REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SAFE.N - Q2 2023 Safehold Inc Earnings Call

EVENT DATE/TIME: AUGUST 01, 2023 / 9:00PM GMT

CORPORATE PARTICIPANTS

Brett Asnas *Safehold Inc. - CFO*

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Haendel Emmanuel St. Juste *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

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

Ki Bin Kim *Truist Securities, Inc., Research Division - MD*

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

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

PRESENTATION

Operator

Good afternoon, and welcome to Safehold's Second 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 second-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 48759.

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. Thanks to everyone for joining us today. With the merger now behind us, the second quarter was an opportunity to begin focusing on the capital needs of our customers and begin building a deal pipeline in this higher-rate environment. The market remains tougher than normal with liquidity from banks still constrained and higher rates and higher cap rates making transactions more difficult. But we continue to look for ways to help our customers access our modern ground lease capital across all our product lines. And with that short introduction, let's have Marcos and Brett take us through the quarter in more detail. Marcos?

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

Thank you, Jay, and good afternoon, everyone. Let's begin on Slide 3:

During the second quarter, we started to see a slight uptick in new investment activity and portfolio growth. While overall, the real estate capital markets remain dislocated with volumes far off the highs, we're beginning to see pockets where our ground lease is a constructive capital solution in this difficult environment, and we're encouraged by the momentum in our pipeline.

We're also pleased to see positive developments broadly in the Fed's fight against inflation. While we'll continue to highlight the inflation capture in our lease structure the value of our long-term liabilities and Caret, our stock price has been hit hard over the past 18 months as investors respond to near-term headwinds without regard to our long-term value components of our portfolio. We believe Safehold could be a beneficiary at the end of this historic tightening cycle. And as we start to see stability in rates, we expect our customers will accelerate their delayed capital decisions.

The overall portfolio remains steady with significant amounts of subordinate leasehold debt and equity capital supporting our principal and income. The tenants on top of our assets continue to perform. And as of today, we're not engaged with our customers about any restructuring of our leases. The key credit metrics that we track are well within our target criteria with a weighted average GLTV of 42% and rent coverage of 3.7x.

On the capital front, we ended the quarter with more than $800 million of liquidity and in addition, have greater ability to invest capital through our previously announced $500 million joint venture, which we have started to deploy. As a reminder, we own 55% of the venture with a leading sovereign wealth fund and in addition to our share of the ground lease economics will earn a management fee with the potential for additional promote upside.

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

During the quarter, we originated 3 new ground leases totaling $129 million. We funded $73 million during the quarter with $61 million of that associated with new and existing ground lease commitments and $12 million related to our 53% share of the leasehold loan fund, which we acquired in the merger.

The 3 new originations were all multifamily properties with 3 new customers across 3 unique markets. Of the $129 million, $39 million consisted of 2 transactions closed into our aforementioned venture, and the third deal for $90 million will be wholly owned by Safehold. These leases generate a 7.2% weighted average inflation-adjusted yield or a 7.1% yield, assuming 0% inflation and no Caret value. The wholly owned investment was a pre-existing commitment to purchase a ground lease plus deal on a 32-story 465-unit luxury apartment building in downtown Brooklyn. Safehold's purchase was contingent upon the sponsor reaching certain milestones, including obtaining leasehold construction financing, which closed in the second quarter and triggered our commitment. It was nice to see that product come full cycle despite the financing headwinds.

The credit metrics associated with these 3 deals are in line with our targets with a weighted average GLTV of 31% and ground rent coverage of 2.5x. As rates and spreads have moved up, we have pushed pricing accordingly. We'll continue to examine pricing dynamics that work both for our customers and for our business and are pleased with the recent engagement in our pipeline.

At the end of the quarter, our aggregate portfolio stood at approximately $6.3 billion. The estimated value of the unrealized capital appreciation sitting above our ground leases was approximately $10.1 billion, representing 23x growth over the last 6 years. In total, the UCA portfolio is comprised of approximately 34 million square feet of the institutional quality commercial real estate, consisting of approximately 17,300 units of multifamily, 12.6 million square feet of office, over 5,000 hotel keys and 2 million square feet of life science and other property types.

And with that, let me turn it over to Brett to go through the financials. Brett?

Brett Asnas - *Safehold Inc. - CFO*

Thank you, Marcos, and good afternoon, everyone.

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

For the second quarter, revenue was $85.7 million, and net income was $22.1 million. Earnings per share was $0.35, both with or without one-time merger costs. Overall, the financials look similar to premerger safe with a few differences I will highlight:

First, I'll begin with the balance sheet changes, which now includes the $115 million term loan to Star Holdings accounted for as a loan receivable and presented net of an approximately $2.3 million for reserve. In the first quarter, we recorded an approximately $150 million goodwill asset, which represents the excess of purchase price over the fair value of the assets received and will be tested for GAAP rules moving forward.

The ground lease plus and leasehold loan fund interests are accounted for as equity method investments and had a balance of approximately $83 million at quarter end. The approximately $100 million trust preferred unsecured debt assumed as part of the closing, sits within consolidated net debt.

Now moving to the income statement. Revenue for the quarter included approximately $7.2 million in management fees earned from Star Holdings, which is an offset to the way we discuss G&A, though included in other income in the GAAP income statement. As we previously disclosed, the contract is structured to pay Safehold $25 million in fees during year 1, which will step down annually over the 4-year term. In accordance with GAAP, we accrue income quarterly based on services provided, which for Q2 included setup work post-merger. We anticipate a lower run rate based on our forecast and expect to recognize approximately $18 million over the next 3 quarters, which would approximate contractual cash we received per the management agreement.

We earned approximately $2.4 million of interest income on the Star Holdings term loan, which pays a fixed 8% cash coupon. Additionally, we saw a pickup within earnings from equity method investments related to the fund interests, which are generally higher yielding than our core ground leases, and expect it to be accretive to net income.

Looking at expenses, all management fees and other expenses related to our previous management contract with iStar have been replaced with a stand-alone internalized cost structure. G&A, which includes items such as payroll, occupancy costs and all overhead items was approximately $11 million for Q2. Stock-based compensation was approximately $8 million for Q2, which includes Board grants, bonus accrual and the 4-year employee LTIP plans put in place at merger closing. In accordance with GAAP, the LTIP plans will grade vest, which means we have a more front-loaded expense rather than straight lining over the 4-year vesting term.

Taken together, we project that annual G&A, net of the management fee from Star Holdings will be approximately $50 million on a run-rate basis for the next few years. This year, it could end up a touch higher due to accruing for certain items in Q1 associated with the merger and full-year stand-alone items accrued for over 3 quarters instead of 4 since the merger closed on the last day of Q1.

Similar to other borrowers, we have felt the effect of elevated short-term borrowing rates on our revolving credit line, which is the primary driver of the year-over-year decline in EPS. Early in the second quarter, we executed $500 million floating to fixed swaps, fixing SOFR to approximately 3%, which will mitigate much of the adverse near-term earnings effects stemming from the substantial Fed rate hikes that have occurred.

On Slide 6, we detail our portfolio yields:

On a GAAP basis, the portfolio generates a cash yield of 3.5% and an annualized yield of 5.2%, presuming a 0% inflationary environment for the length of our ground leases. It's important to point out the disconnect between economic returns and what we recognize for GAAP. The majority of our portfolio consists of typical Safehold structured ground leases with contractual, compounding cash flows and periodic CPI lookbacks. When we originate a new asset, where we book for earnings aligns with economic returns of the cash flows, given its IRR based.

For certain lease structures, there is a significant difference between GAAP treatment and economics. This is an important topic that we want to explain further and be clear about moving forward. Approximately 17% of our assets have variable rent that can exceed today's current rent. For example, any legacy-style ground leases that we acquired with percentage rent, fair market value provisions or CPI-linked escalators. When we underwrite those investments, we look closely at the lease structure and make a reasonable assumption on the key variable, such as CPI to project the true economic yield on the asset. GAAP does not allow assumptions on this variable go-forward component, no matter how conservative. And as a result, the 17% of the portfolio we have referenced is earning 3.0% for GAAP purposes, accounting for no expected income increases over the term of the lease, even though our underwriting expectation for these leases is closer to 6%.

This disconnect is why the yields on the right side of the page are more pertinent as they line up much closer with our view of economic reality. Inflation-adjusted yield, which is IRR-based, and uses today's Federal Reserve long-term inflation expectation of 2.23% produces a yield of 5.8%.

We are also tracking our illustrative Caret Adjusted Yield, which we introduced last quarter and believe is an effective way to demonstrate the impact of the potential value of the embedded capital appreciation in our portfolio. We used the 5.8% inflation-adjusted yield as the starting point for this metric and simply subtract Safehold's 82% ownership of Caret using its latest $2 billion valuation from the current portfolio of ground lease spaces. This increases the inflation-adjusted yield to approximately 7.3%.

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

This slide underscores the portfolio's diversification by location and underlying property type. We highlight our top 10 markets on the right as we believe that our emphasis on originations in the top 30 MSAs is fundamental to our thesis that well-located, institutional quality ground leases should benefit and appreciate in value over time. Approximately 70% of gross book value is diversified across the top 10 markets listed on the slide.

The bottom section breaks down portfolio count and book value in further detail and highlights the progress made within the multifamily space, which has been the primary channel for new investments over the last few years and represents more than 50% of the portfolio by count.

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

At the end of the second quarter, we had approximately $4.3 billion of debt comprised of $1.5 billion of unsecured notes, $1.5 billion of nonrecourse secured debt, $1 billion drawn on our unsecured revolver and $272 million of our pro rata share of debt on ground leases, which we own in joint ventures. Our weighted average debt maturity is approximately 23 years, and we have no corporate maturities due until 2026, which is our revolver. At quarter end, we had approximately $816 million of cash and credit facility availability.

As previously mentioned, we have taken meaningful steps to offset interest rate fluctuation through hedges that are currently in the money. We have $500 million of swaps in place with SOFR locked at approximately 3% for 5 years, which is presently in the money based on current market rates. We also have $400 million of 30-year treasury hedges with a weighted average rate of 3.47%, currently in a significant gain position, which will eventually be unwound and applied to long-term financing as we reenter the debt markets.

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 135 basis point spread to the 5.2% GAAP annualized yield on our portfolio, which again includes 17% of the portfolio being booked at 3.0% GAAP annualized yield with no credit given today to the future income that we described earlier. The portfolio's cash interest rate on permanent debt is 3.3%, which is a 15 basis point spread to the 3.5% annualized cash yield.

We're on positive outlook at both Moody's and Fitch and have an active dialogue with both agencies.

Overall, we believe that our existing capital structure is a valuable component of the company that has been underappreciated by the market. We have a long-term latter debt profile with 23 years of weighted average term that is significantly below market cost with no near-term maturities. On a mark-to-market basis, similar to what our analysts described, there's potentially $500 million to $1 billion of value in a sum-of-the-parts analysis. We believe that these attractive attributes, particularly in a time of market uncertainty should be viewed as an important asset by stakeholders when calculating Safehold's overall intrinsic value.

So to conclude, what it has been a very challenging year so far in terms of stock performance. We've been encouraged by macro trends and selling real estate markets and remain focused on getting back to business, expanding our leadership position in the ground lease industry.

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

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

Thanks for that detail, Brett. What's striking to me is as we enter this next phase of growth is really how early we still are in the development of the modern ground lease industry. There's still a lot of work to do to accelerate adoption among customers and investors. The ground leases have certainly begun to carve out a place in the mainstream real estate markets, and we look forward to helping push that adoption even faster. And operator, with that, why don't we go ahead and open it up for questions?

QUESTIONS AND ANSWERS

Operator

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

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

It's nice to see activity picking up a bit. I was just curious if you could speak to what does the pipeline look like right now? Have you closed anything so far in 3Q? And then just on subsectors, it sounds like it was all multifamily this quarter. What sectors are in the pipeline? Are there any other areas you're looking at? I think at NAREIT, you may have mentioned subsidized housing. Just curious to get your comments there.

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

So I think we've been pretty encouraged over the last 6 weeks or so. So there's a handful of transactions that are in the closing process. They're all in the housing space, so a mix of multifamily and student housing. And we did get our first affordable deal under LOI as well. So we're encouraged by the recent momentum. As I look at the next leg of the pipeline, which isn't signed up today, it is predominantly housing as well. So mostly multifamily, and there is one hospitality asset. But there seems to be a thawing in some of these asset classes, student housing, as an example, is undersupplied I think there's some conviction from owners about rent growth that they can underwrite and our capital solution is accretive as they're recapitalizing transactions or pursuing new acquisitions.

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

Okay. That's helpful. And then just the pricing on what's in the pipeline, is it similar to that 7.2% that you guys quoted this quarter? Or how should we think about that?

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

Yes. I would say the 7.2%, we're really excited about that overall yield. I think we did better this quarter than I would say, expected. Our target pricing today is still in that 6.5% range. And I would say the pipeline sits between the 6.5% and the 7.2%.

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

Okay. And then just one on the balance sheet. Just on the revolver, how should we be thinking about when you may look to term that out? Like how long do the current hedges last? I think you said the swaps are good for 5 years. So how should we think about that? And then maybe where you could do 30-year money today.

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

Brett, why don't you talk about it just in terms of debt, what you're feeling?

Brett Asnas - *Safehold Inc. - CFO*

Absolutely. As you know, Nate, the line has been drawn over the course of the merger discussions and since the merger is closed, and it's nice to get back out on the road and educate folks. I think what we're encouraged by is meeting with a lot of new investors. That's both on the equity and debt side. So as this ground lease market continues to evolve and open up, there are definitely a lot more interested parties. I think when we look at our leverage level and think about our rating and think about capital allocation, we're looking across the board at all of those opportunities on the equity side and debt side and we'll continue to try to figure out what the best cost of capital in that moment is as well as what can help us get to that next lilly pad. That's, I would say, the goal from our end.

And then the last piece is on the hedging, which I think is an important one that we're trying to make clear. We put in our deck this quarter as well, which is the half of the line is already fixed. And then the other half, we have 30-year hedges that are today 60 basis points plus in the money. So that is a significant gain that gain will be amortized over the life of any debt instrument that we do irrespective of if it's a 10-year deal, a 30-year deal, if it's different structures as we've talked about in the past. So we're continuing to try to be thoughtful about how to allocate capital and term out those borrowings.

Operator

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

Haendel Emmanuel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

First question is on, I guess, the investments in the quarter. Can you guys, I guess, discuss the process of how the new investments are allocated on a whole loan versus via your recent JV? It looks like most of the activity was on balance sheet instead of JV. I think we were under the impression that the first $500 million or so would likely be through the JV, given your higher cost of capital here. So maybe some elaboration on that, please.

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

There was a pre-existing commitment through our GL Plus Fund. And so that predated the execution of the venture. And that was a relatively large transaction for the quarter was $90 million. And so that's why it was not closed in the venture. The way we look at the venture going forward is it will most likely close all the transactions until we fill that $500 million bucket. I would say, if I'm forecasting there may be some smaller transactions where friction costs for setting up individual REITs within the fund may fall out. But the way you should think about is going forward now the next $500 million will go in the venture.

Haendel Emmanuel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

And remind us just regarding the JV, does your partner have detail rights? I guess I'm curious if they're only interested in multifamily here and if there's any asset classes that they've redlined.

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

Yes. So it's a collaborative process. They do have discretion over the capital we both do, obviously. So it's a collaborative process as we start to build our pipeline. I think most of the product we're seeing is in the residential space. We have shown them a few deals that ultimately didn't get to the finish line that were in other asset classes. And there as I mentioned, there's something in the hospitality space that they're supportive of as well. So we're not just going to do residential. We'll do what the market gives us, and that happens to be a fair amount of resi, which we're excited about.

Operator

The next question is from Anthony Paolone with JP Morgan.

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

First, just a couple of clarifying ones. I just want to make sure I understand. In terms of Safehold's cash out the door in 2Q, is that the $73 million? Or does that include also some JV partner money?

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

The exact number...

$73 million is us, and that includes $12 million from the leasehold loan fund. So $61 million in ground leases for our share and $12 million in the leasehold loan fund.

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

Okay. And then in the $129 million, the new commitments, I guess some of that was funded and is in the $73 million already. But in that $129 million, your share of that is the $112 million. I'm just trying to reconcile what you committed, what you spent at your share.

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

You got it. $112 million is the number.

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

Okay. Got it. And what's unspent but committed right now at Safehold's share. Just to understand what could go out the rest of the year or just a baseline.

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

So on a gross basis, it is approximately $460 million. So we'd be 55% of that number.

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

55% of the $460 million okay. And just you talked about the pipeline picking up. What do you think the next few quarters could hold in terms of pace? Do you think the $129 million gross is doable from what you could tell? Or are things still spotty?

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

I would say things are spotty, right? These markets are extremely volatile. If you give me a snapshot today, yes, I do think the $129 million is doable. But as we've seen over the past year, you can wake up the next morning and things dramatically change. So I don't want to put a number out there from a quarter-to-quarter basis, but we're very encouraged by the recent momentum.

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

Okay. And then just one last one on the financials. The $6.8 million in JV income in the quarter, you talked about like why that's higher, but is that like a good run rate? Or is it just a big move up given everything that's happened? I just want to try to understand if there's anything in there.

Brett Asnas - *Safehold Inc. - CFO*

Yes, that's probably a good run rate, Tony. If you recall, that merger closing, we acquired those GLX assets so there's our existing unconsolidated JV assets that we've done in the past, but now the funds go through this line item as well. So it feels like that's probably a decent run rate. There were some initial costs in there. So maybe a touch higher going forward, but that's probably a good run rate.

Operator

The next question is from Harsh Hemnani with Green Street.

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

So of course, the 7.1% is a great lead, and it's nice to see the transaction market open back up. I think you mentioned you saw a couple hospitality deals in there. So in that range that you provided 6.5% to call it 7.1%, 72%, would it be fair to say that hospitality shakes out on the higher end of that range, any guidance that you could give us there? And then have you seen any office-type deals on the market? And if you were pricing some of those, where would you be comfortable acquiring an office ground lease today?

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

Hey Harsh, so yes, on the hotel deals in our pipeline, they are at the wider end of the range, so closer to 7%. And we've seen a fair amount of office given the capital constraints. And to date, nothing has fit our box. I would say it's not an issue with just our proceeds level. I think a lot of those assets that we've seen have a fair amount of existing leverage. And us as a ground lease solution in isolation doesn't solve their problem. And so we're continuing to monitor. We'd like to own some of the office assets that we see in our pipeline, but we're being very selective.

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

Okay. That's helpful. And then spending 2 minutes on Caret, I guess, there have been 2 private rounds done. It seems like the first-round investors wanted to exercise that option to reinvest in the second round. Have you gotten any more inbounds from these investors as to interest in Caret? Do you think there'll be more private rounds in the near term? Any conversations around that would be helpful.

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

I think we've been more focused on the pipeline at this point, Harsh. But I would say we've had reverse inquiries on Caret, which has been right along the lines we had hoped, which is the long-term wealth-creating investment seekers. So that continues to be something we will push once we've rebuilt the pipeline and can show that growth again. But I think the concept of Caret is getting more and more familiar, which is what we hoped coming out of the merger.

Operator

Okay. Next, we have Ki Bin Kim with Truist.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

A quick question on the originations this quarter. The 7.2% yield inflation adjusted, is 7.1% the GAAP yield that you're booking the deals at?

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

Yes, that's correct.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

Okay. I would have thought there would have been a bigger gap between the 2 numbers.

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

Yes. There's a little bit of rounding in that 7.1% and that 7.2%. And the long-term Fed assumption from quarter-to-quarter went down a little bit, so it's 2.23%. So there's not that much lift-up in the inflation-adjusted yield.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

Okay. And can you remind us where your fixed charge coverage ratio is today per your covenant calculations and the unsecured asset versus unsecured debt where that is today versus the coverage?

Brett Asnas - *Safehold Inc. - CFO*

Sure. From an unencumbered assets, unsecured debt coverage standpoint, we're a touch under 1.5x. So obviously, as you know, as the numerator and denominator grow and we look to equitize as well as raise debt in the future, that cushion will grow. And then from an FCCR standpoint, we're in the mid-12s. And that's from an EBITDA cushion standpoint, it's about $15 million of EBITDA cushion, which again it's declined here over the past quarters, but as we equitize and look to the long-term debt markets, that will go back up as well. That will usually sit in a run rate of, call it, 1.3x to 1.4x, and it's super stable. And as you know, we also hedged some of our revolving line borrowings this past quarter. So I'd say on a FCCR, 1.3x to 1.4x would be our run rate of where we typically are. And from a UAD perspective, I'd call it 1.5x to 1.6x staying within both of those corridors.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

Okay. So given where those covenants are today, not the covenants I mean, where you are in terms of FCCR and the 1.9x debt to equity. It doesn't seem like there's a lot of cushion left on the equity side to do more deals. And also, I'm not sure exactly how much cash flow we're retaining each quarter. So just high level, how are you thinking about equity needs over the next year or so. And I know your stock price isn't exactly where it needs to be or where you want it to be, but I guess what are the avenues that how you would address the equity?

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

I guess the things we've said in the past are typically tied to our pipeline and what we see in the future. We always want to have sufficient liquidity and buying power to be able to be aggressive in the markets when we want to be. You've seen us lean in on third-party capital when it makes sense. That's certainly been part of the equation for us. And we'll look at the mix between primary and third-party capital and make sure we're out ahead of the game. So that's how we've been thinking about it over the last 12 months. And certainly, the market is finally beginning to break a little bit. So we've got a very large partner who has been very helpful on the third-party capital side.

Ki Bin Kim - *Truist Securities, Inc., Research Division - MD*

And on your line of credit, you have about $800,000 to a million of capacity. But I'm curious, can you actually, from a practical standpoint, use all that? Or would that actually press you up against the covenants?

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

Yes. We've got headroom still. We're being cognizant. Markets are finally, at least on the deal side, starting to present us with the kind of opportunities we think are accretive and we'll start looking at different choices here and get the mix right. But as Brett said, we've got a debt plan, we've got an equity plan over the next 12 months that will keep us out ahead of the capital needs we see.

Operator

The next question is from Matthew Howlett with B. Riley.

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

Just on the UCA went up obviously by the amount of the originations. Is there's any movement in between and the appraisals you do on the properties, any significant changes in the quarter?

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

Yes. Look, we're in that part of the cycle where appraisers are starting to catch up to some of the cap rate expansion. Some of the fundamentals, obviously in office in particular, are starting to bleed. So we've seen a degradation in the appraisals on a number of the assets. But that is meant to be a long-term indication of value. So over time, we expect that stuff to stabilize out. But right now, we're certainly in the downward slope. Some of the multifamily has actually done better than expected. So it's not all a one-way story, but I think the biggest piece of the puzzle is obviously turning back on the origination machine and starting to add in that external growth to set whatever weakness there is on just the fundamental appraisal cap rate catch-up that we're seeing.

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

Yes, Jay, the GLTV was stable at 42%. And you were clear that there's no property that you're in discussion with in terms of any restructuring. I mean we see headlines obviously every day on the office market in major cities. What you're saying is in your portfolio, you're not seeing anything that would suggest that there could be something on a horizon.

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

Yes, today, that's an accurate statement. Certainly, office is obviously under pressure, and we're engaged with our tenants where there is rollover potentially some future cash flow issues. And today, there is no conversation going on.

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

Got you. Okay. And then, Jay, you talked about the new bank lending environment, they're obviously pulling back from commercial market. You talk about the interplay between your ground lease solution and banks. If they do -- they are pulling back. Are we talking about they're going to come in on LTVs or not to certain product types and you're going to be the solution for the real estate owners to do -- I mean, you could offer a product that could be the solution for them to get the acquired leverage they need, just talk a little bit about the interplay between banks pulling back and your margin ground lease.

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

Yes. It's a little bit of good news, bad news... In terms of banks have been one of the sources of capital for the leasehold side of our business, we typically pair up with a third-party capital source. Sometimes it's banks, sometimes it's CMBS, sometimes it's a money center bank, a regional bank. We probably worked with what Brett, 60 leasehold lenders at this point. So there are still pockets of capital. Certainly, the agencies in the multifamily space are still there. But it definitely constrains our ability to help our customers put their capital stack together when the leasehold lending market is pulling back. So that's not great news. The positive side of that is capital is more valuable than ever. Long-term, low-cost capital from a ground lease helps stabilize capital structures and make them more resilient. So we definitely think we are part of the solution to a more volatile marketplace, but we do need a functioning financing market to be at our best. So a pullback is fine, a complete red line of commercial real estate would not be good.

Operator

Mr. Hoffmann, we have no further questions in queue.

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

Thanks. If you should have additional questions on today's release, please feel free to contact me directly. John, would you mind giving the conference call replay instructions once more?

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 the confirmation code of 48759. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.