires in 2023, are you yet thinking about the impact that could have to stakeholder, do you expect it to just renew? Or how should we and investors be thinking about that?

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

Let me just talk about the sort of the contract and some of the dynamics there and then Jeremy can fill in any things I miss. The view here was we're building a very long-term business. To give it maximum ramping scale potential, we've used all the resources we could from iStar. Primarily on the growth side, as you know, asset managing ground leases is not a large expense item. There's tremendous operating leverage on that side of the business. But having the scale and scope of iStar has been really helpful getting Safehold to where it is today. As Safehold scales, though, the ideas we've shared with the market is somewhere probably as assets approach $5 billion, you start to see a different dynamic. But our contract is a long-term contract, and it has a long tail. It certainly could have some provisions in it, but we're not really looking at '23 as the contract, but we do think as we hit about $5 billion in assets at Safehold. We've said, we and iStar will look at the architecture to see if there's a way to maximize value even further. We love the fact that it's one of our largest shareholders. IStar is perfectly aligned, anything that makes the share price higher, it benefits them as well. So we think it's going to be a good time to relook at the whole architecture.

We have been the beneficiaries of being able to take 10%, 20%, 30% of somebody's time at iStar and not have to pay for the whole load because they've got other assets that they're working on in the iStar universe. I think eventually, we will be able to give you sort of a FTE number for what it takes to grow this business. And then is likely to be a much smaller number to actually manage the existing assets. But I think we're still in that growth spurt, Caitlin, were to tell you what the stabilized number is. We'd be guessing a little bit too much, but we certainly think Safehold is growing in scale and some point in the future, the resource allocation will be looked at, and we'll come up with a good decision.

Jeremy, I don't know if I missed anything.

Jeremy Fox-Geen ***Safehold Inc. - CFO***

Jay, you covered all of that. Caitlin, you asked specifically about growth. And the only thing I'd add to Jay's highlighting the benefit of our external management is our ability to access that breadth and depth of expertise that would be challenging for us to support right now on a stand-alone basis. But looking forward in the near term, I think we'd expect G&A to continue to grow as the portfolio grows, in part given the management fee and how that's structured. And that said, for 2020, revenue was up 66%, and G&A was up 58%, showing our current positive operating leverage that Jay referred to. And over the medium-term as our portfolio scales, we would continue -- what we would expect to achieve, I think, meaningful operating leverage over those expenses that are the management contract.

Operator

Our next question comes from Anthony Paolone with JPMorgan.

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

My first question is on the yields in the quarter came down a little bit. And I was wondering if that's more a function of either the market or the skew toward multifamily or do smaller deals come with lower yields? I'm just trying to understand if there's any correlations in there that drove that?

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

Yes. Just at a high level, remember, we're trying to generate spreads over a base rate. Base rates throughout the year were coming down. So we were giving our customers the benefit of our business model, which is we want to make a spread to our cost of funds. As our cost of funds goes lower and we can actually price more tightly for our customers. So that's sort of a generic answer. Marcos, you can talk about sort of the dynamic with the multifamily space in particular. But I think top line, as long as we maintain those spreads, we think we're creating significant value.

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

Yes. Tony, I think we're still consistent with what we've been able to accomplish, and our underwritten yields are north of a 5, and that we acquired one ground lease that has a short duration. It has a lower yield. So we're still getting ROEs north of 5, still accomplishing our spread. So I don't think it has to do with anything specific to an asset class or a market or a deal size.

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

Okay. But is there -- when you originate these, is there some sort of a pricing grid where property type plays a role, perhaps proceeds like in net lease, where if you went 30% of total property value versus 40, does that change sort of pricing? Like is that how this is done or no?

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

Yes. I mean we try to be pretty scientific about this. It's a function of asset class, so we try to make excess spread on assets that are perceived as riskier. Maybe our attachment point is a little bit lower in the capital stack. But we're also trying to take a long-term view. And so over the short term, there may be some volatility in office and hospitality. But we think over the long term, these are still fantastic pieces of land and buildings to be a part of.

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

Okay. And then on the debt side, with getting the unsecured credit rating, I mean, does that necessarily mean that you have to go out with, say, the more traditional 10-year type fixed rate bond? Or can you be creative in that market and do something either longer duration or which or with a ratcheted coupon or something like you've been able to do on the secured side?

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

Anthony, you know we're not going to be conventional, right?

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

I know you will, but maybe the market will want you to be, I don't know.

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

Yes. Like, we think there's a place for 10s, 20s, 30s, 40s. And certainly, our capital markets team has been at the front end of innovating on this stuff. So your first debut issue has to probably be a little more regular way. But after that, once people understand, just as we saw in the secured market, the quality, the diversity, the safety embedded in just our basic business model. We'll be talking to investors and sharing ways we can work together to actually expand our market, serve our customers better, which, in turn, only makes us bigger and stronger for our creditors. So I think it's been a really good process on the secured side. We would expect the same sort of dynamic on the unsecured side. But we will begin that engagement as quickly as possible. The team worked really hard with the agencies where they're walking them through everything Jeremy said, the past, the present and the future. And certainly, our future outlook was if we cannot be a long-term unsecured investment-grade borrower in the deepest -- one of the deepest markets in the entire capital world, that's going to give us flexibility to really fine-tune our business and we think it's a big competitive advantage.

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

Okay. And then just last one for me on the UCA or CARET, is the idea there in terms of thinking about trying to demonstrate that value or monetize it that you would go into the market in some way and say, you're going to get these assets in 80 or 90 years, and they'll be worth X what would you pay for it today based on some discount rate and in the meantime, Safe retains the lease stream. Is that like the ideas?

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

We're going to help really simplify this for folks so they can understand kind of just like the bond math we went through, which is it's a very long-term flow of cash over a 99-year period, but it's a relatively simple thing to see what the net present value of that is today. We think this is not that much different. We just have to help people see given our scale, now given our diversity, given our growth rates, how to put that into a simple equation and say, what is something like that worth in the world? And we think there are a number of comparable things that people value every day, and this is an extraordinarily high-quality portfolio of institutional real estate in top markets with great sponsorship. All the tools to value it do exist. I think we just have to help people kind of sit down and show them the inputs and show them why those inputs are relatively straightforward and what the output is from that. We certainly believe when we got the scale, that this is something that we'd be able to sit down with you and others and share with them, but it hasn't really made sense until we got the scale until we proved out our growth rates. Till it look like a big diversified pool of high-quality real estate around the country, now we think we can start doing that. And it won't happen overnight, and we're not going to force the issue. We know every quarter, and we track the value creation taking place. And we think we've done it long enough now that we can sit with folks and really share with them why we think there's another big leg in the value story building at Safehold.

Operator

Our next question comes from Stephen Laws with Raymond James.

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

You covered a lot. I think a couple of follow-up questions on the 4Q activity as well as the pipeline. So first, with the 13 leases noted, 8 new clients, I think in the past, Jay, you've talked about kind of educating first time borrowers with ground leases. Can you talk about getting those new clients on board repeat business? Is this going to -- as you continue to get more new clients and do additional loans with them at a shorter turnaround time, how should we think about the pipeline building or accelerating as more clients get involved in ground leases?

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

The best thing I can say is the team is highly engaged. We can kind of feel it in our organization. We've been back in the office since September, and you can just feel the energy. So I can tell you from 30,000 feet, we're not just making calls anymore. We're also -- people are coming to us. The client base is growing. But Marcos has a better sense on the ground you can kind of feel it in your fingertips. And sometimes during COVID, it was like there's just no transactions, nothing can happen. We saw that shift after Labor Day, and I'll let him tell you what he's feeling in his fingertips.

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

Thanks, Jay. Yes, the customer education process seems to be shortening somewhat. So it's a combination of the traction over the last 3 years or so. Brand awareness, market awareness, the team's efforts to expand our reach, product expansion. Our simple view is that our solution is perfect for any life cycle of an asset in any transaction form. And I think the market is starting to realize that. I think the great thing about repeat business and what we've seen is once we get that first one done, people come back. These institutions come back. It doesn't mean we necessarily get a deal on the next quarter or even in that year, but they're coming back to us as they're thinking about their capital options, capital solutions. So I would say the amount of flow and transaction volume that we're involved in early on in the process is significantly greater than it was before.

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

Great. And as a follow-up, I guess, a complete understatement, but 2020 certainly wasn't a normal year. When we think about seasonality, things moving back to normal. Can you talk about seasonality in the pipeline as far as deals closing? Are there certain parts of the year that are stronger or weaker? Are there any type of potential tax implications, annual budgeting? Anything that might drive spikes in volume or slow periods that we need to consider as we forecast portfolio growth?

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

2020 is such an anomaly. So we were working really, really hard to lay the groundwork for Q4 in '21. But the market just paused for a, call it, a 5- to 6-month period effectively on the transaction side. So I hope we're through that. I don't see that continuing based on the pulse we have. I think the choppiness you'll see from us is the larger transactions. We did 13 and $330 million in Q4. You add one large deal to that mix, and it's an entirely different quarter. And I think you'll start to see that evolution over the coming years.

Operator

Our next question comes from Rich Anderson with SMBC.

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

I just had a quick follow-up or 2, if you don't mind. So I just got an e-mail. Effortless Oceanfront Living, Asbury Ocean Club about that, sounds lovely. So the post-pandemic era, do you feel like there's a change in behaviors of your -- kind of your outreach to clients, customers that may be this period of time has caused them to look more finely upon your offering? Or is that too much of a stretch?

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

I can't really speak to that. Marcos, are you feeling anything like that?

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

I think it'd be speculation, Rich. Yes, I think we've done the hard work to grow market awareness. And I think there is a larger market adoption, but I can't pinpoint it to anything specific.

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

Okay. And then the question earlier about G&A, I thought I'd just -- I don't want to hold you to it, but you get to a point where you've scaled the company. Are you saying that there's at least maybe a possibility that Safe could one day be an internally managed entity? Or were you not saying that given the opportunity set that it still exists in Star's existence and the different things that you -- that Star can offer to Safe? Does that have a longer tail to it than? Or could you actually see the 2 companies completely sort of separate from one another?

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

Yes. I think what we've said in the past is we're certainly open to whatever maximizes value. And we certainly never foreclose the possibility that the better structure would be an internalized structure. So, it was a bit of a moot point when we were sort of ramping up. We thought there was only one optimal way to do that, which was to lean in with everything we had. And that really required us to have the scale and scope of an iStar soldiers on the ground all over the country. But as we scale, we've said historically, we will relook at whether that is the best architecture for unlocking value. I think we're still a little bit early in that conversation, Rich. We still feel like we're at the starting line here in what we hope to be a very, very big business. But again, as we get to the kind of that $5 billion of ground leases under Safehold's umbrella, that would be a good time to start looking again and saying, okay, now let's see if there's a better way to do this. It will have the scale and scope at that point to make it a fruitful conversation. I can't tell you what the outcome would be, but certainly open to the possibility.

Operator

(Operator Instructions) Our next question comes from Jade Rahmani with KBW.

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

I wanted to ask about the competitive landscapes. Have seen some new entrants making announcements, firms like Ares as well as Montgomery Street Partners. And I believe also some debt funds are studying the sector. Are you seeing any changes in competitive dynamics in the market? And how do you expect this to play out?

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

Well, we certainly thought, Jade, that the [competition] (corrected by company after the call) would come at some point. We've laid the tracks down. We've shown why this is a capital solution that probably should have been around, and we continue to optimize it and innovate it. So we definitely expect others to join in. And as I said, our goal is to make this a regularly part of the business in a $7 trillion capital industry. So there certainly should be more than 1 or 2 players. But I think we've established the business. We created a lot of the nomenclature, a lot of the ideas behind it. And I think people are seeing the logic behind it and understanding this is something that makes sense in the entire commercial real estate ecosystem. Haven't seen that competition, but let's just play it out. Eventually, there will be others, and they will begin to sit in front of our customers, not just -- I think Marcos said, the ones that are get marketed. We certainly expect there to be others showing up at the table, the direct and organic originations. It's going to take them quite a bit of time to generate those. But this is an evolving business. We're in the early innings. So as long as they don't do anything dumb or muck up the works by going back to the old ground lease mistakes, we think there's room for plenty of folks here. But we do hope that others understand the lessons of the past that we spent years studying to make sure that when we built the modern ground lease, when we showed its benefits to customers, that is the path. And if you start doing ground leases that are too big, or you think ground leases that are too expensive, you're going to go right back in the mud again. So our goal is to be the leader to really show the path and if others can help us expand the market, great. But our only hope is that they don't make the same kind of mistakes that really pushed ground leases off to the side for a long time.

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

I mean, in terms of your views on real estate, have you just changed all your attitude toward the office sector? JLL's fourth quarter report, not overly surprising, showed record decline in leasing demand and Collier's research expects a 15% decline post the pandemic in long-term office demand with gateway markets, the so-called super cities being most adversely impacted. Are you changing the ways in which you target asset classes, expect the portfolio mix to evolve and underwrite office deals?

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

Yes, there's certainly some cautionary signs out there, Jade. But when we think about this with our long-term hats on, we go back to history and study the ups and downs of these markets. And downturns actually are the seeds for the rebirths. And so if there is a downturn and rents come down. And if things become more affordable and apartments are more affordable and there's more space to be creative inside of, that destruction is the very start of the next rebirth of these major cities. So it takes great leadership to shorten that time frame and really accelerate it. We've seen that in cities. So again, with our long-term hat on and hopefully, 35%, 40% GLTVs, we try to help in that process. We shouldn't be the ones actually and won't put crosshairs on it. But you're right, I think there'll be some really tough adjustments. I think there will have to be readaptation but we already see that starting. You can never count out real estate developers now. We're seeing lots of requests for new construction, taking advantage of what people see as the next wave of things, clients want and tenants want and travelers want. And so this is an industry that constantly evolves and constantly changes itself and particularly, the gateway cities that path of destruction and rebirth is one we've seen dozens of times over the last 100 years, and we'll probably see it again going forward. So nothing makes us go away. We'll never do another office deal?... That is not our mindset. We'll change our underwriting. We'll change how we think about the proper size and pricing, but none of those reports, at least at this point, tell us that office has gone away and not coming back ever.

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

Okay. And just lastly, on CARET or unrealized capital appreciation. Is it your expectation that in most ground leases at maturity, typically, what happens is the ground rent goes through a reset or otherwise, there's some kind of exchange or value. And so generally speaking, the ground lease would be renewed. So that just based on today's values, you wouldn't really achieve the full unrealized capital appreciation that is being shown, you would achieve something less in order to incent the building owner to stay in the deal.

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

I think there are a lot of ways to envision that. It's a longer call than we should do here, but we have thought through and studied how it has worked in the past. And if you have somebody's doing a great job, creating value in a building, you're right. There's no reason not to work with them and find a great capital solution that reflects the value proposition each one is looking at. But that's not the only case. There could be cases where there's a better use and a better opportunity. And I think we're going to demonstrate again and again, as we have in the finance world, but we will innovate, we will be creative, we support people who create lots of value. And our view is this is a very long business with repeat customers being a core part of it. So I think the scenario you're outlining is definitely a possibility, but we can share more of our thoughts off-line, Jade, because I think it's a good question. It's one we've given enormous thought to how do you build a customer business that allows building owners to do what they do best... lease, manage, design, market. And ones who do that well should be given the chance to continue to do it.

Operator

Mr. Fooks, we have no further questions.

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

Okay. Great. Really appreciate the discussion. If anyone should have any additional questions on today's earnings release, please feel free to just contact me directly. Tiffany, would you give the conference call replay instructions again? Thanks.

Operator

Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern Time today through February 25 at midnight. You may access the AT&T executive replay system at any time by dialing 1 (866) 207-1041 and entering access code 1216793. Those numbers again are 1 (866) 207-1041, and access code of 1216793. That does conclude our conference for today. Thank you for your participation and using AT&T conferencing service. You may now disconnect.