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PRESENTATION

Operator

Good morning, and welcome to Safehold's First Quarter 2024 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 & Investor Relations. Please go ahead, sir.

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

Good morning, 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; Brett Asnas, Chief Financial Officer; and Tim Doherty, Chief Investment Officer.

This morning, we plan to walk through a presentation that details our first quarter 2024 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 2:00 p.m. Eastern Time today. The dial-in for the replay is (877) 481-4010 with a confirmation code of 50475.

In order to accommodate all those who want to ask questions, we ask that participants limit themselves to 2 questions during Q&A. If you'd like to ask additional questions, you may re-enter the queue.

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 thank you to everyone joining us this morning. Safehold delivered solid earnings in the first quarter, highlighted by important progress on the right side of the balance sheet, and continued efforts to run more efficiently and keep G&A under control.

Deal activity in the first quarter was limited with higher interest rate headwinds slowing overall market activity. The pipeline has a good number of deals that should close in the second quarter. In terms of the overall market, CBRE continues to provide updated UCA value marks, reflecting higher cap rate assumptions and incorporating tougher office underwriting standards.

The resulting lower building values are driving higher GLTV ratios, which makes sense given the current market environment.

Lastly, with respect to CARET, we received requests from the VC investors who participated in the first round to exercise the redemption option that was expiring this year. As a result, we decided to simply redeem the entire round and focus on future round investors. This will simplify our go-forward structure, while we work to position CARET for investment by the longer term family office type investors that participated in the second round and continue to express interest in CARET.

And with that, let me turn it over to Brett to review the quarter in more detail. Brett?

Brett Asnas ***Safehold Inc. - CFO & Principal Accounting Officer***

Thank you, Jay. Good morning, everyone. Let's start with the summary of the quarter on Slide 2:

First quarter was highlighted by strong capital markets executions and positive pipeline momentum.

On the capital front, during the quarter, we issued $300 million of 10-year unsecured notes at a 6.1% coupon. The net proceeds were used to repay outstanding revolver borrowings. In connection with the offering, we settled a portion of our outstanding hedges and realized cash gains of approximately $21 million. After applying those gains to the notes, the semi-annual yield to maturity decreased by more than 80 basis points to a 5.3% yield.

We've been speaking about the value of our hedges for several quarters now and are pleased to highlight the realization of their value with its execution. We currently have an additional $350 million of long-term hedges outstanding at a significant current mark-to-market gain position of approximately $45 million, which are expected to provide a benefit to the true economic cost of future financings. After quarter end, we entered into a new $2 billion unsecured revolving credit facility, which replaces and upsizes our previous $1.85 billion aggregate facilities. Outstanding amounts under our previous facility were rolled over to the new facility.

In addition to the immediate $150 million of incremental credit capacity, this facility resolves the company's nearest term maturity with a fresh 5-year term, which includes two 6-month extension options, lowers the costs for drawn amounts to adjusted SOFR plus 85 basis points and improves overall financial flexibility for the company. We are also able to add a commitment from a new banking relationship, which is a win in this environment. Overall, we are very thankful to all of our banking partners that see a significant opportunity for Safehold in both the near and long-term.

As a reminder, the facility benefits from in-place hedges, including $500 million of SOFR swaps at a rate of approximately 3% for the next 4 years, which at current levels is saving the company approximately $3 million of cash interest per quarter. A particularly valuable swap at higher for longer is the new normal.

Moving to the pipeline, we have seen customer engagement steadily pick up over the course of the year. That engagement is leading to tangible activity as we currently have 8 LOIs signed for potential commitments of approximately $145 million. These potential investments are all multifamily, diversified across 6 markets and 5 sponsors with credit metrics in line with portfolio targets, which are approximately 35% GLTV, approximately 3x rent coverage and approximately 7.5% economic yield.

We expect the majority to close in Q2 while others will occur over the remainder of the year. These are non-binding commitments with no assurances that they will close and are eligible for our joint venture of which our partner owns 45%. We view this uptick as a positive signal that real estate operators are coming back to the table.

At quarter end, the total portfolio was $6.5 billion. UCA was estimated at $9.1 billion. GLTV was 47% and rent coverage was 3.6x. We ended the quarter with $1.1 billion of liquidity which is further enhanced by the unused capacity in our joint venture. Between liquidity and JV capacity, this is the most buying power Safehold has had since inception. And with no debt maturities until 2027, we'll be focused on pursuing investment opportunities as current valuations and yields are attractive.

Slide 3 provides a snapshot of our portfolio growth:

In the first quarter, we funded a total of $71 million, including $66 million of ground lease fundings on pre-existing commitments that have a 6.7% economic yield and $5 million related to our 53% share of the Leasehold Loan Fund, which earned interest at a weighted average rate of SOFR+605 for the quarter.

Our ground lease portfolio grew 37 assets and has grown 19x since IPO, while the estimated unrealized capital appreciation sitting above our ground leases has grown 21x. Much of this growth has been driven by our focus on multifamily assets, which has increased from 8% of the portfolio to IPO 7 years ago to now 55% of all ground leases by count.

Post-COVID or over the last 4 years, as you can see in the chart, approximately 70% of new investments have been ground leases under multifamily assets. In total, the unrealized capital appreciation is comprised of approximately 35 million square feet of institutional quality commercial real estate, consisting of approximately 18,100 multifamily units, 12.5 million square feet of office, over 5,000 hotel keys, and 2 million square feet of life science and other property types.

Continuing on Slide 4, let me detail our quarterly earnings results:

For the first quarter, revenue was $93.2 million, net income was $30.7 million and earnings per share was $0.43. The significant increase in GAAP earnings year-over-year is primarily due to $21.6 million of merger and CARET-related costs that occurred in Q1 2023. There were no similar non-recurring adjustments made in Q1 2024.

On an apples-to-apples basis, excluding 2023's non-recurring items, EPS was up $0.02 year-over-year, driven by an approximately $8.6 million increase in asset level revenues from new investments and rent growth, offset by approximately $7.8 million of additional interest expense.

Same store percentage rent was up approximately $850,000 versus last year, or 23% increase, primarily due to strong performance at our Park Hotels assets, which is back to pre-COVID performance levels.

As detailed in the past, when we announced and close the internalization, we believe G&A net of STHO management fee for the company would be approximately $50 million per year. For 2023, we beat that expectation by approximately 10%. On the last earnings call, we said we hope to reduce net G&A by another 5% for 2024. For the first quarter of 2024, net G&A was approximately $10 million, which is approximately $40 million on an annualized basis, which means we are now revising our 5% reduction target upwards to a 10% reduction. We continue to find ways to reduce the cost structure of the company and look forward to continuing to update the market on these improvements that directly help the bottom line.

On Slide 5 we detail our portfolio yields:

As discussed in prior quarters, our portfolio yields differ between what we recognize for GAAP versus what we underwrite and assume to earn economically. To illustrate this point, we provided additional detail on the components that make up each yield.

For GAAP earnings, the portfolio currently earns a 3.6% cash yield and a 5.3% annualized yield. Annualized yield includes non-cash adjustments within rent, depreciation and amortization, primarily from accounting methodology and IPO assets, but this excludes all future contractual variable rent, such as fair market value resets, percentage rent or CPI-based escalators. Those variable rent features are significant value drivers and core to our investment thesis for each yield.

As such, it is our view that GAAP annualized yield is not an accurate reflection of the true earnings power of the business. We believe the simplest and most accurate way to estimate the economics for these leases is to utilize basic bond or IRR math. Using this approach, our portfolio generates an expected 5.7% economic yield, which is in line with how we've conservatively underwritten these investments. This economic yield has further upside when you include the periodic CPI [lookbacks] we have in leases as well as the future ownership rights to the buildings and improvements above our land at no cost.

Under the Federal Reserve's current long-term breakeven rate of 2.35%, the 5.7% economic yield increases to a 5.9% inflation-adjusted yield. The 5.9% inflation adjusted yield then increases to 7.5% after layering in an estimate for unrealized capital appreciation using Safehold's 84% ownership interest in CARET at its most recent $2 billion valuation. We believe unrealized capital appreciation in our assets to be a significant source of value for the company that remains largely unrecognized by the market today.

Turning to Slide 6, we highlight the diversification of our portfolio by location and underlying property type:

Our top 10 markets by gross book value are called out on the right, representing approximately 70% of the portfolio. We include key metrics such as rent coverage and GLTV for each of these markets, and we have additional detail at the bottom of the page by region and property type. Office GLTVs increased modestly during the quarter. Notably, we've had approximately 80% of our office assets reappraised over the last 2 quarters. As a reminder, we have CBRE appraised the combined property value of our assets annually to help us highlight for the market our mark-to-market attachment point and estimated unrealized capital appreciation in the assets across the portfolio.

This approach is in contrast to other real estate finance companies that quote LTVs at origination despite any market shifts or knowing how much credit enhancement exists today. Rent coverage on the portfolio remained stable quarter-over-quarter at 3.6x, underscoring strong operations at the property level despite valuation headwinds. We continue to believe that investing in well-located institutional quality ground leases in the top 30 markets that have attractive risk-adjusted returns will benefit the company and its stakeholders over long periods of time.

Lastly, on Slide 7, we provide an overview on our capital structure:

At the end of the first quarter, we had approximately $4.5 billion of debt comprised of $1.8 billion of unsecured notes, $1.5 billion of non-recourse secured debt, $911 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 21 years, and we have no maturities due until 2027. Pro forma the $150 million of incremental credit capacity from our new revolver closed after quarter end, we have approximately $1.1 billion of cash and credit facility availability.

Our credit ratings are A3 with a stable outlook at Moody's and BBB+ with positive outlook at Fitch. As discussed, we seek to appropriately manage interest rate risk on floating rate debt and have put hedges in place to do so. Of the approximately $911 million revolver balance outstanding, $500 million is swapped to fixed SOFR at 3%. This is a 5-year swap that we have protection on through April 2028. We receive a swap payments on a current cash basis each month and at today's rates produces cash interest savings of approximately $3 million per quarter that is currently flowing through the P&L. We also have $350 million of long-term treasury locks at a weighted average rate of approximately 3.7%.

Today, our long-term hedges are approximately $45 million in the money. The outstanding hedges are mark-to-market, so no cash changes hands each month. And while we do recognize these gains on our balance sheet and other comprehensive income, they are not yet recognized in the P&L.

While hedges can be utilized through the end of their designated term, they can be unwound for cash at any point prior. As we look to term out revolver borrowings of long-term debt, we have the ability to unwind the hedges which would then flow through the P&L thereafter. We are levered 1.9x on a total debt-to-book equity basis. The effective interest rate on permanent debt is 4.0% and the portfolio's cash interest rate on permanent debt is 3.6%.

So to conclude, while the recovery in transaction volume has taken longer than we have liked, there are tangible signs of activity servicing, both in our business and in real estate generally. We've positioned the company with ample liquidity, no near-term maturities and hedges that are in the money and look forward to thoughtfully putting our capital to work.

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

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

Thanks, Brett. While we still expect rates to stabilize and eventually start declining, we need to be prepared to wait out higher rates. We'll use our strong balance sheet to take advantage of the very attractive risk return on deals that are in a position to close and continue to engage with customers who will be ready to execute when rates ease back to lower levels.

Okay, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Nate Crossett with BNP.

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

Maybe a quick one. I was wondering if you could just speak to the funnel outside of the $145 million that you disclosed in the deck this morning. What are your kind of current expectations for maybe the next 90 days based on the conversations you guys are having? And then just on the funding side, if you can just articulate how you're going to fund the deal flow? I'm assuming the JV will be part of that, but if you can just confirm that, that would be great.

Timothy Doherty ***Safehold Inc. - CIO***

Yes, I'll answer the question on the pipeline. As you can see, there's been a good pickup. We're encouraged by how the pipeline has been this entire year versus last year. And you see the LOIs that are signed here. With the volatility still in the market, we're hesitant on what the next 3, 6, 9 months could be. It all depends on the stability and visibility of rates, but very encouraged by the activity in the market and what we're seeing on our own pipeline.

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

And Nate, on the capital side, as you heard, Brett and the team have done a great job setting us up very nicely on the right side of the balance sheet. What I'd say is that it's an excellent time to invest. So we love that. But the JV is not the best way for us to take advantage of those opportunities, but it's the best way for us right now, minimizes the capital needs, but we'd like to move beyond that and really start taking advantage of opportunities on our own.

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

Okay. That's helpful. Just on the activity, is it solely multifamily still at this point?

Timothy Doherty ***Safehold Inc. - CIO***

So what we're looking at, we always approach the market to find where is actionable. And right now, multifamily is the most actionable property type. So you're seeing the majority of our deals and all the LOI deals are in that space. We're looking at everything else, keeping our eye on all the other property types. But in terms of the deals that actually pencil well for these clients in the market and all the participants, it's been in the multifamily space.

Operator

Our next question is coming from Anthony Paolone with JPMorgan.

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

Jay, I think you finished off your opening remarks with something about just rates coming down and maybe bringing the activity back a bit here in the offing. Can you talk a bit about kind of where you think cash-on-cash going-in yields need to be to kind of see more folks take the ground lease option and just how far away from that you might be right now?

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

Yes. Thanks, Anthony. So if you think about the end of last year, we started to see a pretty pronounced move down in rates. And I can tell you that the team was very busy. So we know customers -- there is elasticity here. It's not just our pricing, but also the leasehold lender pricing. So it's kind of a double benefit when they go down and a double hit when they go up. I would say that last 50 basis point move, that started in late first quarter. It's definitely having a little bit of a chilling effect on some of the deals we thought would get to the finish line.

So if rates did fall back 50 basis points, I think you'd see a fairly pronounced change. 10, 20 basis points, markets adjust 50 basis points. It seems like the market struggles to adjust. So 30-year today is in the [450, 460, 470] range. I think [4.25%] would be a stable sort of good launching pad for a whole new set of customers. And certainly, when rates look like they were headed to [4%], market looked like it had some momentum. So can't predict when that will happen. We fundamentally believe this market is reaching a point where the next move will be down in rates, but we just don't know when that will be.

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

Okay. And then just my second one, you had commented on G&A. And so I just was hoping to maybe flesh that out a bit more to think through the rest of the year, because I think your management fees stepped down, I believe, here in the second quarter. And so just trying to understand like gross and net G&A like over the next few quarters, maybe if you can help with that a little bit?

Brett Asnas ***Safehold Inc. - CFO & Principal Accounting Officer***

Yes. So when we think about G&A, as you saw for the first quarter, net of the management fee from Star Holdings is about $10 million. If you annualize that, you would get to about a $40 million number. To your point, the -- each of those line items such as the management fee will start to decline. The accrual is based on time sheets, as we've talked about. So you'll start to see a decline each quarter as the assets are monetized and less time is spent. I think from a regular way G&A perspective on the P&L, again, we continue to find ways to create efficiencies both in personnel as well as services, vendor costs, just overall expenses.

So as I mentioned on the last earnings call, we were targeting a 5% cut of G&A from 2023 to 2024. I think sitting here today, it feels like a 10% cut from last year to this year and being at a $40 million number is appropriate. So again, it will have a little bit of volatility quarter-to-quarter based on the management fee. But on an annual basis, $40 million is our target.

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

Okay. So we should expect what was the sort of like $15 million or -- $15 million, $16 million of total G&A on the P&L in the first quarter, like that should trend down over the year, then it sounds like to keep that net about constant?

Brett Asnas ***Safehold Inc. - CFO & Principal Accounting Officer***

Yes, that's about right and there's onetime items. We have Board of Director costs that hit in the second quarter each year. So I would say, outside of that onetime item as well as that steady decline, that's probably appropriate in terms of what you said.

Operator

Our next question is coming 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. So just thinking broadly here, how do we -- from a modeling perspective, how do we think about acquisitions going forward on a run rate basis? Like would you say -- I mean, I understand there's volatility and it's kind of tough to pin down, but would you say $100 million to $150 million a quarter is fair given what you have in your current pipeline?

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

Yes, I think as an annual goal, that's probably a pretty good goal for a market as choppy as this one. Again, I think we're a little bit disappointed. We came into the year feeling really good. That last 50 basis points knocked a few deals, that hopefully will come back if the markets settle down. But these deals typically have a little bit of margin [of error]. They don't have 50 basis points of cost on their debt margin of [error].

So it's going to come down a little bit to how the market sentiment around future rates is, and we see that reflected in the 10-year and 30-year, almost every day now. So I know Tim and the team were going to build their way back towards the kind of volumes we're used to, but it's going to take some time. And $100 million a quarter as a base would be a good starting point to start building back.

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

Got it. That's helpful. Just one more here. And can we assume that all these acquisitions are going to come in through the JV? How much capacity do you have left in that JV? And are there any accordion options that we should be aware of?

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

Yes. I mean right now, there's about $200 million of third-party capital from our sovereign wealth partner that we can tap into. And yes, they are actively looking at the deal flow. So we expect other than some relatively small deals that they'll play. As I said, it's not the best thing for us. We think today is one of the best investment environments for what we do in a long time. So we'd like to put out more capital. But given where equity cost of capital is right now, I think the JV is still a valuable piece of the story.

Operator

Our next question is coming from Mitch Germain with Citizens.

Mitchell Bradley Germain ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

Can I get some details around the redemption? Do I understand that it was done at a discount to what the purchase was at?

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

Yes. So let's take a step back on that one. The first round was really to get some people involved, who we think understood how CARET could play out. Some of them were venture capital type investors who had a very short-term time frame and wanted to see if monetization would happen quickly. Unfortunately, the market hasn't really developed as quickly as we hoped. We have had some success with the ultra-high net worth families, and that's really where we think the future lies in terms of CARET and building a book of investors that can really show the value of that asset. We gave them a redemption option. They, after 2 years, they did decide to use it.

So that first round was going to be mostly redeemed and we just decided, it's probably that we've gotten all the benefit from that round. We should just clean it up entirely and not have a couple of dribs and drabs still out there. So we've redeemed that round, so you can stop thinking about it. But the redemption price was the original purchase price less any distributions. And we had a CARET event in the interim. So they got their original purchase price minus the distributions they had already received.

Mitchell Bradley Germain ***JMP Securities LLC, Research Division - MD & Equity Research Analyst***

That's helpful. Longer-term capital plan, you're at 1.9x leverage. I think you're approaching 2x. Would you guys consider any ground lease sales as a means to raise some liquidity?

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

Yes. Look, I think the strength of the balance sheet and the JV partner has given us a little bit of flexibility here to look at some alternatives. Sales don't take place quickly. So it's not something you turn on and off, but we certainly think there is some small portion of the portfolio that maybe we can redeploy into higher rates. So we'll look at a couple of those alternatives. I don't think that's the long-term capital solution, but you're right, we could squeeze some money out and extend the runway here.

Operator

Our next question is coming from Rich Anderson with Wedbush.

Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

Just a follow-up on the CARET, Jay. To what degree does the redemption sort of impact your future efforts around selling CARET, securitizing CARET or whatever? Is there no change? Or would you say you look at the rationale behind the redemption and makes maybe for a more difficult sell going forward? I'm just curious where your mind is now at the CARET with this event happening?

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

I will tell you the biggest driver of CARET at this point is getting the deal flow back turned on. Lots of questions around that. That seems to be the major driver. The first round, I think everybody understood it was a first step towards a much bigger game. We do think after 2 years, we really have identified this ultra-high net worth family network as the perfect investor. So I don't think anybody is too worried about a couple of venture capital firms that had different time frames. I would say, again, the #1 variable that I look to and I think is really the key to monetizing CARET is getting the growth rate turned back on.

Richard Charles Anderson ***Wedbush Securities Inc., Research Division - MD***

Okay. And then in terms of the growth rate, I know it slowed down quite a bit, but is there perhaps a larger element or a changing element of the types of deals, whether it's originations for some type of transaction that happens? But are you seeing more in the way of pre-existing ground leases that are becoming available that you might consider as part of -- a bigger part of the overall pipeline going forward? Or has that not changed sort of the makeup of the pipeline?

Timothy Doherty ***Safehold Inc. - CIO***

The makeup of the pipeline stayed relatively the same. I mean as you see the focus on multifamily, in terms of existing ground leases with over our history, we've bought a number of them. They don't come to the market very often. It's a pretty spotty market, and that remains the case. So we see those opportunities and are the right person to play in those. But the bulk of the pipeline is new originations.

Operator

Our next question is coming from Kenneth Lee with RBC.

Kenneth S. Lee ***RBC Capital Markets, Research Division - VP of Equity Research***

In regards to your confidence in closing some of those or majority of the 8 LOIs in the second quarter, just wondering if you could just further flesh that out, what factors are driving this confidence for closing these deals?

Timothy Doherty ***Safehold Inc. - CIO***

Yes. Those are all moving towards closing. Our confidence is, the last couple of weeks these deals have continued to move forward, which with a great rise was a comfortable piece of it. However, look, they're not closed yet, so there's no guarantees. But we're pretty confident where they sit in the process of closing the vast majority, if not all, will get there.

Kenneth S. Lee ***RBC Capital Markets, Research Division - VP of Equity Research***

Got you. Very helpful there. And just one follow-up. In terms of the economic yields, it looks like the economic yields on the LOIs were around 7.5%. Is this sort of like a good range? I know that historically, you had talked about expecting about 100 basis points above risk-free rates, but I just want to get your sense of how economic yields are shaping up for some of the newer originations?

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

Obviously, this is a new territory. These are the highest yields we've been able to generate. So customers are adapting to a marketplace that continues to shift. We've seen cap rates back up. That's starting to make deals possible. But as Tim said, it's still a little bit touch and go. When rates get this high, you lose a number of customers who I think we'll come back to the trough when there's an opportunity to lock in rates a little bit lower than this. So we think 7.5% is great. But honestly, as long as we're meeting our benchmark, a little bit lower rates would be better.

Operator

Our next question is coming from Harsh Hemnani with Green Street.

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

Going back to the CARET redemption, what was the conversation around that redemption with the outside investors? Or was there a sense that the valuation of CARET today was well below the $1.75 billion that they paid for 2 years ago? Or was it mostly a liquidity hurdle where -- because CARET was not listed on the public market, they just needed some liquidity? Any sense around that conversation would be helpful.

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

Yes. I don't want to speak for them, but there was no conversation with the VCs around value. It was entirely liquidity and what are the prospects in the near-term of monetization and we were candid with them until that growth rate kicks up. That was not something near-term that they should expect. And I don't think we're disappointed. We understood the trade they were making.

I think with the high net worth families, it was a different conversation. It's much more focused on future rounds and what kind of scale we will shoot for. So that's a better conversation. That's the right conversation. And that one, I'm sure there will be a valuation component to it as we think about future investors. But with the VCs, it was entirely about, we jumped in here. We thought there was a chance this would be recognized very quickly and you guys be able to monetize it. You've done a good job. But if there's no near-term prospect, this isn't exactly what we do for a living.

Operator

Our next question is coming from Stephen Laws with Raymond James.

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

Jay, a lot covered on the pipeline, but one follow-up. How quickly can it build? If rates were to go back to 4.25% or 4%, does it take 6 weeks to ramp? Does it take 6 months? How quickly would you expect borrowers to step in and take advantage of that? And how quickly can you guys move to ramp that up?

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

Let me kick it to Tim. I mean, it can move quickly. Whether the deals can close quickly is a different question, but in terms of interest levels, Tim, you saw some elasticity last time rates, so.

Timothy Doherty ***Safehold Inc. - CIO***

Right. I think, look, you see it with, as -- Jay mentioned earlier, with the rate drop at the end of last year and relative -- I guess, short-term stability and visibility was there. You saw a big ramp-up in the deal flow -- the entire market, right? This is about the macro market, not just us.

And I think that's a good starting point for the length of time some of these take because it took time for those to get to market to start putting the cap stacks together. So typical real estate, you're seeing deals that are short-term, 2 months to get from start to finish in normal way 3 to 4 months. So once the market shifts and people see that and get that confidence of the visibility and stability, that's usually about the time frame you'll see. That's why you see the fluctuation in quarter-to-quarter in normal markets, right? It takes time to ramp up the pipeline for the entire market, not just capital providers such as ourselves.

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

And as a follow-up on the switch to the UCA, I think the marks on office assets make sense. And given annual appraisals, I guess it's been coming for a few quarters to be expected. Can you talk about the tail there? If you look at the worst office, where are those attached and kind of what's the cushion there when you look at your most risky situations in office?

And then, I know it's the other property types, the LTVs really haven't changed materially. So those valuations held in or when we have a markdown in those valuations as we roll forward, it does seem like values across all property types are down. And I'm just curious kind of how those other property types have held in?

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

Yes. Just generically, I would say the cap rate assumptions that our CBRE uses have definitely gone up. So that will impact all asset classes, but we've seen rent growth in some of the -- certainly multifamily offset that to a great degree. So that's the dynamic sort of in the multifamily space is how fast rents are moving versus how fast cap rates are adjusting upwards.

Office is different. It's tougher in terms of excess supply in a lot of markets. So I do think the LTV is going up faster is reflective of higher rates and tougher fundamentals. You're not seeing the same dynamics we're seeing in multifamily. I think, Brett, you said 80% of the office book has now gone through a CBRE reappraisal in the last 2 quarters. So we'll see where the last 20% of that comes out. And this is a market that's going to have to adjust and adapt. And certainly, here too, lower rates would be helpful, probably provide some confidence that today we're not seeing.

Operator

Our next question is coming from Kelly Kunath with Morgan Stanley.

Kelly Whelan Kunath ***Morgan Stanley, Research Division - Research Associate***

Just a quick one back on CARET. Is there a threshold that you feel like you need to cross before the focus kind of goes back to CARET? Maybe it's stringing together a couple of series of positive quarters in the origination front or something?

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

Yes, I think that is probably the biggest variable right now is when does growth kick back in. And I think that's a function of external growth in terms of new deals and also just stability in the existing book UCA. So a couple of quarters would do it. But this is a long-term investment. People are trying to center on a growth rate. We're still relatively new as a company. So putting a couple of new strong quarters on the board, I think, is really what people are waiting for, to be honest.

Operator

Our next question is coming from Matthew Howlett with B. Riley.

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

What's the update on Fitch and their review? I know they reaffirmed a few months ago. And then just remind me again what the interest cost savings could be if you have the dual AA, single A minus?

Brett Asnas ***Safehold Inc. - CFO & Principal Accounting Officer***

So when we think about our conversations that we've had with Fitch over the last couple of years, I think what we've outlined for them is that the credit looks materially different than when we were first rated. Obviously, the asset base today versus early 2021 is double. Revenues and net income have doubled. The unencumbered asset base has grown 5-fold, right? We have $4 billion of unencumbered assets.

I think the big piece of the puzzle was 1 year ago when we closed the internalization. That changed a lot of the governance aspects that they evaluate us by. I think from a liquidity perspective, our revolver is now 3.5 times the size of what it was 3 years ago.

Now, we've been able to prove out public and private capital raising in the debt markets. We've played across the curve. I think we've gotten our cost structure in line. I think we've prudently hedged. You take the combination of all of that, and it feels like we're a different credit today than we were a few years ago. I think when we ask what is it that we need to do to get there, a lot of it continue to do what you're doing. We obviously are a newer company in the IG space. Building that track record and building that operating history is important. So they want to continue to see us do that. So we're having constructive conversations with them and we're going to continue to push there.

I think from an interest cost savings perspective, we obviously have seen some of the flow-through from the Moody's upgrade in the fourth quarter. Even today, when you look at the bonds that we just issued back in February, they're trading 15 to 20 basis points tighter on a spread basis. So we've seen some of the flow-through there. But I would expect to see another 20-plus basis points of incremental savings if we get that second A rating. I know it will be certainly helpful to both the public and private side and that remains our objective, and we're going to continue to do what we can to control that aspect for us.

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

Well, that could be -- you said 20 basis points to 30 basis points, that could be significant for new 30-year unsecured debt?

Brett Asnas ***Safehold Inc. - CFO & Principal Accounting Officer***

Absolutely. Yes. No, as Tim and Jay have spoken about on the origination side, I think the pass-through to our customers and being able to provide the best cost of capital for them to be able to get deals over the hump, we want to make the appropriate margins for this business. I think a lot of the hedging that we've done will start to flow through as we procure long-term debt and pay down our revolver borrowings, but we're sitting here today. And we have ample liquidity, we're hedged.

And at the end of the day, we want to make sure all the good work that we've been able to exhibit over the last few years to the agencies and creditors flows through to what we feel is today great relative value for investors, but we're going to continue to look to tighten that gap versus other investment-grade names.

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

And then maybe one bigger picture question for you, Jay. When you get to a normalized market, let's just look out whatever it's 1 year or 2, do you still feel it's $1 billion, $1.5 billion in annual originations? And when I run my model, should I still run it 60% debt, 40% equity? And I guess the question is, over time, given just the low risk that's in this ground lease, can you take leverage up? It just seems like over time, when I run my -- that leverage over time will go up just given the risk risk-adjusted returns here on that asset.

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

Yes, we certainly built the business to do $1 billion-plus a year. We think the market size of the opportunity makes that very, very doable in a normalized market. So I think that number feels right to us. We're just not seeing that right now, and that's a function of, I think, the volatility and uncertainty in the market and just the nominal rates relative to cap rates isn't lining up great in a lot of areas.

Yes, I still don't think we've changed our mind right now in terms of where we think the right leverage levels are, but this business was meant to scale to a much larger number, and I think that's really our goal. We're not anywhere close to what I think the true size and scale of this business should be. And that's the time we could certainly try to refine our thinking on leverage.

But right now, we're just trying to get to scale. That has always been our goal. The markets are going up, markets are going down. There's stresses here. There's stresses there. But our goal has to be to get to scale because I think you're going to see some of the dynamics on CARET, some of the dynamics in terms of overhead as a percentage of assets and as a percentage of revenue, all start to fall down into our long-term goals. And we're just not there yet. So before we do something on the right side of the balance sheet in terms of changing mix, I think we need to get a little bit bigger and a little bit closer to our goals, and then we can relook at that.

Operator

Mr. Hoffman, we have no further questions.

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

Great. Thank you. If you should have any additional questions on today's release, please feel free to reach out to me directly. Operator, would you mind giving the conference call replay instructions once again? Thanks.

Operator

Thank you. There will be a replay of this conference beginning at 2:00 p.m. Eastern Time today. The dial-in for the replay is (877) 481-4010 with the confirmation code of 50475. This does conclude today's conference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation.
