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Q1 2023 Safehold Inc Earnings Call

EVENT DATE/TIME: APRIL 26, 2023 / 9:00PM GMT

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PRESENTATION

Operator

Good afternoon, and welcome to Safehold's First 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 afternoon, 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 afternoon, we plan to walk through a presentation that details our first 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 8:00 p.m. Eastern Time today. The dial-in for the replay is (877) 481-4010 with a confirmation code of 48222.

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 thanks to everyone joining us today. The first quarter for Safehold was mostly about getting our merger closed and setting the company up to continue building its leadership position in the modern ground lease industry. Safehold continues to offer investors a unique way to participate in an asset class that has historically created significant wealth, and we can now do so with improved liquidity and an expanded shareholder base.

While the merger was a positive development, the challenging market backdrop remained a drag on transaction activity in real estate as a whole and consequently, on transaction activity in the ground lease sector. On the other hand, with capital availability becoming more limited and debt maturity is a growing concern, many owners are beginning to appreciate the value of the very long-term low-cost capital that a Safehold ground lease provides. And we look forward to being a part of the solutions the real estate markets needs now, to help lower its risk profile and to create more resilient capital structures in the future.

Our primary goal now must be to get the value of our ground lease portfolio and our go-forward platform more widely understood. We have three key areas of focus: one, our growth potential and the very large addressable market opportunity; two, our long-term low-risk contractual cash flows with inflation kickers that generate superior returns to comparable long-term low-risk alternatives; and three, the sizable capital appreciation growing inside our portfolio, which we separate out and highlight through the sale of units in Caret.

Adding in a strong balance sheet with attractive long-term debt, we believe the current price of our shares is well below the intrinsic value of our business, and we will work to make that readily apparent as the business begins to expand again and markets stabilize.

And with that background, let me turn it over to Marcos and Brett to recap the quarter. Marcos?

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

Thank you, Jay, and good evening, everyone. With the merger behind us and a more investor-friendly corporate architecture now in place, Safehold is well positioned for its next phase of growth as we navigate the volatile macro backdrop. In a moment, we'll touch upon what we're seeing in the transaction market, which has slowed to a crawl. But first, I want to recap the benefits of our recently completed merger.

Let's begin on Slide 4:

Internalizing the platform created several important outcomes for the company. First, we brought management and all the competitive advantages created over the last 6 years in-house. Second, we replaced Safehold's external cost structure, which scaled upwards based on portfolio size with a stable cost structure that should provide operating leverage over time as we scale. Third, we improved Safehold's overall investor profile for both equity and debt investors. Since the merger, SAFE's free float has more than doubled, and we've also been placed on positive outlook at both Moody's and Fitch, putting us one step away from breaking into the single "A" ratings category.

Additionally, we are pleased to officially welcome MSD Partners as an investor in the business as one of Safehold's largest common shareholders and the largest third-party investor in Caret. We're excited to have formed a strong partnership with such a talented organization.

On the capital front, we completed the previously announced round 2 sale of Caret units to a group of investors led by MSD, raising $24.5 million at a $2 billion equity value for Caret. And subsequent to quarter end, we announced a $500 million joint venture with the sovereign wealth fund partner to pursue ground lease investment opportunities. We expect to consolidate the joint venture's investments on our balance sheet. And as the general partner in the venture, we'll earn a management fee on invested equity with an opportunity for additional promote upside in the future. This partnership diversifies our capital sources in this dislocated and uncertain market environment.

Regarding liquidity, at the end of the quarter, our cash and credit facility availability stood at $900 million. And with that, let me spend some time on customer engagement in Q1 and our portfolio. Overall transaction volume remains muted across the commercial real estate market. Just as we started seeing green shoots in early Q1, with pockets of deal flow emerging, the ensuing bank challenges pulled liquidity from the markets and derail sentiment. As a result, our customers put their deal pursuit efforts on hold. As an example, 2 multifamily transactions that we were in closing process did not consummate as sponsors walked from these transactions. As disappointing as it was, to have these opportunities pushed out in the short-term, once liquidity reemerges and transaction volume picks back up, we'll be ready to pursue the transactions out there and available, utilizing our liquidity on hand, along with the capital from our new joint venture.

Looking at UCA during the first quarter, we had over 40% of our portfolio revalued by CBRE. As we have stated, our assets are appraised on a rolling annual basis. And in the coming quarters, we expect to see certain properties appraised at a lower value given the market environment. As a result, GLTV on the portfolio increased to 42% and rent coverage remained strong at 3.9x. We remain insulated from the noise occurring at the equity and debt levels and believe that over long periods of time, our portfolio of well-located ground lease investments will be the beneficiary of the highest and best use dynamics in real estate and other economic forces that ultimately accrue to our company. We're steadfast in our belief that ground leases present one of the best risk-adjusted opportunities in the real estate markets today, and we will be patient as we wait for the markets to open back up.

Slide 5 provides a snapshot of our portfolio growth for the quarter:

In connection with the merger, we made $176 million of new investments, including $115 million loan to Star Holdings and $61 million of investments in the ground lease fund and loan fund vehicles, which reflects iStar's ownership share in those vehicles that SAFE purchased in connection with the merger. We also funded $70 million associated with prior ground lease commitments, and our aggregate ground lease portfolio now stands at approximately $6.2 billion.

The estimated value of the unrealized capital appreciation sitting above our ground leases was approximately $10 billion at quarter end. In total, the UCA portfolio is comprised of approximately 33 million square feet of institutional quality commercial real estate, consisting of over 16,500 units of multifamily, 13.2 million square feet of office, over 5,000 hotel keys and approximately 1.5 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 Asnas ***Safehold Inc. - CFO***

Thank you, Marcos.

Continuing on Slide 6, let me detail our quarterly earnings results:

Revenue was $78.3 million for the first quarter, net income was $4.7 million and earnings per share was $0.07. During the quarter, we earned approximately $2.8 million of percentage rent from our Park Hotels Portfolio related to the full year 2022 performance, which is the most earned over the last few years.

As referenced in past quarters, there were several one-time cash and non-cash charges related to closing the merger that impacted the bottom line totaling approximately $21.6 million. These charges are non-recurring and not indicative of run rate earnings for the company. These items include $9.4 million of one-time expenses and reserves primarily related to legal, tax, accounting and advisors, $6.9 million of one-time transfer taxes and $5.3 million of one-time G&A expense, primarily related to the termination of pre-existing incentive plans at iStar plus other miscellaneous items.

Excluding those one-time items, net income for the first quarter was $26.3 million and earnings per share was $0.41.

The primary reason for the year-over-year decline in earnings relates to our increased interest expense on our outstanding borrowings under our revolving credit facility, which pays interest at adjusted SOFR plus 100 basis points. While we put approximately $400 million of long-term hedges in place over the last few quarters to protect future financings that will term out these revolver borrowings, we faced higher interest charges from market rates in the short-term. We recently executed $500 million floating to fixed swaps, taking SOFR to approximately 3%, which will mitigate some of the adverse near-term earnings effects stemming from the substantial Fed rate hikes that have occurred.

On Slide 7, we detail our portfolio yields:

The left side of the page represents in-place cash and GAAP yields. The current portfolio generates a cash yield of 3.4% and an annualized yield of 5.2%, which presumes a 0% inflationary environment for the duration of our ground leases - in other words, any future rent based on CPI only escalators, percentage rent or fair market value resets is not included.

The right side of the page looks at our yield on an economic basis, including today's market-based Federal Reserve long-term inflation expectation of 2.26% applied to the previously mentioned variable contractual base rent in addition to CPI lookbacks where applicable. This market expectation produces an inflation adjusted yield of 5.7%.

And lastly, we are also beginning to track Caret adjusted yield, which we believe is a helpful way to illustrate the impact of the value of the embedded capital appreciation in our portfolio. We calculate this metric by simply subtracting Safehold's 82% ownership of Caret using its latest $2 billion valuation from today's ground lease portfolio basis. This lower basis increases the inflation adjusted yield to approximately 7.2%. We will continue to track this metric moving forward as another way to see the relationship between our long-term cash flows and the value of Caret.

Moving to Slide 8, we're now showing a more granular geographic breakdown of our portfolio by market and property type:

The right side of the page includes information on the top 10 exposures as we believe that our emphasis on top 30 MSAs in support of the long-term thesis that ground leases will benefit from highest and best use over time. Today, approximately 70% of gross book value comprised of 68 of our 131 ground leases, is diversified across the top 10 markets listed.

On the bottom of the slide, we further underscore the diversification by count and gross book value of the portfolio by underlying property type across all regions. Notably, we have made significant inroads within the multifamily space across the country, which now represents over 50% of the portfolio by count.

Slide 9 provides an overview of our capital structure:

At the end of the first quarter, we had approximately $4.2 billion of debt comprised of $1.5 billion of unsecured notes, $1.5 billion of non-recourse secured debt, $970 million 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 23 years, and we have no corporate maturities due until 2026, which is our unsecured revolver.

As previously mentioned, during the quarter we closed on a $500 million incremental unsecured revolver, which increased our total revolving credit lines to $1.85 billion. At quarter end, we had approximately $900 million of cash and credit facility availability.

Additionally, we are pleased to have received the change in outlook to Positive from Fitch during the quarter. Moody's had previously placed us on Positive Outlook when the merger was announced last August. We remain committed to achieving a ratings upgrade and our merger closing and other actions have brought us one step closer to an "A" rating.

We are levered 1.9x on a total debt-to-book equity basis. The effective interest rate on permanent debt is 3.8%, which is a 133 basis point spread to the 5.2% annualized yield on our portfolio. And the portfolio's cash interest rate on permanent debt is 3.3%, which is a 16 basis point spread to the 3.4% annualized cash yield.

Overall, we believe that our capital structure is a significantly underappreciated component of the Company's overall value story. We have 23-years of weighted average term and would have significantly below market cost, with no near-term maturities along with significant ratings momentum. We believe that unique combination, especially in a time of general market uncertainty, should be viewed as an asset by stakeholders evaluating our Company.

And lastly, on Slide 10, we provide an update on Caret:

In connection with the merger closing, MSD Partners and the other Series "B" investors officially closed on their commitments to invest approximately $24.5 million into Caret at a $2 billion valuation. Additionally, all of the amendments to Caret's structure which we previously outlined are now effective. We believe these changes make Caret an overall more attractive and investable component of value for future investors.

In conclusion, this quarter marks a significant milestone for the Company in an otherwise challenged market. We are excited to put the merger process behind us, and get back to conversations with stakeholders in the bright future of the business, and the significant sum-of-the-parts value components that we believe are currently underappreciated in the market.

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

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

Thanks, Brett. A lot of detail there. So why don't we go ahead and open it up for questions, Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Nate Crossett with BNP Paribas.

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

You mentioned there was a couple of deals in the quarter that were pushed. I'm just curious, what were the size of those? Is there a chance that maybe they could close in Q2? Maybe you can also just speak to the activity outside of those deals. What sectors are you seeing activity right now? And if you were to do deals, what does the current pricing look like?

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

Nate, it's Marcos. So on those 2 specific transactions, there were over $100 million in ground lease deployment for us. I think sitting here today, I don't think our expectation is that those transactions get revived given this environment. Most of the engagement that the team's had is within the multifamily space. We've certainly gotten a fair amount of inbounds on the office side. We have a hard time making sense of some of the valuations in that asset class. So it's been a little bit difficult for us. But I think over the longer term, we remain optimistic about some of the growth in the multifamily space.

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

Okay. Maybe just on the JV, can you just tell us how it will work? Like how was it decided what goes into the fund? And then I think you mentioned there's a management fee. I'm just curious what the fee is?

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

Sure. Our expectation is everything that we do going forward that hasn't already been committed to, SAFE will go into this venture. So think about it as the next $500 million of transactions, of which we will fund approximately 55% of, will go into this venture. We'll receive a base management fee of 25 basis points for the first 5 years, which steps down to 15 basis points thereafter. And we have a promote structure of 15 over 9 with a minimum multiple protection of 1.275x.

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

Okay. That's helpful. Maybe just one for Brett on the financing side, just curious where you guys could raise 30-year money today? And then also, what do the agencies want to see to have you be "A"-rated?

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

Nate, yes, I think from what we've been able to accomplish over the last, call it a couple of years since we've received investment-grade ratings as we've been able to access both the public and private markets. So I think a diversified set of capital sources, especially in this market, is important. Closing the merger was the big catalyst. I think since that action has been completed, making sure that we maintain our leverage targets and creating that access to capital, letting all the good work that's been done here over the last 9 months since we announced the merger unfold here. Obviously, credit spreads are somewhat volatile in this market. So we could look to utilize different tenors, different structures in different markets, but feel like the cost of debt capital we'll find the right pocket to raise, and it's accretive versus the yields that we could achieve in today's marketplace.

Operator

The next question comes from Anthony Paolone with J.P. Morgan.

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

Just first one, just on the $70 million that you funded in the first quarter itself, can you give us the cash and GAAP yields on those?

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

Sure. The cash yields was a low to mid 3%. It's about 3.3%, and the inflation adjusted yields, which we quoted in our materials is 5.5%.

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

Okay. Great. And then can you talk about just like -- I know some of the deals dropped out to maybe price discovery is more challenging right now, but just kind of where are you pricing transactions? Or where is that discussion today? And has there been any change in terms of how you think of what is typically, I think, historically been 35% to 40% of the total property, there's been any change on that front?

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

Tony, no change on kind of our core metrics going in. So we're still trying to get into that 35% to 40% value range, which obviously has shifted over the last 12 months, and there's a fair amount of debate about what value is today. Pricing today, I think our cash yields are consistent with where we've been recently, so call it, low-4s to mid-4s on a cash basis, mid-6s ROA's almost high-6s on an inflation-adjusted basis.

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

Okay. And then on the financing side, I mean, I guess, just how should we think about that strategy in the joint venture? I guess, will there just be property level debt within the venture? And just trying to think about how that rolls up to thinking about doing unsecured bonds and things like that at the corporate level for you?

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

So the venture is going to be unlevered. And so we'll fund our share with a mix of equity and debt, but we don't intend to put asset level financing. The intent there is to maintain as much flexibility going forward with the potential exit of the venture.

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

Got it. Okay. And so I mean, where do you see your most attractive debt funding costs right now? Would it be line, straight bonds, some of those ratcheted deals you guys have done in the past? Like, I mean, how are you thinking about what's most efficient at the moment?

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

Tony, it's Brett. Yes. All those options are available to us, as previously mentioned, when looking at where our credit spreads are at the moment, lots of issuers are trying to find the right pocket. We're no different. I think when looking at those different structures and tenors, you've seen us continue to build upon what we've done in the past and innovate, whether it be lowering our cash rate, lowering our overall effective coupon, utilizing different tenors, those are all available options to us. So again, to Marcos' comments, which was low to mid-4 cash yields, produce low to mid 6% effective yields, plus CPI kicker, plus Caret. That's still accretive to today's levels. And the last point I'll make is, over the last few quarters, we've been very proactive in hedging our interest rate risk. So those long-term treasury locks as well as creating floating for fixed swaps for the line will help mitigate any interest expense and headline coupon going forward. So we think that's a net positive to our bottom line.

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

Tony, just to add to that, we just got out of this merger, I think, we all believe that we're taking the steps to hopefully get to the single "A" rating in the future. And I think the overall volatility, I look at our spreads one day and then suddenly you wake up the next morning and they're 25 to 50 basis points wider. And so I think we're going to continue the dialogue, continue to tell the story and be opportunistic on the debt side. I think we are steadfast in our belief that the assets that we're creating in this environment, once the markets open up, are going to be great significant value long-term for the business.

Operator

The next question comes from Haendel St. Juste with Mizuho.

Ravi Vijay Vaidya ***Mizuho Securities USA LLC, Research Division - VP***

This is Ravi Vaidya on the line for Haendel. I hope you guys are doing well. When you look at your geographical footprint, are there any markets that you're looking to increase exposure in or aim that you're looking to trim? Are there any markets you're seeing -- where you're seeing fortuity attractive pricing right now?

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

We have a long-term objective of continuing to diversify our portfolio, both by market and asset class. I think that you've seen us push into multifamily pretty hard and change that percentage of our portfolio pretty dramatically over the last few years. I think we want to sort of achieve that same sort of dynamic across markets. So I'd certainly like some more exposure in the Southeast, certainly like, some more exposure up in Boston. The reality is some of the size of the transactions and some of the gateway cities are just so large, so multifamily transaction in New York City versus a multifamily transaction in Atlanta is dramatically different. And so we're going to continue to sort of diversify our portfolio over a long period of time. We're not really seeing sort of a pricing difference by market. We do see a pricing difference by asset class. Again, multi will probably be the tightest we will do. And to the extent, we are actually going to look at office or hospitality, it will be wider than our kind of core multifamily pricing.

Ravi Vijay Vaidya ***Mizuho Securities USA LLC, Research Division - VP***

Got it. That's helpful. Just one more here. Can you discuss the CPI-linked nature of the ground leases? And what is the average in-place escalator across the control today?

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

So I believe it is, Brett correct me, if I'm wrong. It's about 96% of our portfolio has some sort of inflation protection. But our core construct is every 10 years on a SAFE ground lease. We look back at inflation over that period of time and catch up. And so when you look at our portfolio, I believe the weighted average number is approximately 3.2%. Is that right, Brett?

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

Yes, that's right.

Operator

The next question comes from Rich Anderson with SMBC.

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

So it was mentioned that the JV, the next $500 million will go to that arrangement. But I'm wondering, is that a handshake or an obligation on the part of you guys?

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

It's an obligation.

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

Okay. And on the revised down valuation of UCA, so I understand, it went from $10.5 billion to $10 billion, and that was based on 40% of the portfolio being looked at by CBRE. Is that correct?

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

That's correct.

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

Okay. So if you were to extrapolate 40% to 100%, then maybe perhaps the number could be lower, understanding this is not going to be a linear thing over the next 100 years. I just want to make sure I understood it.

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

You got it.

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

Okay. And so my question around that is, do you have a sort of a watch list of the assets to the top of your ground leases here? Is there any that are jumping out as could -- it could be a decay or anything, something maybe not that dramatic, but something where you're kind of concerned about value is not just declining, but perhaps going away?

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

Yes, Rich, you know the drill... the markets get volatile, you start to hear conversations between leasehold lenders and borrowers. That process is, we can tell is underway in a number of fronts. By the time it gets to us, they've had to exhaust both their equity and debt conversations. So we're probably well away from that, but there's no question there are markets and assets right now that are going through a pretty significant shift in valuation. And so we're going to get prepared to see how these things shake out. We may have a new customer, unfortunately, that's not something that bothers us, but we want to be prepared for that. So we'll do the preparatory work, go through the portfolio. We've got a great asset management team. At least at this point, we think our underwriting will hold through thick and thin, but these are the kind of markets you want to be ahead of that curve.

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

And just to add to that, Rich, there's no current issues in the portfolio at all. Jay is just talking about us being prudent and getting ready to the extent something could occur.

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

Yes, sure. Manhattan is the biggest part of your portfolio, no surprise there, expensive market. Is there anything about sort of the relative offering that you provide? Because I would imagine Manhattan is probably the worst example of legacy ground leases on the planet maybe. And so you come in and you offer something much cleaner for customers. Is that a marketing tool that's sort of specific to markets and perhaps explains why you've had some success in Manhattan? Or am I may be thinking about it too much?

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

I think the history of Manhattan and ground leases, there have been a fair amount of them over time. So there were some acceptance. So if you think about the arc of our company, it was a little bit easier to crack Manhattan early on, and it was much harder to crack the Atlanta and the DCs where those ground leases weren't as prevalent. And so -- what we've seen as we get into those other markets, and we have some take-up, you end up with this network effect and more traction. So I think it was just the fact that there was some history with ground leases in Manhattan before.

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

Yes. Okay. And last for me, and Brett and Pearse try to explain this to me, but I'm going to ask maybe the bigger audience here. What should I take from the 7.2% Caret adjusted yield? What does that number tell me?

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

Yes. I guess, Rich, the easiest way to think about it is the 2 numbers on the left are based on contractual cash flows and no value allocated to Caret's component, i.e., you're really on the left side using 0 inflation assumptions and 0 value of Caret. We don't believe either one of those is a reasonable economic assumption. So the top right gives you an inflation assumption based on the Fed's 30-year expectation, which they publish every month, is it? So we just use what that gives us and reflect that for you to see once you add an inflation what would happen. Likewise, on the bottom right, the Caret adjusted assumes that inflation and allocation to Caret based on the last trade. So with the merger closed, fully flushed out rules, clean trades for Caret, we think it's actually going to become a helpful to track for investors going forward. But the easy way to think about it is the ones on the left assumes 0 assumption, a 0 inflation assumption, 0 value Caret. The right ones show you an economic model with inflation and with the value of the most recent indicated value of Caret extracted from the basis. So it will show you as time goes on, sort of the relationship between the 0 inflation 0 Caret numbers. But for us, economically, we're looking at that right-hand side very carefully as an important measure for us.

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

So you're carving out Caret from the denominator essentially?

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

Exactly.

Operator

Okay. Next question comes from Matthew Howlett with B. Riley.

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

First, just a bigger picture for you, Jamie. The bank lending environment, can you talk a little bit about the dynamic interplay between what the banks will doing in the mortgage market pulling back, assuming tightening credit in your business to ground lease. Is there any sort of long-term impact you see with the bank with one on the banks and potential regulation down the road?

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

Yes. I think as Marcos said, right now, the best functioning market is the multifamily market because you've got the agency backstop on the lending side. Some of the other asset classes don't have the luxury of that kind of liquidity. And so the bank pullback definitely hurts a little bit. And we don't think we've seen the end of it. We're certainly hopeful that some of the steps that have been taken will mitigate the risk. But liquidity is important for real estate. We can't get around that. We've seen transaction activity really fall very materially. And I think until we see transaction activity pick up, liquidity right now is going to be the key variable. It's hard to transact if you don't know exactly where the liquidity of -- and liabilities are going to come from and the banks have played a large role in that, both regional and some of the money center banks.

So I think we've got a period of transition here. I already see some new types of capital moving into the market. It's one of the great things about being part of the largest capital using industry in the marketplace is capital will find its way into this market. The banks have been a big part of that, the Life Co's, CMBS market., they're all adapting to this new market environment, the higher interest rate environment. But one thing has always proven true is eventually liquidity comes back in, transaction activity picks up. And we still believe, and this is really our fundamental thesis, we think ground leases make real estate safer and more resilient long-term. We've seen a lot of examples in our own portfolio, where our customers are really happy. They have long-term predictable capital from us with no maturity. And we think that should become an even stronger selling card coming out of this sort of liquidity hiccup.

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

Do you think you could see an increased demand for ground leases given banks may not be as eager to lend and higher LTVs?

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

I think the proof is in the pudding. We think our capital structures are definitely more resilient. And I think it will allow more owners to see that, not having debt maturing, not having to work through some of the issues that I know some of the faster money creates. So we definitely think longer-term -- low-cost long-term money is really powerful. And so yes, I do think more owners will seek that out. But we need a functioning credit market. We need liquidity from both the equity side of the world and the lending side of the world to make those new capital structures. So we'd like to see the market stabilize here sooner rather than later.

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

Great. Next question, just on -- could you address, do you think any compile that stays in a registration of stock at the new iStar. I just could you address both those filings with the administrative in nature and what's your investors think of sort of the holdings at the legacy star?

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

Matt, it's Brett. Yes, I think this was really to make sure that with the merger now complete, that we get a new shelf and get a new ATM in place, couldn't roll the existing one over. So this is mechanical in nature. And obviously, we can use it over the coming years. And then from a Star Holdings perspective, as you know, they own 13.5 million shares of SAFE. And then any sales in the future would need to be approved by the Safehold Board as well. So there are lenders on that, and there's also a 9-month lockup on the Star holding side of those SAFE shares.

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

Got you. And just on the last question on next quarter, we'll see the first quarter of the full internalize. Is there sort of a high level -- what could generally on a high-level basis, the impact of the management agreement you're beginning in, the interest? I mean sort of net-net, is it a -- if you saying positive every quarter in terms of the impact of the merger and the fees you're collecting and the interest expense you're paying?

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

Yes. I think there's some noise in the first quarter, as you mentioned, from one-time cash and non-cash expenses, moving forward without the external management structure of a management fee and reimbursables and other costs. The new standalone structure will be helpful as time passes. Net-net, you might see a couple of million-dollar pickup from the first quarter to the second quarter. And then over time, as we said in the past, there should be operating leverage that this cost structure, we believe that this is the cost structure that can work for an asset-based size that is a lot larger. So I think as quarters go by and as we grow, that operating leverage will be apparent. And I'd say from the first quarter to second quarter, eliminating the noise, you'll probably see a, call it, $2 million to $3 million pickup in total net G&A.

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

Got you. Great. And by the way, congrats on closing, it was a major undertaking and it took awhile, but congratulations. Thanks a lot.

Operator

Mr. Hoffmann, we have no further questions.

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

If you should have any other questions on today's release, please feel free to contact me directly. John, would you please give the conference call replay instructions again? Thank you.

Operator

Absolutely. There will be a replay of this conference call beginning at 8:00 p.m. Eastern Time today. The dial-in for the replay is (877) 481-4010 with a confirmation code of 48222. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.