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PRESENTATION

Operator

Good morning, and welcome to iStar's Third Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

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

Jason Fooks ***iStar Inc. - SVP of IR & Marketing***

Thank you, and good morning, everyone. Thank you for joining us today to review iStar's Third Quarter 2020 Earnings. With me today are Jay Sugarman, Chairman and Chief Executive Officer; Marcos Alvarado, our President and Chief Investment Officer; and Jeremy Fox-Geen, our Chief Financial Officer.

This morning, we published an earnings presentation highlighting our third quarter results, and our call will refer to these slides, which can be found on our website at istar.com in the Investors section. There'll be a replay of the call beginning at 1:00 p.m. Eastern Time today. The replay is accessible on our website or by dialing 1 (866) 207-1041 with the confirmation code of 7947936.

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, will be forward-looking. iStar's 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. iStar disclaims any intent or obligation to update these forward-looking statements except as expressly required by law.

Now I'd like to turn the call over to iStar's Chairman and CEO, Jay Sugarman. Jay?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Thanks, Jason. We spent the third quarter continuing to focus on our 3 core strategies: building our ground lease business, recapturing capital from legacy assets and strengthening our balance sheet. As a result, adjusted earnings were solid, we extended our debt maturities even further, and the legacy asset portfolio continued to shrink. But our primary goal remains highlighting the embedded value of iStar's ground lease platform and asset portfolio and positioning ourselves for expanded growth in the ground lease ecosystem.

As we mentioned on Safehold's earnings call, we are beginning to see some pickup in transaction activity in the real estate markets. And a concurrent pickup in ground lease opportunities. Safehold and iStar are well positioned to continue providing innovative ground lease capital to building owners, and we are finding new ways to meet our customers' needs as we push further and deeper to reinvent the sector and increase the market's understanding of its potential. Safehold recently closed its first core multifamily transaction in Seattle as part of a custom-tailored SAFE/STAR transaction, and we're working with new customers across the country as we expand our capabilities.

With regard to the existing portfolio, we continue to see certain sectors struggling with COVID having a major impact on operating performance. Theaters and hotels have been hard hit, and we put one of the few remaining entertainment retail loans in our portfolio on NPL status. Though we remain senior to significant equity and subordinated debt and do not currently expect any principal loss in that position.

On the other hand, we saw positive developments in our largest net lease exposure in the entertainment sector Bowlero as the company significantly bolstered their liquidity position and generated operating results that exceeded our expectations on both a revenue and EBITDA basis. As a result, we executed a comprehensive amendment to 2 of our master leases to defer some rent in return for eliminating a sizable forward capital commitment that no longer fits with our ground lease focused strategy.

The net benefit to our long-term master leases with Bowlero is a tenant in a much stronger position with growing momentum and what now appears to be the firepower to outrun even some of the more pessimistic COVID forecast.

And with that as a quick overview, let me turn it over to Jeremy now to go through the details. Jeremy?

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

Thank you, Jay, and good morning, everyone. My comments will refer to the earnings deck we published this morning on our website.

Turning to Slide 3, which highlights our performance this quarter against our strategy. Safehold continues to demonstrate strong performance, both in terms of the business and the value of our investment, which now represents a $1.2 billion unrealized gain. Since Q2, Safehold closed an additional $105 million of ground lease investments. We strengthened our balance sheet by refinancing $400 million of unsecured senior notes extending our debt maturity profile. And we continue to simplify our business by monetizing our legacy asset portfolio with $21 million of dispositions, reducing that portfolio to 13% of our total asset base.

Then to Slide 4 with more on Safehold. Safehold saw an uptick in origination activity through the quarter, which bodes well for the future. With over $200 million of potential ground lease investments under signed letters of intent, in addition to the $105 million of closed transactions just mentioned. Its portfolio of ground leases was $2.9 billion at quarter end, and it continued to collect 100% of its ground rent, highlighting the safety of its cash flows during these stressed economic times.

Since the third quarter of 2019, our investment in Safehold increased by $1.3 billion which includes that $1.2 billion unrealized gain. During the first 3 quarters of the year, Safehold stock has appreciated by 56%.

Slide 5 details how we've strengthened the balance sheet and improved our credit metrics. During the quarter, we refinanced $400 million of 5.25% senior unsecured notes due in 2022. And extended our weighted average corporate debt maturity profile to 4.5 years with no corporate debt maturing for just under 2 years. As at quarter end, we had $88 million of cash and $330 million available capacity on our revolver. Year-over-year, our unencumbered asset base increased by $1.1 billion to $4.6 billion. Our unencumbered assets to unsecured debt ratio improved to 2.2x. We are levered 1.2x debt to adjusted equity-based on SAFE market value. And we remain primarily an unsecured borrower. This unsecured debt represents 68% of our total debt.

On Slide 6, we provide an update on the legacy asset portfolio. During the quarter, we sold $21 million of legacy assets, taking total sales proceeds over the past year to $183 million. Over the past year, we've reduced our legacy assets by 14%, with most of that reduction concentrated within our short-term legacy asset portfolio, which is down 25%, taking that balance to $285 million.

In our long-term legacy portfolio, the entirety of our $69 million of sales were transactions in Asbury Park and Magnolia Green, where we have seen continued steady sales through the COVID period.

Slide 7 shows our investment activity for the quarter. During the quarter, we had a total of $148 million of investment activity, including $8 million of open market purchases of SAFE stock, $117 million within our loan portfolio and our net lease joint venture and $9 million of development CapEx. In addition, we repurchased approximately 1.1 million shares of STAR stock during the quarter for $14 million.

On Slide 8, you see our portfolio overview. Rent collections remained consistent with the prior quarter. SAFE, which represents 34% of our portfolio based on its market value, collected 100% of its ground rent. Excluding Bowlero, we collected 98% of rent on our net lease portfolio, consistent with the second quarter. And we received 92% of our interest payments due within our real estate finance portfolio.

Unpaid interest is due to a single loan on a large entertainment and retail property, which we classified as a nonperforming loan at the end of the third quarter. And we collected 80% of rent at our operating properties, which represents only 5% of our portfolio.

As Jay mentioned, Bowlero reached a comprehensive deal with all its capital providers to ensure sufficient flexibility to manage through the business disruption created by COVID. As part of that deal, we agreed to defer approximately 60% of the rents owed for 9 months, starting October 2020 for a total of $23 million. This deferred rent will accrue with interest and will be repaid over 2 years, commencing January 2023. And as part of the agreement, we terminated a $55 million forward commitment to purchase additional bowling centers.

Slide 9 details our results for the quarter. We reported a net loss for the quarter of $2.1 million, which is a net loss of $0.03 per share and adjusted earnings of $22.1 million or $0.29 per share. Year-to-date, we reported a net loss of $46.9 million, which is a net loss of $0.61 a share and adjusted earnings of $29.8 million or $0.39 per share.

On Slide 10, we present our book value per share, which illustrates the value created through Safehold, but not recognized in our reported financial statements. Including SAFE market value as of September 30, our common equity value per share is $24.58. And when adjusted for depreciation, amortization and CECL allowance, our common equity value per share stands at $29.08. The current stock price represents a substantial discount to this value.

In conclusion, we saw consistent performance from our diversified portfolio and significant embedded unrealized gains from Safehold. Moreover, we've seen an uptick in Safehold's origination activity pipeline, which should enable us to continue to scale the business.

With that, let me hand it back to Jay.

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Thanks, Jeremy. Well, with 2020 almost behind us, we're pleased with the growing value created in our Safehold platform and shareholdings has more than offset the negative impacts of COVID on other parts of the portfolio. As the numbers continue to show, iStar's embedded value is well above the current stock price. So, we'll work to show more investors why the success of our ground lease strategy has created an attractive entry point in iStar with a compelling value proposition and significant upside.

Okay. Operator, let's go -- open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

I'm just looking at the income statement. The other income line was up sharply to $25.6 million from last quarter's $10.3 million and a year ago, $18.3 million. Can you give any color on what drove that increase?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Sure. We actually had a nice pop in one of our cold storage assets in terms of its value that we were able to recognize. So that was most of it, Jade.

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

Is that recurring income? Or was that a onetime item?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Well, it's a position that came out of our preferred freezer portfolio that we sold, and the company that acquired it and that we now have a small interest and has done great. So, they have been able to consistently increase the value of our position, but I can't say it's a recurring -- contractual recurring, but we really like the position and think there's more upside there.

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

Could you quantify the size of that position, maybe in terms of book value or some other metric?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Yes. It's -- in right around the $16 million range right now.

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

Okay. Great. The entertainment retail loan on NPL, what time horizon would you expect for recovery? And I believe you said you don't expect any principal loss because you're in the senior mortgage position?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Well, I think we're restricted from talking about it during these negotiations. But what I would say is the asset is open and COVID is the primary cause of this temporary -- what we expect to be a temporary hit. So, if you think COVID sort of runs its course in the next 12 months, I think that that's the period we need to get through and out the other side. And as I mentioned, I think it's more a situation where the equity and the subordinated capital need to decide exactly how they want to create that runway. But until they have a clean runway setup, we thought it was right to put it on NPL.

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

Any other concerns in the loan book? There's about $185 million of hotel loans. There's $84 million of land loans. There's $168 million of condo.

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Yes. So, I think the land book is actually doing better than we thought. So, we feel good about that. I would say the hotels are the one place, but again, the COVID impact has been outsized and certainly outside the realm of typical ups and downs. So, feeling okay about that because, again, we think when COVID is passed, those are good solid assets. But I think I said it last quarter, the longer COVID goes, the more variability comes into our projections.

So right now, we're kind of anticipating 6 to 12 months of still pretty hard conditions out there. And so we think our sponsors have the wherewithal just to make it through there. But little bit out of our hands right now in terms of COVID timing and just how long these sponsors can stand in and continue to support these assets. But we haven't taken any additional reserves. So, we still think we're in good shape, but I would keep our -- we're keeping our eyes on, certainly, the hospitality side.

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

Okay. Are there any loans that you might be interested in looking to monetize? I saw Commercial Mortgage Alert in July reported that there was a mezz loan on a New York hotel totaling around $50 million that I think in Brooklyn that iStar was looking to sell.

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Yes. Again, we kind of like most of our positions, but there are plenty of places to trade one thing and get into something even better. We certainly continually explore that in our net lease book and our finance book. But it's all fairly calibrated to here's the price at which we can take capital from one sector and put it in another and make a lot more money.

I think, as Jeremy said, we bought stock. We reinvested in some of our net lease asset areas. But mostly, we're reinvesting into our ground lease business that we think is fantastic. So slowly, but surely, we will try to get rid of a lot of the legacy assets and reinvest them into this ground lease ecosystem. But we're -- we have no real urgency to do that, no pressure to do that. I think we've moved out our liability structure very, very nicely. So, all these are almost purely discretionary decisions. And if we get prices that we like, we'll make that trade. And if we don't, we'll play on.

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

And just thinking about the capital position with $88 million of cash and over $400 million of liquidity, how are you thinking about iStar's capacity to make new investments?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Yes. We think the capital is there to be invested, and we certainly have a plan to put it to work over time. We also see significant capital flexibility in the rest of the balance sheet. If we wanted to create incremental capital, we could do that.

So, our goal right now is to put that capital to work in the areas that we think are most beneficial for shareholders and fit our strategy most closely. And we're laying that plan out for 2021 as we speak.

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

And are you able to draw on the credit facility to fund additional investments in SAFE?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Yes. Dollars are fungible, but that credit line is available to us right now in full.

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

Okay. And just last question would be, if you could give any color on the core multifamily deal in Seattle, maybe you mentioned the SAFE/STAR nature of it. But also, the $200 million [rise], what kind of transactions you're seeing traction on?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Marcos, do you want to talk a little bit about Seattle and the pipeline?

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

Jade, so the Seattle transaction was a Class A newly constructed, super high-quality asset and sponsor, where we were able to offer a one-stop capital solution as the assets' loan matured. So, it's a stabilized asset, plus 90% occupancy. Collections actually at 100%, so surprising in this volatile environment. But where the asset is located across the street from Apple and Facebook, it adds up a little bit as to why the assets performance is so strong. And so, we were able to create a ground lease for SAFE that was great for SAFE and a high-quality, unlevered high-return for STAR.

On the SAFE pipeline side, as we said on the SAFE call, a lot of positive traction over the last 2 months. We're seeing a lot of multifamily transactions primarily. They're mostly new sales surprisingly pretty close to pre-COVID values, and our product, both with new and repeat clients across the country, has scaled pretty dramatically. So, we're excited about the prospects going forward for SAFE.

Operator

Our next question comes from Stephen Laws with Raymond James.

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

Jay, I guess, I wanted to touch on buybacks. I know you talked in the press release, you had a comment about getting more market participants to recognize the value of the platform. And on a mark-to-market basis, I think you guys bought back about 9% of the company last year as -- 9% last year in the first half, but on a mark-to-market basis, the stock is cheaper at STAR today than then.

Can you talk about your appetite to increase that stock repurchase to signal the value there? It looks like the leverage numbers you guys cited in the deck declined pretty substantially. So, can you maybe talk about how you look at the use of capital between buying back STAR investments and SAFE and potential increases in the dividend?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Sure. Stephen, it's really 2 things. One, we have been a consistent buyer, as you note. We do believe iStar's stock price is significantly undervalued. And if we can capture some of that discount for remaining shareholders, that's always a good trade and one we've executed on pretty consistently. But I mentioned in the more investors and getting people to really see this. Buying stock in and of itself hasn't really moved the stock. We've seen that pretty consistently. It's an excellent investment for capturing some of that value.

But I think the big way to unlock the real delta between where it's trading and what we think it's worth, used to go tell this story. Now that it's getting simpler, now that we've created a really strong balance sheet, and you've seen some of the positive things we've done over the last 2 years to really try to put a very simple story out there that, frankly, gets simpler every day and had COVID not stepped in here, I think we'd be telling a different tale.

But we probably need to go out and make people understand the components of value where we're headed, how we're going to get there and why this gap in value really shouldn't exist. And we think that's probably even more important than simply buying what we're allowed to buy in the marketplace is to really get more people to just look at what is and where we're going. And I think if you understand the Safehold story, you'll get even more excited.

So, we've got work to do on that front. There is relatively concentrated shareholder base at iStar, and we think there's a lot more people who would be interested if they understood the story. So, once we come out of blackout here, I certainly think we're in a strong position to tell a story that lots of different kinds of investors will understand. But as I said, I think it's not only a compelling value proposition. But when you understand this ground lease reinvention that we have started and have really become the leader in, I think you'll see that there's a lot of upside even beyond where we are today at Safehold, and that all translates back to STAR, too. So, no one silver bullet, but we think between buying in mispriced securities and telling the story in a simpler, cleaner way as time goes on, we'll definitely narrow that gap.

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

Great. Switching to the short-term legacy assets, $285 million. Can you talk about the timing around resolutions there? Clearly, COVID, I think, extended everything for everyone. And curious to get an update now that with 6, 7 months pass and maybe get a reset on expectations of monetization and asset resolutions around the short-term legacy portfolio.

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Yes. I mean it's -- some days are good days, even some are frustrating. We've had a lot of those assets under contract, and some people did fall out and whether they did it because they're just probing to see if we'll sell at a lower price or whether they did it because they too have concerns about how long COVID it's going to go.

We continue to make progress, and our team is doing a great job in terms of -- these assets are in a position where they can go to market. We put them on the market. We've seen good traction in that short-term pool on a number of assets, but some of them have extended closing time frames that are conditioned on getting something from a municipality. And what we've seen is COVID has really slowed down anything that needs to go through the government channels. For a while, they weren't even meeting, then they start to go to Zoom meetings, but it feels like it takes 2 or 3 Zoom meetings to get done what used to get done in one council meeting.

So, we've got some time pushback on a couple of those assets. But again, I think most -- trying to think almost all of them, we are either in market or getting ready to go to market. It's just the closing time frames. And some of those will be pretty extended, can be as much as 12 to 18 months on a few of them. So, like what our team is doing there.

I would say on the long-term stuff, we're actually pretty pleased where things have shaken out and Magnolia continues to be a top seller in that market. And Asbury, I would tell you, the kind of sales has been quite good. I think we sold 6 units in October, which is really good for us. But Asbury summer was very muted. Our hotels ran a fraction of their typical summer numbers, although we had a couple of good weekends in there towards the end of the year. So a little bit of a mixed bag in terms of a muted summer across all of Asbury, but the Asbury Ocean Club is doing really well. And we actually have a couple parcels of land that we think are headed for sale or pretty competitive bidding.

So, can't really tell you the future until we get this COVID thing under control. It really does make business much harder. And I think it just puts psychologically a little bit of a cap on how much we can get done. But again, if we can round the -- I won't use that term, if we can solve this problem by the summer of 2021, that's kind of how we're budgeting and thinking about moving forward.

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

Great. And you touched on Asbury there, but -- the hotel exposure in the finance portfolio, can you talk about any updates there and what you're seeing with those investments?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

The tales are tough. They're in almost a dual squeeze, which is demand has fallen off. A lot of market supply was in the pipeline and is still coming online. So, there's a period of pain here, and we're starting to see the pundits call for 3, 4, 5 years before they get back to 2019 levels. And that's, again, a function of both, I think, the demand side, the Zoomification of business, and then the supply side, which you can't stop on a dime. So, there's still stuff in the pipeline that's coming forward.

We rely on our sponsors who are typically well capitalized to see the near-term issues is something they can get through. And our basis, in most cases, is one we feel quite good about. But this is not going to be an easy period for the hospitality world. And in particular sectors, I think they're going to have a long road to get back. But we have more of ours are kind of bread and butter hotels, and I think they stand probably the quickest recovery. And so we're just -- we're hanging on with our sponsors to try and to help them kind of get through this and get to the other side because we think most of them will.

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

Great. And lastly, Jay, more positive outlook, I guess, on growth at SAFE and also kind of combined originations on a STAR/SAFE financing. Can you talk about the pipeline there on new investments? Are you seeing any strength in certain regions or certain properties sites? Kind of how is that building now as we head into the end of the year? And is there any seasonality along that? Should we expect any deals that want to close before year-end or go into next year, whether that's for political or tax reasons or simply annual budgeting issues?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

I'll throw them back to Marcos again, but I think as you said, we put a real push on multifamily post Labor Day. We felt like we had a really good solution for a lot of folks. And we have continued to try to press into more places for more customers. I think that's really the story of 2021 that's coming is our ability to -- now that we've done this for 3 years to be able to sit with a customer and say, what do you need and then find a solution for them that is good for them and good for us.

And these kind of win-win solutions are why I'm so excited about this business because I think what we're actually doing is providing an entirely (inaudible) for people to capitalize the ownership of buildings. And it really looks to us like 1 plus 1 equals more than 2. So, we win, they win. And ultimately, I think the overall real estate market wins.

But Marcos, I don't know if you have any more color for Steve.

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

I'll just echo what you said, Jay. If you look at the SAFE pipeline, the majority of it is what I would call suburban, higher growth business-friendly demos and very selective on the urban. If you guys cover all the public multifamily REITs, you can see their same-store and year-over-year's numbers in the urban markets are pretty ugly. So, I think there is a difficulty across the market, whether you're providing ground lease capital or equity capital in some of these urban markets. So, we've seen success in some of the higher growth, more stable markets.

On the net lease side, continuing the theme on the cold storage side, we made an investment there. We also made an investment in the past quarter in the life sciences space. So, we're seeing that in the pipeline. So, a lot of logistics, life science on the net lease side.

Operator

Our next question comes from Jade Rahmani with KBW.

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

I wanted to ask a bigger question -- bigger picture question just around New York. In the office sector, in general, I believe, for SAFE's portfolio, New York is close to about 40%. And are you changing how you look at office deals, how you underwrite office deals? I think last quarter JLL CEO said, there was a 16% reduction in the typical lease term. And I think a lot of companies are deferring their decisions, and we know that companies are evaluating strategies for supplementing their gateway market footprint with satellite offices. In the Tri-state area, for example, in the suburban markets. So I wanted to hear what your thoughts are on New York and if you're changing how you underwrite office deals?

Jay S. Sugarman ***iStar Inc. - Executive Chairman & CEO***

Let me stay really high level, and then maybe Marcos can talk about some specific viewpoints. But the tension between urban living and suburban living has been going on for a long time. It comes in a little bit of cycles. We're clearly in a cycle where the benefits of living in a vibrant, active, walkable location, like in New York are unfortunately not available. So, we definitely see a little bit of a pendulum swing the other way right now.

But Jade, as you know, we think about that business in decades. These are 99-year instruments. And if you ask us whether our view has changed on major cities in our country suddenly becoming obsolete, we don't believe that. And so, in the near-term because we are super senior and low in the capital stack, we don't have to quite make a call on what's happening to lease terms today and tomorrow. Well, we have to make a call on us, are these cities capable of providing the kind of environment where a large percent of the population will want to live? And we still think that's the right thesis for a long-term business.

We're certainly not abandoning urban cities and would never abandon New York. But this will go through cycles as well. Good leadership tends to make city shine. And we're certainly hoping coming out of COVID that top-quality leaders can step in and really help make this COVID impact as short as -- limit the pain as much as possible, but New York is going to go through some pain. We're seeing it in San Francisco. We're seeing it in L.A. The policies will have to reflect that.

And while lots of people love living in the suburbs, I think lots of people love living in an urban environment. And I don't think that's necessarily changed in any systemic way, I think. We do have to recognize some of those impacts, and we do change our underwriting.

So Marcos can tell you, it's a fluid process, and we certainly don't have our head in the sand, but we also, again, are trying to make long term decisions, not trying to pick what's going to happen in the next couple of quarters. So Marcos, I don't know if you want to go into a little more detail on how we're underwriting it.

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

No. I think -- sorry, Jay, I think that the high-level thesis is ultimately what drives our decisions because we're not making 3-year bets and trying to time markets. So, we're still believers in the major markets. On a more granular basis, Jade, our underwriting approach is always taking a mark-to-market, what I would call, more lender-like conservative approach. And certainly, on office markets, office assets depending on the market, our net effective rents in our underwriting can be down 20% to 25% on a mark-to-market basis.

It doesn't mean that we don't think that those rents will ultimately recover and each asset in its individual location and who it sponsor is and the quality of the asset, and is it sit in the haves bucket versus the have notes bucket as it relates to quality. So, there's a lot that goes into our calculus, but we are believers, and I'll add just 1 personal tidbit. We've been back in the office since Labor Day abiding with the social distancing regulations. And I can tell you, I feel much more productive. I don't know if it is the kids not running around in the background, or just us being able to kind of pop down the hall and talk to somebody, it just feels much more productive and much more efficient.

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

And if you thought that office rents in New York City were going to be down 20% and that it would take 3 to 5 years to get back to their prior period, what would be the impact to purchase price on the ground lease? The 35% ground lease.

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

Yes I think...

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

Which is down by similar magnitude?

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

Yes. Not necessarily because there's a cost of capital component here. And the assets that we invest in are pretty high-quality, and there's still people chasing yield across the world in the new yield world. So one could argue that cap rates are actually potentially down for the overall real estate market. And we've seen some similar trends occur in Japan and Europe and potentially the U.S. is in a similar sort of cycle of lower yields, given what's going on in spending at the federal level.

So, it's hard to know. I will tell you, we orient ourselves around a few things: replacement costs, land value, coverage percentage of CPV. This is going to be a general comment, Jade, because every asset is different. But I would say our ground lease proceeds are probably on the same asset, down 10%, 15% from where they were before.

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

Okay. And if you thought that the average lease duration, I think something WeWork brought to light in the market was the anachronistic nature of some office leases in a hyper changing tech-enabled world, signing a 10- to 15-years lease with ever-growing that is a big commitment for companies to make. If you thought the average lease duration was going to be down into the 5 to 8-year range from 10 years previously, how would that impact your underwriting?

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

I don't think it necessarily impacts us as much. To me, that's a supply-demand shift. Today, there's no demand. And obviously, if you're a company, you're preserving your optionality before making a decision, which is why, to your point, you referenced is there's a ton of short-term lease renewals happening. People are just not solidifying. They're also waiting to see where they can get a bargain. Can they get into a building they could have never gotten into?

So, I think this is the natural cyclicality that you see, and I expect the demand to come back. And when demand comes back, and it's in the landlord's favor, you'll see lease terms go back to being longer. You'll see TIs going lower. You'll see free rent going lower. But we're at the beginning of that, and that could take a long period of time to recover.

Operator

(Operator Instructions) Mr. Fooks, we have no further questions.

Jason Fooks ***iStar Inc. - SVP of IR & Marketing***

Okay. Great. Thank you. And if anyone else on the call should have any additional questions with today's earnings release, please feel free to contact me directly.

Tiffany, would you please give the conference call replay instructions once again? Thanks.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern today through November 17 at midnight. You may access the AT&T executive replay system at any time by dialing 1 (866) 207-1041 and entering access code 7947936.

That does conclude our conference for today. Thank you for your participation for using AT&T conferencing service. You may now disconnect.