REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2021 Safehold Inc Earnings Call

EVENT DATE/TIME: APRIL 22, 2021 / 2:00PM GMT

CORPORATE PARTICIPANTS

Jason Fooks *Safehold Inc. - SVP of IR*
Jay S. Sugarman *Safehold Inc. - CEO & Chairman*
Jeremy Fox-Geen *Safehold Inc. - CFO*
Marcos Alvarado *Safehold Inc. - President & CIO*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone *JPMorgan Chase & Co, Research Division - Senior Analyst*
Caitlin Burrows *Goldman Sachs Group, Inc., Research Division - Research Analyst*
Haendel Emmanuel St. Juste *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*
Ki Bin Kim *Truist Securities, Inc., Research Division - MD*
Nathan Daniel Crossett *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*
Richard Charles Anderson *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*
Stephen Albert Laws *Raymond James & Associates, Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to Safehold's First Quarter 2021 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 ***Safehold Inc. - SVP of IR***

Good morning, everyone, and thank you for joining us today for Safehold's earnings call. On the call today, we have Jay Sugarman, Chairman and Chief Executive Officer; Marcos Alvarado, President and Chief Investment Officer; and Jeremy Fox-Geen, our Chief Financial Officer.

This morning, we plan to walk through a presentation that details our first quarter results. The presentation can be found on our website at safeholdinc.com and by clicking on the Investors link. There will be a replay of this conference call beginning at 1:00 p.m. Eastern Time today, and the dial-in for the replay is (866) 207-1041 with the confirmation code of 8307576.

Now 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 the call over to Chairman and CEO, Jay Sugarman. Jay?

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

Thanks, Jason. Thanks, everyone, for joining us today. We began 2021 with 2 main areas of focus. First, we wanted to continue expanding the modern ground lease universe by providing low-cost, long-term, more efficient capital to unlock value for more building owners.

Achieving investment-grade ratings during the quarter will be a powerful tool in helping us continue driving down our cost of capital and should open up the market even further in terms of what we can do for customers. Our goal is to double our portfolio over the next 3 years, and with the economy picking up and deal flow increasing, we expect to see more transactions close as vaccination efforts return activity in commercial real estate to a steadier rhythm.

Second, we want to make sure investors more fully understand the value of the platform we have built and further expand our shareholder base as investors gravitate to Safehold's combination of asset safety, strong growth potential and significant intrinsic value upside. With the increasing scale and diversity of our portfolio, the full value of what we are building should become more clear.

And a key goal in 2021 is to share with investors a simple and straightforward way to value our company and each of its components. We have been systematically proving out the growth and quality of our portfolio over the past 4 years and believe we've reached a scale where we can demonstrate the underlying value of our portfolio, the large opportunity ahead of us and a compelling value proposition for investors.

So with that, let's have Jeremy take you through the quarter. Jeremy?

Jeremy Fox-Geen *Safehold Inc. - CFO*

Thank you, Jay. And good morning, everyone. Let's begin on Slide 3 with some highlights for the quarter. We continue to make steady progress scaling our business by providing better, more efficient capital to real estate owners. And we remain focused on our medium-term target of growing our portfolio to at least $6 billion by the end of 2023.

During the quarter, we originated $166 million of ground lease investments at a 5.3% effective yield. We recast our revolver to a new more efficient $1 billion unsecured credit facility, which positions us with $770 million of liquidity at the end of the quarter to put to work for our customers.

Moving on to Slide 4 for highlights of our results. Revenues were $43.5 million for the first quarter versus $40.2 million for the same period last year. Net income was $16.9 million versus $17.3 million in the prior year period. And earnings per share was $0.32 versus $0.36 from the first quarter last year.

This quarter's results were notably impacted by the level of percentage rent receivable from our Park Hotel's portfolio of ground leases. As we've previously discussed, the economic impact of COVID-19 on the hotel industry during 2020 was severe. As such, we did not receive any percentage rent pursuant to this portfolio of ground leases in the first quarter. This payment is a once-a-year percentage rent payment based upon the Park Hotel's revenues in the prior calendar year.

This compares to Q1 2020, in which we received $3.6 million of percentage rents for the 2019 calendar year, representing $0.07 per share. Percentage rent from Park Hotels accounts for approximately 2% of our annualized in-place GAAP rent. I would also note that our standard lease form for newly created Safehold ground leases is based upon a fixed bump structure with CPI lookbacks and does not include percentage rent.

As such, we would expect to see percentage rent continue to represent an ever-smaller amount of our growing portfolio and revenue stream. In addition, this quarter included $500,000 of onetime costs, consisting of $300,000 associated with the termination of the prior shelf registration as well as $200,000 of losses on early extinguishment of debt resulting from the recast of our revolving credit facility.

Slide 5 provides an overview of our portfolio expansion. During the quarter, we originated 3 new ground leases totaling $166 million, of which we funded $71 million during the quarter, with the remainder expected to be funded over the next few quarters.

These deals included multifamily properties in Washington, D.C., and Nashville, and 1 hotel property in New York City. The investment metrics associated with these deals are in line with our stated targets, with a weighted average effective yield of 5.3%, ground lease to value of 36% and rent coverage of 3.7x.

At the end of the quarter, our aggregate portfolio totaled 77 ground leases and stood at $3.4 billion, representing over 10x growth since our IPO nearly 4 years ago.

Slide 6 presents key metrics for our portfolio. As of March 31, our in-place portfolio generated an annualized yield of 5.3% based on an annualized in-place GAAP rent after depreciation and amortization of $175 million. The portfolio's annualized cash yield was 3.4%, with annualized in-place cash rent of $112 million.

The weighted average ground lease to value was 40% and weighted average rent coverage was 3.3x. Our portfolio consists of 55% office; 26% multifamily, up from 17% this time last year; and 18% hotel. Our weighted average lease term is 88 years.

On the next slide, you can see the geographic breakdown of our portfolio as we continue to diversify across the U.S., focused on the top 30 markets across the country.

Slide 8 provides an update on our capital structure. As we previously announced, we were pleased to receive investment-grade credit ratings from both Moody's at Baa1 and Fitch at BBB+ earlier in the first quarter. These ratings provide us increased financial flexibility, broaden our access to sources to deal for efficient ground lease capital to our customers.

Our first step into the unsecured markets was to recast our prior $600 million secured revolving credit facility into a new and upsized $1 billion unsecured revolving credit facility, reducing our rate by 30 basis points from LIBOR plus 130 to LIBOR plus 100. Additionally, this quarter, we entered into an at-the-market equity offering plan to sell up to $250 million of stock.

We intend to use our ATM judiciously. During the quarter, we sold of 13,000 shares for net proceeds of $1 million. At the end of the quarter, we had a total of $2 billion of debt, comprised of $1.7 billion of long-term debt and $255 million drawn on our revolver. We are conservatively 1.4x levered on a book basis and 0.5x on a debt-to-equity market capitalization basis.

Our long-term debt has a weighted average maturity of 30 years and a weighted average effective interest rate of 4%, which is a 137-basis point spread to the 5.3% yield on our portfolio. At the end of the quarter, we had $770 million of liquidity comprised of $745 million of revolver availability and $25 million of cash on hand.

Moving on to Slide 9. At the end of the first quarter, the unrealized capital appreciation in our portfolio stood at $5.6 billion, representing a 97% compound annual growth rate since our IPO. As we mentioned last quarter, we believe our UCA has reached scale and diversity, and we have proven our ability to grow it on a sustained basis. As such, we plan to continue to spend more time discussing UCA and our framework for its valuation as we believe it is an important component of our value, not yet fully understood or recognized by investors.

In conclusion, we continue to make steady progress towards our goal of doubling the portfolio over 3 years. We continue to expect volatility in our quarter-to-quarter acquisitions volume. However, we remain encouraged by our pipeline and are confident in attaining our medium-term goal. In addition, we took a number of important capital market actions this quarter that should drive additional efficiencies and give us new competitive advantage.

With that, let me turn it back to Jay.

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

Thanks, Jeremy. So our goals are clear, but just let me reiterate them once more. Growing our portfolio and highlighting the components of value in our business, particularly the value of our growing capital appreciation asset, will enable us to expand both our business and our shareholder base. And we look forward to success on both fronts to enable us to continue delivering strong returns and continue growing the modern ground lease industry.

And with that, let's go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Nate Crossett with Berenberg.

Nathan Daniel Crossett ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

I was wondering if you could give us some color on what the current pipeline looks like today. I mean, how much do you guys have under LOI, and I know the goal is to double the portfolio in 3 years, but is there any visibility you can kind of give us for the next 3 to 6 months?

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

Sure, Nate. I'm going to flip that to Marcos, but let me just tell you my own view is, it feels like the markets are beginning to -- at least transaction activities continuing to pick up. I can just see it from the business of our teams all over the country.

So I guess what I would tell you is, it feels like at some point, there's going to be a big quarter, but it's just hard to predict when. A lot of deals in process, a lot of conversations in progress, but -- Marcos, do you want to give a little more color on what you're seeing.

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

Nate. Yes, I'd echo what Jay said -- you're seeing some of that kind of episodic flow in our business. The engagement with the brokerage community, the engagement with our clients has never been stronger. The amount of transactions we're reviewing on a weekly basis has never been larger. So I think as the markets open up and people make decisions in the coming months, year, we're going to see some of that dam break open on our end, and we remain extremely confident in hitting our targets.

Nathan Daniel Crossett ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Okay. And that's helpful. What are you guys seeing just in terms of pricing? Has there been any notable change in the last 3 months, just given the interest rate moves? And I guess how are clients thinking about that? How are they thinking about inflation? And maybe you can remind us what you guys have built in your contracts for inflation protection?

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

Again, I'll give you a quick overview, and then Marcos can fill in for the details. But our goal has always been -- make this a mainstream product by making it the most efficient, lowest cost, longest term capital available. So, we're going to use our investment-grade ratings to continue to be more efficient on our side. That's going to allow us to pass some savings on to the customers.

Our goal is to continue to have this 100, 125 basis point spread to our cost of funds, our debt cost. So as the markets move, we will move with them, but that target is still the one we shoot for. And I think our customers appreciate the fact that we've created really the gold standard in the ground lease world. It's simple. It's clear. For the next 100 years, you know what's going to happen and how to operate your business.

There's not a lot of bells and whistles and things you have to worry about or be concerned about. So, I think we've created the right product for the industry. As Marcos said, the brokerage community has started to really adopt it as a key facilitator for transactions anywhere from new builds to refinancings to sales. So, I think the interest rates will go up and down, but the validity and credibility of the modern ground lease continues to grow.

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

Yes. Nate, the origination team, we price our product over 30-year treasury. But as Jay mentioned, as our cost of capital continues to go down, we pass that on to our customer, continuing to maintain kind of that spread in our business. And to directly answer your inflation question, our standard form leases have an inflation protection where we look back at the past 10 years of inflation and catch up, and that can be capped at somewhere in the 3% to 3.5% range.

Operator

Our next question comes from Caitlin Burrows with Goldman Sachs.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

I was wondering if you could go through to the 1Q investment activity that you quoted of $166 million does include the forward commitment. So I was wondering if you could go through when that $95 million is expected to close. And for the $71 million that did close during the quarter, what was the timing of that?

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

Marcos, do you want to take that or Jeremy?

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

Sure. I'll take that. The forward commit is expected to close in the next month to 2 months.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

And then just on the activity from the first quarter, was that -- should we assume mid-quarter or beginning year-end?

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

Jeremy, I don't have the exact timing on that. I think it's mid-quarter.

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

Mid-quarter would be a good assumption.

Caitlin Burrows ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Okay. And then just on the financing side, that was exciting and interesting that you said that you set up the ATM. So I was just wondering if you could go through your expectations for issuing equity as 2021 goes on. Do you expect to exclusively use the ATM? Or what metrics do you think you'll be looking at to decide when is the right time to raise equity either via the ATM or otherwise?

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

Yes. Let me kick that one to Jeremy. I'll just say, Caitlin, that we think it's an interesting product. When the pipeline really starts cranking, it will give us some additional flexibility in the funding side of the business. Really, we just tested it out this quarter just to make sure from the dynamics it was all set up or we didn't really touch it much this quarter. We've got plenty of availability, as Jeremy went through. So it's something that down the road we think just gives us another arrow in the quiver.

I think our goal, and I keep saying this because we feel like there's a large proportion of investors who would be very interested in Safehold. We wanted to build our scale, really sink the story over the past couple of years so that we can really expand our shareholder base. We think the growth elements, the value elements, the long-term safety and compounding returns would be attractive to a very wide range of investors.

And we haven't really put our full shoulder to that yet. And I think you'll see in 2021 us become a little more aggressive about really explaining this business to a wider range of investors. So ATM, investment-grade ratings, more investors, all part of the bigger puzzle to turn this into a very large mainstream part of the commercial real estate and investment world.

And Jeremy, you may have more specifics on the actual ATM setup.

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

Thank you, Jay. I'll just add briefly. We've always said we want to broaden our access to capital pools and have the most efficient capital availability so we can provide the most efficient and well-priced capital to our customers. As you think about our business going forward, and our growth targets, and hopefully, beyond that, we want to and will become effectively a programmatic issuer of debt and equity capital.

We have a target leverage ratio of 2x. We've said we'll for the medium term always be more conservatively levered than that. And as Jay said, we have significant liquidity on hand to put to work for our customers. As we continue to grow, you could expect us to build out our balance sheet within that framework.

Operator

Our next question comes from Stephen Laws with Raymond James.

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

Jay, can you touch a little bit on the net percentage rent. And as we look at 1Q next year, I know it's a small number, but I think one of the assets may be a Doubletree airport hotel in Seattle. How do we think about the reopening and how -- what we need to see from a revenue level for those assets? Or what we should be watching to see if that kicks in for a year from now?

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

Sure, Stephen. I think the hotel industry, obviously, took a pretty big hit during COVID. What we've seen so far is the transient customers starting to come back. We're actually seeing some '21 over '19 comparisons that are quite favorable on transient. So that story is not yet playing out on the business and group side.

So assets like airport hotel are still lagging. They won't be the first ones to recover. So there's more work to do there. I think as Jeremy said, this percentage rent was a legacy anomaly from an asset we've owned for a long, long time. It was one of the initial IPO assets. Definitely not the structure we prefer for exactly these reasons, but it's going to be less and less part of the portfolio going forward.

Ultimately, as you guys know, the Park Hotel portfolio is one of the shorter-lived assets. So, there's certainly an opportunity in the future potentially to do something a little bit different on that one. We just think the uncertainty around percentage rent is one of those ambiguity uncertainties that we would like to get out of the ground lease business.

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

Great. I appreciate the color there, Jay. Following up, I know Nate asked about the pipeline origination. Can you talk about any seasonality you think you see in a normal year? I mean, I think we all agree that 2020 wasn't a normal year, but is there any seasonality we need to think about either late summer, around holidays at year-end? Or how do we think about the build on the originations as we kind of roll forward in the next 6 to 8 quarters?

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

Yes. I mean, I'll give my viewpoint, which is we closed a record number of deals in the fourth quarter. It's sort of everybody took a pause and had to reengage the next round of transactions. So typically, I think the first quarter is a little bit tricky to get deals closed in, people coming back from different vacations. And so just from a timing standpoint, as I think Marcos said, and I said, we feel like this is going to be a good year. We're not going to predict it down to the week or the quarter. But we feel really strongly in terms of annual performance. And the dynamics in the business are all pointing in the right direction. We feel like there's a wave coming. We just can't predict exactly when it will create a lot of closings. But nothing's changed in our mind in terms of the overall direction of the business.

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

Great. And 1 last question, Jay, on the effective yield, 5.3% up a lot sequentially, rates moved during the quarter. And I know you talked about spreads, I think, in your prepared remarks, but can you provide a little more color? I mean, if you try and hold rates apples-to-apples, how much of that increase was driven by the move in underlying rates? What was offset by lower financing costs? Was it any shift in mix of properties, either smaller properties or something where those had slightly higher yields relative to a past comparable period when we think about that 5.3% versus some high 4s in previous quarters?

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

Yes. There's some idiosyncratic situations in certain deals where we can either get lower or higher returns. I would tell you, overall, again, the good number to focus on is that $100 million to $125 million over our cost of funds. Investment-grade is going to give us the power to go back to customers who maybe looked at ground lease versus fee financing and said, "Yeah, it's good, but it's just not quite good enough for me." I think we're going to be able to go back then with an even more powerful proposition now, show them that this is some of the most efficient capital they can access.

We do think it will increase their returns, lower their risk. And as long as we're making our bogeys, whether it's high 4s, low 5s, that's not really the metric we focus on. We look at where we can finance things. We look at our cost of capital. What we want to do is every time we do a deal, feel like we've created enormous value. And the accretive nature of our side of the line allows us to continue to drive down costs for our customers, which should open up the market even further. So 5.3%, maybe a little bit of an anomaly, small number of deals. I think longer-term it's about $100 million to $125 million over our cost of funds, that's the more relevant number.

Operator

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

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

So Jay, I guess, it's been about 4 years since the IPO. The stock has done really well here, more than tripled the IPO price. You've reached scale, proven out the ground lease model. I guess I'm curious what the current view from iStar is on the involvement in safety or typically sponsor not forever investors. So curious what your current view is or hearing on their thoughts on maintaining their 60 percentage level of ownership? And what's the right way and time frame to think about Safehold as its own company with no iStar involvement?

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

Sure. Thanks for the question. So iStar has been a huge believer in what we're building, has been an important part of helping us get to that scale that you talked about. From an investment standpoint, we think there's still a very large embedded asset of Safehold that the market hasn't yet recognized, or we don't believe is reflected in our share price. So at least from a valuation standpoint, this is still an undervalued situation.

And I think you'd still see iStar be a buyer when things are trading at $0.50 on the dollar historically -- iStar has been pretty aggressive about acquiring things like that. So right now, I think the goal for Safehold is to continue to educate and get the market to reflect the value.

What we have said is once that value is fully reflected, once we've scaled the portfolio, I'd say closer to that $5 billion of ground lease number, there's a conversation that should and very likely will be had between iStar and Safehold about, okay, we've got a great 5-year run. We've built a big scale business. We've educated the market. The market knows everything we know. What is the right path forward?

And that's an opportunity where the alignment between iStar and Safehold will really come into play because as the largest shareholder, iStar wants this stock to do as well as it can. And so we may look at the architecture between the 2 companies and say there's a better path forward. We'd like to have a more broadly distributed shareholder base. We think external management may not be the perfect solution.

All those things will be on the table, is my guess. Our first step though towards that date is to get the shares fully valued and fairly valued. And we think there's a big component of value as you know that we're just starting to talk about that most of the market doesn't really know about or doesn't have the tools yet to understand why it's so valuable.

So more work to do on our side in terms of Safehold, expanding our shareholder base, helping them see the full value. And then that will naturally lead, I think, into a conversation with iStar about the go-forward strategy, what's the way to maximize value for the Safehold shares. And it still feels like that's the sort of end of '22 before we get to the sort of magic size, scale, valuation where that's going to be a good conversation.

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

Got it. Got it. And 1 more, if I may. Just want to follow-up on the conversation around the investment grade. You talked about the immediate benefit for the balance sheet. But I'm curious if there's any examples of how that's benefited you on the investment side. Has that opened you up to more counterparties and enhanced your investment capabilities anyway? Anything you could point out there? I know it's a bit soon, but just curious.

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

Yes, probably a little soon to see it reflected in actual transactions closing, but we can tell you just from past practice and just our legal team beginning to spool up. It gives us a flexibility. It gives us a tool that candidly just makes us faster and better. And it also allows us to continue to lower our cost of capital, which, again, because we are spread focused, we can pass on to our customers.

So, it's a really important thing. It's a powerful competitive advantage. But you really won't see the full impact for probably another 3, 6, 9 months, where we really start to figure out how to give our customers the benefit of the flexibility that it creates for us. We've got to see where the market prices our liabilities, so we can really tell the market where we can price and still make our return profiles. So more work to do there, but definitely an important milestone, will definitely pay some big dividends to the business, to the investment side, but I can't point right now to the specific impact.

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

Got you. Got you. And if I may, I was intrigued by the hotel transaction this past quarter and got me thinking retail. Is there any scenario? Are you reviewing any retail? Or is that still off the table? Is there any scenario in which you would consider doing retail-based transactions?

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

I'll let Marcos. We're not big fans of retail, but we're big fans of great land. So let me kick that over to him and let him walk you through how we're thinking about it.

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

Yes. I would say it's not a red line against retail, but Jay hit it on the head. So you should think about us, if we're going to do retail, urban, street corner, high traffic, can be repurposed into something else at some point in the future. Your strip center or mall in the regular way, Middle America is probably not going to be part of our portfolio.

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

I can assume there's nothing under LOI from a retail perspective?

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

There is not.

Operator

Our next question comes from Rich Anderson with SMBC.

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

So the spread that you talked about, the $125 million has some noncash components to it both on the debt and the investment side. What is that spread, if you were to think about how you customize your debt with the going-in cash yield of a deal? Is it still in that $120 million range? Or where is it today?

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

Yes. I mean, look, we've used different tools depending on the maturities, anywhere from 30 to 50 years that have been a good way to continue to keep the gross spread up in that $100 million to $125 million range, but also create a positive spread on the cash side.

We love reinvesting earnings into above market opportunities, which is effectively what's happening in our portfolio. So we're a little less focused on the cash spread and more focused on the overall economic spread. And basically, we get 3%, 3.5% in cash, and the other 2% of the return is actually the way yield to maturity works as you're basically reinvesting it at that same yield to maturity, which we believe is well above market.

So I think the number we really do focus on is that $100 million to $125 million on the economic return. And we obviously like to see the cash return, pay all our bills and pay a nice dividend that can grow over time.

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

Got you. And then on the UCA/CARET, so it seems to me like there is -- the reality of the situation is not going to be so linear, like so you get the asset when the lease expires. But as the lease gets closer to expiration, there could be some lack of linearity, is the only word I come up with, about how the value of the leasehold stays intact.

So my thinking is maybe the way that, that gets monetized isn't so much -- well we'll wait until the lease expires. But it becomes a negotiating tool. So if you have -- let's say, you have 1 asset at $5.5 billion, $5.6 billion, and then it's now 20 years out, you renegotiating that $5.6 billion goes to $10 billion or something. And then you reset the ground lease off of that $10 billion. Isn't that probably the more likely way that this all plays out over the very long period of time? Or am I barking up the wrong tree?

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

Well, I think the long-term dynamic is one -- we look at it as an opportunity to have all these smart people in this commercial real estate world working very hard to create incremental value in their buildings. And ultimately, that is building up value for us and our shareholders.

And so we're not going to predetermine how that value is captured, whether it's through the rent, whether it's through an extension conversation. I think all of those would be on the table. The most important thing, Rich, though, is you don't have to wait -- this is -- we've created a public company. We've created a dynamic where that value is, you should be able to see it today.

You can use the same tool we all use to look at the future and bring it back to today and figure out what its net present value is. And we do that with every other company we invest in. We look out into the future. We figure out a discount rate. We figure out the growth rates, and we come up with value today.

And the breakthrough here is investors have never been able to buy into this asset class. It's an asset class that's made incredible fortunes for a handful of people and a handful of institutions, churches, universities. But now shareholders have a chance to buy in and express their beliefs every day. If you think we're going to grow fast -- we may be dramatically undervalued, you can buy us. If you think our growth is going to slow, or value is going to diminish, you can do the opposite.

But this is a different asset class than, "Hey, I put it in the drawer and let's see what happens." I have to figure out what's going to happen way out in the future. This is now an asset that you can look at, create a value today, and see where we're trading and go, "should I buy it or should I sell it?"

And that's really the breakthrough here, as we've reached the scale, we've reached the liquidity. We're an investment-grade company. What we really want people to start doing is value us like any other company they value. Look at our prospects, look at our growth rates, apply the appropriate discount rates to our underlying assets and decide whether we're trading cheap or expensive, with an understanding that, no matter what happens, there is value building up.

Whether we capture it through increased rents, extension payments, or ultimately just taking control and owning leaseholds or anything that's sitting on top of our land, that to me is the easy part. That value is being created. We can track it every single quarter. So how we capture it is probably less interesting to us than getting people to see that it is being captured. But it is yours, you own it. It's building up for you as a shareholder. And boy, it's now over $5 billion.

We think it's one of the most exciting pieces of the puzzle, and we don't really see it reflected yet in any material way in our share price. So I think our challenge right now is less -- to talk about what's going to happen way down the road. It's just to make people understand this dynamic that has created already a very, very valuable asset. And one that I think, again, if you look back historically, or if we could have all owned a growing ground lease portfolio across the top 30 cities in America -- 50 or 100, 20 years ago.

We don't think it's one of the best assets we'd ever invested in. So our job right now is to get people to see what it is. And then we will definitely engage with you and others on the different methods that we can capture that value down the road. But the most important thing is you are getting that value today. You can see it, you can touch it, you can feel it. And we think the share price should reflect it.

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

Good enough. And then real quick lastly on Park -- on the Park master lease. Is that the magic number, 18, 19 years? And could you comment where the rent is versus market today? I mean -- or is that something you don't want to kind of get into?

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

Yes, look, we're at about $100,000 a key in assets in Downtown Salt Lake and the airport at Seattle and Mission Valley in San Diego. And we think these are really strong assets. So the question has always been what would the customer like to do here. And to date, the conversations have been polite, but we haven't really found something that unlocks value for both of us.

So we'll continue the dialogue. Our viewpoint is, if you look at that basis and you think about the value and replacement cost of those assets, we think it's a very valuable asset. But this has been a tough 12 months. The assets were running at almost 0 occupancy, now they're open. They're starting to recover.

But I think it will take time to transit customers back, probably faster than we thought. And the business traveler is not back and probably will come back slower than we thought. So it's a mix of news. It doesn't change our viewpoint that if you own really good assets and markets with this basis, there's lots of value, but we certainly want Park and Doubletree and Hilton to see that same future. And so we'll continue to think about ways to unlock value for both sides.

Operator

Our next question comes from Ki Bin Kim with Truist.

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

So, Jay, this might be a tricky question to answer, but when you look at the addressable universe of commercial real estate owners that are institutional class in nature, do they -- how much -- what percent of them do you think are aware of your company's offerings?

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

Well, I'll start with the denominator, we think is $7 billion -- or $7 trillion. That comes from some NAREIT studies done in the top 30 markets. So we have a pretty good handle on what the denominator is. The numerator, again, Ki Bin, I think the brokerage community has gotten more and more familiar. It feels pretty good, at least in the key markets that we've sized up, but there's still markets where we're still educating. The ecosystem hasn't really been built. The legal community hasn't really done one, hasn't done a modern ground lease. So we know there's more work to do, but Marcos, what do you think? Do you think 25%, 50% of the market has thought about it and 5% has actually run the numbers on it?

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

It wouldn't be more than an educated estimation, Ki Bin. I would say the brokerage side is probably closer to above 50%, and the client side is probably closer to 25% on an awareness level, is my estimation.

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

Yes. That's helpful. I just wanted to kind of grasp how much more runway you guys can have with some time and education. That was my only question.

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

Yes. I guess 1 thing that strikes us because having done it for 4 years and after creating a lot of this from scratch. What we've seen is once a market actually can see a tangible transaction get done, you just go into a different phase. I think lots of people probably have heard of Safehold and sort of this new ground lease thing they're trying to create. But that doesn't really get us very far. What we need to do is be able to sit down with somebody, show him side by side the benefits of the modern ground lease, the differences between the old ground leases that most people in real estate have a horror story they can talk about.

So in terms of breaking into the ecosystem, the numbers are definitely lower than what we'd like. But the general awareness that there is a new tool out there that others are using is starting to seep into the market, but that doesn't do a lot for us. We actually have to get transactions done in property types with customers in markets. And then you would see a different dialogue. And that's, again, part of the exercise we've been going through, and we'll see that dialogue continue to grow. But that's still why we feel like we're in the beginning -- we're still in the beginning of creating a mainstream product. But it's nice that at least from an awareness standpoint, people are kind of going. I hear about this new tool -- I should probably at least understand what they're doing.

Operator

(Operator Instructions) Our next question comes from Anthony Paolone with JPMorgan.

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

Hope we'd be quick here with just a couple. I may have missed this, but the level of forward activity that you did in the first quarter, was that spectrum because of development or something else, the impetus there? Just -- again, sorry, I may have missed it.

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

Yes. The forward commits is part of a new build.

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

Okay. And should we think of that as being something that's more prevalent in the deal flow going forward? Like is development, or I don't know, if you're part of like a takeout financing on stabilization? Or what is that something that will be a bigger part of what you do?

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

It's certainly our goal to cover the entire math, Anthony, from somebody who has got a new build all the way through recapitalization to I'm going to sell the asset. So we want to be there wherever they need us. We have seen -- there's a pretty big slowdown in activity over the last 12 months, and now people are starting to come back out and project past COVID and see opportunities in some really good markets. And we definitely want to be there for them. We think we've got the tools to help them and to create very good investments for Safehold, but probably too early to tell exactly what that mix will feel like post-COVID.

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

Okay. And then just a detailed item maybe for Jeremy. Any color on maybe what G&A is going to look like for the full year outside of, say, the management fee, just the other costs that you're responsible for?

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

Jeremy...

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

Sure. Yes. So barring the management fee and barring any other unforeseen circumstances and taking into account our director fees, which are paid in the second quarter, it would be -- you could make a reasonable assumption that the current quarter's G&A is a good run rate for the year.

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

Okay. So current quarter plus the director fees in 2Q that that's the level to think about ex the management fees.

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

And then maybe other unforeseen things that we can't control and then obviously management fees if and when we raise additional equity.

Operator

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

Jason Fooks ***Safehold Inc. - SVP of IR***

Okay. Great. Appreciate the good discussion. If you should have any additional questions on today's earnings release, please feel free to contact me directly. Operator, would you please give the conference call replay instructions again? Thanks.

Operator

Yes. Thank you. Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern today through May 6 at midnight. You may access the AT&T executive replay system at any time by dialing 1 (866) 207-1041 and entering the access code of 8307576. Those numbers again are 1 (866) 207-1041, access code 8307576.

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