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SAFE

Q2 2017 Earnings Call

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CORPORATE PARTICIPANTS

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Jay Sugarman, *Chairman and Chief Executive Officer*

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

CONFERENCE CALL PARTICIPANTS

Collin Mings, *Raymond James & Associates*

Daniel Donlan, *Ladenburg Thalmann Financial Services Inc.*

Joshua Dennerlein, *Bank of America Merrill Lynch*

Dan Occhionero, *Barclays Captial*

Anthony Palona

PRESENTATION

Operator:

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

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

Jason Fooks:

Good morning and thank you for joining us today to review SAFE's Second Quarter 2017 Earnings Report. With me today are Jay Sugarman, Chairman and Chief Executive Officer, and Geoff Jarvis, our Chief Operating Officer and Chief Financial Officer.

This morning, we plan to walk through a presentation that details our second quarter results. That presentation can be found on our website, at safetyincomegrowth.com, in the Investor Relations section. There'll be a replay of this conference call beginning at 12:30 p.m. Eastern Time today.

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

SAFE disclaims any intents or obligation to update these forward-looking statements, except as expressly required by law.

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

Jay Sugarman:

Thanks, Jason, and greetings to all our new Safety, Income and Growth Shareholders on this call. This Company is the result of our conviction that ground leases are a unique and highly attractive part of the real estate world, and that their use can be expanded significantly.

As the first public Company focused on the sector, we plan to be the driving force in their expansion, and believe we can create a dynamic market leader with significant competitive advantages. We also believe the relative attractiveness and valuation of ground leases is not yet understood by much of the market. We will be able to educate many different types of Investors about the compelling risk-adjusted returns Safety, Income and Growth can deliver.

A little background on why we think these returns are so attractive; the ground lease business generates two components of value. One, a strong investment-grade cash flow stream with inflation protection—Geoff will walk you through some of the key metrics in our portfolio, and those metrics suggest to us the credit quality of the cash flows is akin to the very highest rated bonds in the real estate universe, i.e. AAA CMBS bonds.

Discounting our growing cash flow streams at AAA rates creates one clear indication of value.

Two, in addition, SAFE has the ultimate ownership of a diversified portfolio of valuable real estate that can be valued today, and should grow in value over time. We call this sizable value component the "value bank", and believe we have not yet scratched the surface in helping Investors understand its true value. This will be an important focus for us over the coming year, as we estimate that it represents almost $900 million in value that is not reflected in the price of our 18+ million shares.

Our belief in this business has been built over a long period of time, exploring, probing, and investing in the sector. We are committing significant resources to ensure we become the leader in the sector, and bring the widest range of capabilities to owners, developers and brokers, whether they are seeking financing, a lower cost of capital or buying or selling assets.

We also want to become the preferred partner for existing owners of land or ground leases who are seeking to partially or fully monetize their ownership in a highly tax efficient way. We believe this opportunity is very large, and our commitment to becoming the leader in it is very clear, so we thank you for joining us today.

Now, given we are a new Company building a new sector in the public markets, we've provided a series of slides to help us share information with you each quarter. As the first two slides highlight, we accomplished several key milestones during the second quarter.

On the corporate front, we completed the transaction that led to GIC and Lubert-Adler coming on board as significant Shareholders, and then completed a $205 million IPO and $45 million private placement of shares to iStar, as well as a $300 million credit facility with the potential to grow to $500 million.

On the deal front, we closed a $142 million acquisition of two ground leases in a great new $600 million multi-family project in the Los Angeles market area, and appointed a Senior Investment Professional as Head of Ground Lease Investment Origination to take advantage of our sizable investment team and network, and to drive our growth and help us achieve our near-term goal of doubling the initial portfolio by year-end.

For more details, let me turn it over to Geoff now for a deeper dive on the quarter. Geoff?

Geoffrey Jervis:

Thank you, Jay, and good morning everyone. My remarks will start on Slide 4 of the Earnings Deck, available on our website.

This quarter represents the first quarter of public company operations for Safety, Income and Growth after its June 27 IPO. Despite only being public for three days, we are required to issue financials for the entire period.

Peeling the onion, the second quarter has two unique periods. First, the period from April 1 to 13, when Safety was wholly owned by iStar. Second, the period from April 14 to June 30, when Safety was owned by iStar and third parties. It is within this period that the IPO closed. This second, 78-day period is boxed on the chart, and my discussions this morning will be specific to this time period.

When we evaluate our performance at Safety, we look not only at GAAP net income, but also at non-GAAP financial measures such as funds from operation, or FFO, and Adjusted funds from operation, or AFFO. For the sub-period, net income was negative $1.6 million, FFO was positive $269,000 and AFFO was $894,000. More on that in a moment.

Moving to Slide 5, Slide 5 is our GAAP income statement. As we're looking at an unusual sub-period, I will not focus on the results, per se, but there is one item of particular note, and that is operating lease income. Operating lease income was $4.2 million for the period and includes all elements of rent, both cash and non-cash base rent, any bumps and any percentage rent for the period. This is important, in that our Hilton percentage rent, approximately $3 million over the last year, is not paid quarterly, but only once a year in the first quarter. As such, we will only recognize this significant portion of our income in Q1 of 2018 and subsequent years. Pursuant to GAAP, none of this percentage rent income will be recognized in any other periods, setting us up for extraordinary income in Q1 of each year.

If we have pro rated Hilton's trailing 12 months percentage rent into this period, it would have added approximately $750,000 to net income and all of our non-GAAP earnings metrics.

Turning to Slide 6, this slide shows a reconciliation of GAAP net income to both FFO and AFFO. For Safety, FFO is simply the period's net income, adjusted to eliminate $1.9 million of real estate related depreciation, resulting in $269,000 of positive FFO for Q2.

Moving down the page, AFFO, a very important metric for us, is used to assess long-term operating performance, and when considering debt coverage, dividend payout, and when formulating our corporate goals and strategies. As you can see, in calculating AFFO, we start by eliminating any remaining and/or other non-cash or non-recurring revenues and expenses. Most notable is the elimination of a $1 million benefit from straight-line rent. The result of this calculation for the quarter is AFFO of $894,000.

As mentioned above, had we pro rated Hilton's historical percentage rent into this figure, Q2 AFFO would have been $750,000 higher. Looking forward to Q3, we anticipate paying out a $0.15 dividend, as we discussed on the IPO road show.

Onto Slide 7, Slide 7 is a simple roll-forward of our assets, starting with the $340 million, 12-asset initial portfolio, and adding the periods to origination that were consummated immediately post closing of the June 27 IPO on June 28.

Moving to Slide 8, Slide 8 provides more information on the period's acquisitions. As you can see, on June 28, we purchased $142 million of ground leases in Los Angeles, California; specifically, 1,000+ units of newly-built multi-family properties on Hollywood Boulevard.

From a ground lease credit metric standpoint, these investments are spectacular. Our $142 million investment represents the senior-most position in the $600 million project's capital structure for less than 25% of the combined property value, effectively creating a AAA, or frankly superior, risk profile for our investment.

From a coverage standpoint, our rent is projected to be covered over five times by stabilized cash flow from the property.

As we move forward, we believe that this acquisition will be representative of the types of ground leases we will be acquiring: major markets, primary property types, and extraordinary safe credit profiles.

Onto Slide 9. As we grow, we will endeavor to design a portfolio that is well-diversified by what we believe to be the most important characteristic of a ground location. As you can see on the map, our largest exposure is to the Los Angeles MSA, and we expect this map to be heavily concentrated in the top 10 to 15 markets in the United States going forward.

Over to Slide 10, Slide 10 includes five additional portfolio metrics that we believe are important: property type diversification, balanced lease duration, low exposure to combined property value, healthy rent escalators that will outstrip inflation, and solid cash flow coverage for our rental payments.

Moving to Slide 11, Slide 11 gives a snapshot of our pipeline of potential new investments that Tim Doherty, our Head of Ground Lease Origination, and his team, are pursuing.

As you can see, office and multi-family dominate the property types, in New York to D.C. Corridor locations, and our sourcing strategies are balanced 60/40 between originating new ground leases and acquiring existing ground leases. We are pleased with the development of the pipeline and have found that post-IPO, that there has been a flurry of inbound inquiries about our product. We look forward to capitalizing on our first mover advantage and building a highly effective marketing and educational program.

Onto Slide 12, Slide 12 illustrates the total combined property value and our estimate of the embedded value bank in our portfolio, at IPO and at quarter-end, after the acquisition of the two Los Angeles multi-family assets.

Value bank is the difference between what the property is worth on a combined fee simple basis, and what we paid for our ground leases. This difference, $887 million at quarter-end, will ultimately inure to our benefit at the end of the life of the leases.

Said differently, we paid $482 million and we'll ultimately own properties that are worth $1.4 billion today, and that value is shared amongst our small, $18.2 million Shareholder base.

As we promised on the IPO road show, we are in the process of engaging with a third-party appraiser to deliver regular opinions of value on the portfolio so that we can continually update our value bank and share the information with the market each quarter. We expect to have this information ready to be included in our Q3 earnings materials.

Over to Slide 13, Slide 13 illustrates the additional $600 million of investment capacity we have in-house as of quarter-end. As Jay mentioned, we expect to double our portfolio from IPO to year-end, and it's important to note that we have all the capital needed to achieve this goal in-house today.

Flipping to Slide 14, Slide 14 shows our capital structure credit metrics. As we have communicated to the market, we plan to run a leveraged balance sheet. Our leverage targets are to limit leverage to the lesser of 25% of combined property value, and 2:1 corporate leverage level.

As illustrated, we have leverage of 0.6x relative to our 2.0x target, and our exposure to combined property value is 17% as compared to our target of 25%. In addition, on the right-hand side of the page, we show fixed charge coverage ratio of 2.2x on a corporate level, and 9.6x when looking through to the underlying property. For any portfolio, much less the portfolio of such high-quality assets, these conservative leverage metrics are well within the ideal range.

Onto Slide 15, Slide 15 shows our existing debt and hedge positions. Our debt is very straightforward: a $300 million undrawn revolver, plus a fully funded, $227 million end year secured non-recourse financing on our initial portfolio of assets. As we move forward, we will develop a well-laddered long-term financing model for our long duration assets.

Our hedges are also very straightforward. When we closed the $142 million Los Angeles multi-family asset, we put in place a 13-year, $95 million notional value swap to lock in prevailing interest rates. We are currently in the market for financing this asset and expect a very robust response from the market for such a high quality, low leverage asset.

As we said on the road, we believe that the optimal debt capital structure for Safety is to pursue a corporate rating and issue unsecured liabilities, which we expect to be high investment-grade. To this end, we have already begun our dialogue with rating agencies, and will keep Shareholders up to date on our progress.

Moving to Slide 16. Here you can see a simplified version of our balance sheet and share count chart. On this balance sheet, we took the liberty of aggregating all ground lease elements into the top five lines of the asset section, so that readers can clearly see the $480 million of investments made to-date.

At the bottom of the page, you can see our share chart issuance—our share issuance chart, where we started with 5.7 million shares owned by iStar, GIC, and Lubert-Adler and through the IPO and a small issuance of shares to our new Board of Directors, ended the period with 18.2 million shares, of which iStar, Safety's largest Shareholder, owns roughly 28%.

Subsequent to quarter end, iStar and senior management of iStar and Safety announced coordinated 10b5-1 plans to purchase up to $25.5 million of Safety shares in the open market. Purchases under these plans commence this week.

Lastly to the Appendix and specifically, Slide 19, many of you recall this slide where we show asset by asset and summary information on the entire portfolio on the IPO. Given the value Investors took away from this slide on the road show, we expect to continue to provide this full portfolio detail on a quarterly basis.

As we move forward, we encourage Shareholders to let us know if they would like any additional information in our disclosures as we are committed to providing best in class, transparent disclosures to the market.

With that, I will turn it back to Jay.

Jay Sugarman:

Thanks, Geoff. Let's just go ahead and open it up for questions. Operator?

Operator:

Thank you. Today's question-and-answer session will be conducted electronically. To ask a question, please press star, one at this time. We will take as many questions as time permits, and proceed in the order that you signal us. Once again, please press star, one to ask a question. We will pause just a moment to assemble the roster.

Your first question comes from the line of Collin Mings with Raymond James. Your line is open.

Collin Mings:

Hey, thank you and good morning, guys.

Geoffrey Jervis:

Morning.

Jay Sugarman:

Morning.

Collin Mings:

Just the first question from me, just how—I just wanted to clarify, as far as the percentage rents. So, those are going to be recognized in FFO, AFFO, in 1Q going forward?

Geoffrey Jervis:

That is correct.

Collin Mings:

Okay.

Geoffrey Jervis:

Every first quarter, we'll be paid that by Hilton, and we'll recognize it in the period in which we receive it.

Collin Mings:

Okay, perfect. Then I just want to know if you could speak a little bit more to—just as far as the deal pipeline. Appreciate all the detail around the composition of that, but maybe update us on how close some potential opportunities are, what are you thinking about for the third quarter or fourth quarter as we kind of move through the remainder of the year, as far as potential volumes at this point?

Jay Sugarman:

Hey Collin, this is Jay. I guess what I would caution you is, like all deal businesses, we have a fairly substantial pipeline but the timing is not really within our control on a lot of these deals.

We've certainly stated our goal, which is to double the initial $340 million portfolio by year-end, and we feel like we've got good traction towards that goal. Whether the transaction will close in the third or fourth quarter is probably less relevant to us, but certainly something we're working to bring some of these things down as quickly as possible.

I don't want to commit to anything on a quarterly basis, but we stick with our goal, by year-end, of doubling the portfolio.

Collin Mings:

Okay, that's helpful. Then maybe just to touch on as far as the lumpiness within the pipeline, just speak to the average size or the range of size of the deals you're looking at currently.

Jay Sugarman:

Yes, it's a nice mix. As Geoff pointed out, just in terms of property types, we're seeing two or three property types stand out right now.

There's some large deals in the major urban cores, and there's some smaller deals in markets we quite like as well. Yes, I think there's a bit of a mix, both in terms of yields, markets, property types. One of our goals here is to build a diversified portfolio across the top 15, 20 markets, that kind of feels like the portfolio pipeline right now.

Collin Mings:

Maybe to that point about the diversification, maybe just speak to the bias going forward? I recognize there's a little bit of lodging, kind of in the deal pipeline right now, but come out of the gate at relatively heavy concentration in lodging, maybe just speak to the appetite of looking at it again, it looked like you identified more office opportunities in particular, can you just touch on kind of, how that process is playing out?

Jay Sugarman:

Yes, we are approaching a lot of relationships we've had to introduce them to why we think we can provide lower cost of capital and actually make their deals a win-win for them and us. We've started with some of the larger markets, some of the larger players, so those deals will be on the larger end of the curve and they tend to be in office and multi-family.

We like hospitality; we have a long history in the sector, but obviously we started with a portfolio that was a little bit heavily concentrated, so we have been focusing on some of the other asset types. If the right hospitality opportunities show up, we're definitely interested and we'll continue to pursue those.

I think right now, the pipeline feels pretty nice and the fact that some of the larger deals are in the markets we're targeting, and reflect fairly large diversification away from the hospitality initial portfolio.

Geoffrey Jervis:

I would just add that…

Collin Mings:

Okay.

Geoffrey Jervis:

I would just add that ground leases are so low risk, that location clearly matters most, and while we certainly are trying to build a diversified portfolio by property type, it is certainly a secondary consideration at the levels of exposure that we anticipate.

Collin Mings:

Okay. One last one from me and I'll turn it over. Just curious as far as on the rent bumps within the Hollywood deals. Can you just maybe put some color on what that would look like, just recognizing, I think, the next escalator set for 2018?

Jay Sugarman:

Yes, so think of it as two separate ground leases because it is, so they have slightly different timeframes. Mid-year next year is the next bump on one of those, and that will incorporate four years of CPI in the L.A. basin, multiplied by 50%. If it's 8% over the four years, we will get a 4% bump in rent, and every four years thereafter, until we get a more meaningful reset down the road.

A first bump coming middle of next year will be reflective of the three years of CPI we can already see, and one year of CPI that we don't know what it'll be yet. But, 6% to 8% range over that timeframe is probably a decent guess at this point.

Then the second lease has that same bump structure but I think, two quarters later. You'll see that in, I think, the first quarter of '19. The second lease will get that four years worth of bumps built into the rent.

Collin Mings:

I appreciate the color, guys. Thanks.

Geoffrey Jervis:

Thank you.

Jay Sugarman:

Thank you.

Operator:

Your next question comes from the line of Dan Donlan with Ladenburg Thalmann. Your line is open.

Daniel Donlan:

Thank you and good morning.

Jay Sugarman:

Morning.

Daniel Donlan:

Just wanted to touch on the pipeline. Are there any OP unit deals contemplated in the $1.1 billion pipeline?

Jay Sugarman:

We're just beginning some of those dialogues, so I would say the stuff you see on the slide is not OP unit driven, but we have a marketing piece we'll be beginning to present to owners who may find partial or full monetization in an OP unit structure very attractive. But no, not yet, in terms of the pipeline.

Daniel Donlan:

Okay, and then kind of moving to the financing strategy, Geoff, you talked about wanting to be an unsecured borrower, investment-grade rated. How long does it take to get there and kind of, what's the financing strategy, maybe over the next 12 months as you guys start to pull in some of these acquisitions from the pipeline?

Geoffrey Jervis:

Sure. I think the immediate event when we purchase an investment is to put long-term hedges in place so that no matter what our outcome is with the agencies or not, we have at least a first full-term financing, or a 10-year financing hedged day one.

As far as liquidity goes, we would get our—we would pay for these investments with cash, and then to the extent that we needed to borrow, our first source of borrowing is our revolver. That is the immediate, nearest-term source of liquidity.

That said, our financing strategy is to first go to the bank market and finance these investments on a short-term basis, let's call it five-year basis, while we go to the rating agencies and secure an investment-grade rating. The answer is, is that our estimation is just—it could take us as long as three years to get to the degree of rating that we believe would be accretive relative to the secured financing market. Our financing that we would look to put in place first would be something with some prepayment flexibility, but ultimately have duration of at least three to five years.

Then, after that first three to five-year period, we would look to do a permanent financing—if we're highly investment-grade rated, we would do it in the unsecured market. If we were unable to achieve that, the fallback strategy would be to just access the CMBS or the typical life co, 10 year secured financing market.

We have a lot of options; what we're pushing for is, over the next three years, to become investment-grade and do an issuance in three years, our first issuance of unsecured paper in three years, and our financing strategy of the next three-year interim period is designed to give us low cost of capital, but also to maximize flexibility so that we can create an unsecured borrowing base, as needed.

Daniel Donlan:

Okay, and to the extent—as far as duration goes on that, assuming you're able to get an investment-grade rating, is it still going to be 10 years? Is there an ability to go beyond that, or is that something that you guys are currently exploring?

Geoffrey Jervis:

We know that the 10-year market is the sweet spot, so we have assumed the 10-year market, but there's absolutely an ability to go beyond that and to get a little bit into what we see as the ultimate opportunity—it's not just the ability to go beyond that from a duration standpoint if that's attractive, but it's also the ability to potentially look at changing the base rate.

We have an inflation index to cash flows, if we could pass that on to our lenders, we could change our base rate from Treasuries to TIPS, which could be huge savings if we're successful on our cost to debt.

Daniel Donlan:

Okay, and then just lastly, maybe going back to the pipeline. Can you maybe give us kind of a range in terms of cap rates that you're considering, that kind of—if it's a top MSA, is it a mid three type of number, and if it's maybe outside, it's somewhere in the fours? Any type of color there, I think, would be helpful, just for modeling purposes.

Jay Sugarman:

Sure. We've said—and I think you accurately describing, it will be a difference between some of the super core stuff and some of the stuff that we think has a little more yield advantage. We're seeing kind of mid threes all the way up into the five range. We think the sweet spot is kind of around four. Larger deals that are in top quality locations would be a little less than that, and deals where we think the yield is more important, will probably get higher than that. We'll see a nice blend, but four as an average, as the portfolio diversifies, it's probably a good number.

Daniel Donlan:

Okay, thank you. I appreciate it.

Operator:

As a reminder, to ask a question, please press star, followed by the number one on your telephone keypad.

Your next question comes from the line of Joshua Dennerlein with Bank of America. Your line is open.

Joshua Dennerlein:

Hey, good morning, guys.

Geoffrey Jervis:

Morning.

Jay Sugarman:

Morning.

Joshua Dennerlein:

I'm curious, in your pipeline, are there any deals that are so large you'd have to bring in GIC?

Jay Sugarman:

None that are listed in this pipeline slide, but yes, we are engaged on transactions that would be too large, I think, for us to just take down. Those are super trophy assets, and so—they're interested, we're interested. They tend to come in a size that—at least at this point, Safety, Income and Growth probably needs that partnership. Our goal is to build the portfolio and our capital resources long-term so that those—the necessity to bring in partners is less than it is today.

Joshua Dennerlein:

Okay, and sorry, how you worded that made it sound like there's additional assets beyond what's in the pipeline. What gets put in the pipeline versus what you were talking about the GIC, that you were looking at?

Jay Sugarman:

Yes, I mean, it's reasonably fluid. These are deals where Tim feels he's fully engaged in a process. Some of the things that we're pitching we do not consider we have a fully engaged dynamic yet, but there is a dialogue.

Joshua Dennerlein:

Okay. Then as far as earnings accretion and NAV accretion goes, eventually you're going to get to a point where you're going to have to raise more capital. So far, it looks like the stock hasn't traded above NAV. Would you still issue equity? Is that something you would think about, as you're looking at these assets for a long-term haul?

Then, what about earnings accretion? Like, when I look at your interest cost that you've got in your initial portfolio, it's above what you bought on the Hollywood G&L acquisition. Like, is there a possibility that you're not going to have positive accretion in the beginning?

Jay Sugarman:

Let's look at that two ways. I think the first piece, in terms of the valuation, we fundamentally raised enough capital that we have time to now educate the market. When I think about what the true value of these assets are, and as I mentioned in my opening remarks, I think the market does not understand them. We have some very compelling arguments that we're going to be presenting, both to the marketplace and to investors across the spectrum—not just real estate investors, but credit investors, growth and income investors that we think they will find very compelling. That process hasn't really begun so we're not at all concerned about the share price, as Geoff mentioned. We are an acquirer at this price and at higher prices, frankly.

This is the get out of the gate. We have some work to do on the education front. We are quite convinced that smart, rational people will start to see what we have seen over the last period of time that we've studied this market, so we do believe, by the time we need to raise capital, we will have a meaningful change to share price and we'll become an accretive acquirer.

On the other price, I'll turn it over to Geoff just in terms of financing costs, but I would tell you again, the mix of deals—yes, some of the deals out of the box, if that was the only metric you were looking at, might not look accretive. We can tell you from a value standpoint, from a long-term cash flow standpoint, from a relative risk-adjusted credit risk standpoint, they are all great investments. I would hesitate to tell you to just focus on one simple metric, which is initial cap rates, against the initial cost to funds. You'd be missing most of the story if we stopped it there.

Geoffrey Jervis:

To fill in what Jay mentioned earlier, as far as accretion day one, our average asset we anticipate will be in the 4% range and we anticipate that our financing costs will be at or below 3.5%, so we will have at least 50 basis points of accretion. I think that that's day one.

To Jay's second point, our debt will be hedged out for 10 to 13 years. If you look at Hollywood, its cost won't change, yet over that same period, our rents will bump significantly. We should see our accretion, our positive spread grow significantly over time.

Joshua Dennerlein:

Sorry, your initial—you said your initial financing you thought would be at or below 3%? Did I hear that correct?

Geoffrey Jervis:

At or below 3.5%.

Joshua Dennerlein:

Three and a half.

Geoffrey Jervis:

When you look at the financing that we did on the initial portfolio, the initial portfolio we did a secured CMBS financing, long-dated. It was not the optimal financing for the portfolio, we needed to do it in order to have a leveraged portfolio to bring to market, and so we're very happy to do it. The portfolio had a tremendous amount of yield, but that portfolio—the portfolio we've owned for, in some instances, 20+ years.

Yes, you saw significant yield, but you saw a very mature portfolio. I think that as you see us acquiring new assets, we'll be able to finance those assets more efficiently due to reporting and/or other conforming elements of new acquisitions, and that those acquisitions will, as I mentioned, grow over time so that the 50 basis point initial spread will grow significantly over the term of the initial financing.

Joshua Dennerlein:

Okay. Thank you.

Operator:

Your next question comes from the line of Dan Occhionero with Barclays. Your line is open.

Dan Occhionero:

Good morning. I was—so I realized PARC Hotels has a lot of lease duration left still, but I was wondering if you had any conversations with them recently about their intent with those properties?

Jay Sugarman:

No direct conversations yet, but I think that dialogue will take place soon. We're friends with the firm, we've had a long relationship, it's time to check in now that we're a public Company to see if we can find a win-win solution that might be even better for both of us than the status quo.

Operator:

Your next question comes from the line of Anthony Palona (phon). Your line is open.

Anthony Palona:

Thanks, good morning, I just have two items. First is just more administrative. As we look ahead the next few quarters, I know you gave the goal of doubling the portfolio, but do you plan on giving AFFO guidance or any other specifics on, like, an official guidance front?

Geoffrey Jervis:

Hi, Tony, how are you? Yes, ultimately, we will give guidance. I think it's a little premature at this point for us to do so, but I think that—certainly, our expectation is starting in the first quarter of 2018 that we'll give guidance.

What I did say today was that we expected to pay out a $0.15 dividend in Q3. That's also obviously consistent with what we said on the road. Our earnings should be in a range around that in the third quarter, and as we invest the portfolio, earnings should grow from there.

Anthony Palona:

Okay, got it. When you refer to earnings, you're referring to the AFFO, I'm assuming?

Geoffrey Jervis:

I'm referring to AFFO, and I'm also referring to adjusting it for normalizing Hilton.

Anthony Palona:

Got it. Okay. Then, my second question is now that the Company is public, can you talk just about how it's working in iStar and the originations—on the origination side, in terms of, are the folks out there doing deals for iStar just integrating this as a solution on the stuff that they're proposing to clients, or are there people specifically in charge of ground net leases? Like, how's it working in iStar?

Jay Sugarman:

Great question, Tony. One of our key thesis here is, for the last 25 years, that we try to find what is most important for our customers and provide a better solution, whether that's a finance solution, a net lease solution or a ground lease solution. The team is well-versed in how to really get to the heart of the matter, which is, what is the type of capital that will best unlock value for owners, developers, and in many cases, helping the brokers actually serve their clients better.

Our goal with this addition to our suite of offerings is to use that same team, that same network of relationships, that long-standing trust that we've developed with the developer community, the ownership community, the brokerage community, and really—again, what is the best product for the situation? Sometimes that's going to be finance, sometimes it's going to be a ground lease structure. Sometimes we can probably figure out something that hasn't even been thought about.

I do think there's an opportunity, a real synergy in being in front of people who need capital and being able to provide them with the best alternatives. We think that's going to open up the market to iStar and to Safety, a whole new world of deals that, frankly, neither one would see otherwise.

Geoffrey Jervis:

I would just add to that, that I think we have a hybrid strategy. Tim and his team are focused directly on ground leases and pretty much nothing else, and then the rest of the Origination Team is focused on not only loans and net lease, but also pitching ground leases, and when they find those opportunities, they'll work with Tim and his team to get them done. We've got a direct, specific marketing effort and origination effort, and this synergistic effort with the rest of the Origination Team.

Anthony Palona:

Okay, got it. Thanks for the help.

Operator:

Mr. Fooks, we have no further questions.

Jason Fooks:

Thank you, Tiffany, and thanks to everyone for joining us this morning. If you should have any additional questions on today's earnings release, please feel free to contact me directly.

Would you please give the conference call replay instructions once again?

Operator:

Today's conference call will be available for replay, and the number that you would need to dial is 1-800-585-8367 and reference conference ID# 60077640. Again, that is 800-585-8367 and conference ID# 60077640.

This concludes today's conference call. You may now disconnect.