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Q3 2021 Safehold Inc Earnings Call

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**Jay S. Sugarman** *Safehold Inc. - CEO & Chairman*  
**Marcos Alvarado** *Safehold Inc. - President & CIO*

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

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

Good morning everyone and thank you for joining us today for Safehold earnings call. On the call today we have Jay Sugarman, Chairman and Chief Executive Officer and Marcos Alvarado, President and Chief Investment Officer. This morning, we plan to walk through a presentation that details our third 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 2:30 p.m. Eastern Time today, and the dial-in for the replay is (866) 207-1041, and with a confirmation code of (859-04-15). 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?

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

Thanks, Jason, and appreciate everyone joining us today. Strong portfolio growth and a large increase in our estimated unrealized capital appreciation account combined to create a very strong quarter for Safehold. Powered by the growing portfolio and a small accounting gain, GAAP earnings were up significantly year-over-year.

Third quarter investments, together with recent closings since the end of the quarter have taken us to over \$4 billion in ground leases. And our customers tell us our ability to deliver both low-cost capital and a high level of execution certainty is a potent competitive advantage. Our mission is to help building owners generate higher returns with less risk, and we'll continue to look for ways to lower their cost of capital and provide them with the full benefits of Safehold's modern ground lease innovation.

Our estimated unrealized capital appreciation jumped over \$600 million in the quarter, continuing to add value for shareholders and highlighting the unique growth rate of our ownership asset. Our goal in the coming quarters is to unlock this value for shareholders and the tangible quality, measurable underlying value and demonstrated growth rate of this asset should make it compelling to investors.

We recognize it may take a few steps to get the value of UCA fully recognized in our share price. But having grown estimated UCA from

\$400 million at IPO to almost \$7 billion today, each passing quarter adds to our confidence that others will want to own a piece of this unique asset as they begin to understand its value, both in the near term and long term.

And with that, let's have Marcos walk you through the details of the quarter. Marcos?

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

Thank you, Jay, and good morning, everyone. Let's jump right into it on Slide 3. It was a strong quarter for the company, and we're pleased with the continued progress in scaling our business. The third quarter was highlighted by solid earnings results, robust investment activity and UCA growth, along with a successful equity offering, which left us with a significant amount of dry powder at quarter end to pursue our growing pipeline.

Moving to Slide 4, let me walk you through this quarter's earnings results. Revenues were \$47.3 million for the third quarter, a 24% increase from \$38 million in the same period last year. Net income was \$20.2 million, a 43% increase from the \$14.2 million we earned in the prior year period and earnings per share was \$0.38, 36% above the \$0.28 we earned last year.

Included in the quarter was an accounting reclassification of a lease on our balance sheet from an operating lease to a sales-type lease, which resulted in a onetime noncash accounting gain of \$1.8 million.

Slide 5 provides an overview of our investment activity. During the quarter, we originated 6 new ground leases comprised of 5 multifamily and one office asset totaling \$321 million, of which, \$300 million was funded during the quarter with the remaining \$21 million to be funded in the near term. Total fundings for the third quarter were \$332 million comprised of the aforementioned \$300 million of new investments and \$32 million of funding for transactions originated in prior quarters.

The 6 new originations during the quarter span 5 different markets and 4 new customers. The investment metrics associated with these deals are in line with our targets with a weighted average underwritten effective yield of 4.9%, a weighted average effective yield of 4.8%, ground lease to value of 41% and rent coverage of 3.2x.

At the end of the quarter, our aggregate portfolio stood at approximately \$4 billion, representing 12x growth since our IPO. During the quarter, 2 separate leasehold properties on top of our Safehold ground leases were sold to new third-party owners, marking the first 2 individual leasehold properties in our portfolio to do so, in both cases, our customers receive bids from multiple bidders for the leasehold.

The first property was a multifamily asset where the leasehold traded at approximately a 3.5% cap rate comparable to the fee simple cap rates for similar assets currently selling in the same market. The other property was an office building, which despite being in lease-up and facing the COVID headwinds in the asset class still traded for north of a 10% premium to our customers' basis in the leasehold. Both of these transactions serve as examples of how a Safehold ground lease can allow our customers to access the most efficient capital and that a properly sized, properly structured modern ground lease does not impair the liquidity or the value of the building.

Slide 6 provides a snapshot of our equity offering this quarter. During the quarter, we raised \$242 million of fresh equity capital to fund our growing pipeline. We were pleased with the overall execution of this offering with iStar taking a smaller stake than previous offerings. It was the largest offering we have completed with third-party investors since our IPO. The strong demand had allowed us to upsize the transaction by 10%. The offering was priced at \$76 a share, less than a 1% discount to where the stock had closed that day and a 25% premium to our prior offering in November of 2020.

More portfolio metrics can be seen on Slide 7. As of September 30, Safehold generated an annualized yield of 5.2% and with annualized in-place [net] (corrected by company after the call) rent of \$204 million. The portfolio's annualized cash yield was 3.4% with annualized in-place cash rent of \$127 million. Our portfolio's weighted average ground lease to value was 40% and weighted average rent coverage improved to 3.4x as our hotel properties are seeing a rebound in occupancy.

By property type, our portfolio consists of 53% office, 31% multifamily and 15% hotel. Our weighted average lease term is 90 years.

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On Slide 8, you can see the geographic breakdown of our portfolio as we continue to expand in the top MSAs with the inclusion of Houston this quarter.

Slide 9 provides an overview of our capital structure. At the end of the third quarter, we had \$2.3 billion of debt comprised of approximately \$1.5 billion of nonrecourse secured debt, \$400 million of unsecured notes and \$272 million of our pro rata share of debt on ground leases, which we own in partnership. Our weighted average debt maturity is 25 years.

In addition, we had \$165 million drawn on our \$1 billion unsecured revolver. Combined with the \$44 million of cash on hand, we had approximately \$900 million of liquidity at quarter end. We are levered 1.4x on a book basis and 0.6x levered on a debt-to-equity market cap basis. The effective interest rate on our non-revolver debt is 3.7%, which is 151 basis points spread to the 5.2% yield on our portfolio. The weighted average cash interest rate on our non-revolver debt is 3.1%, a positive spread to the 3.4% current cash yield on our portfolio.

Moving on to Slide 10, we provide an update on UCA. With the addition of the high-quality properties we closed this period, which are highlighted on the right side of the slide, estimated unrealized capital appreciation in our portfolio grew \$624 million to \$6.7 billion, representing a compound annual growth rate of 89% since our IPO. We believe UCA is reaching scale and diversity, and we have proven our ability to grow it meaningfully and on a sustained basis.

As we have been spending more time discussing UCA and a framework for its valuation, we have been encouraged both by the level of engagement from investors as well as seeing several of our research analysts work to analyze the asset class and begin incorporating it into their valuation models. That being said, we still have a lot of work to do to get this asset understood and valued by the market.

In conclusion, we continue to make good progress scaling our business. We are encouraged as new investment activity continues to grow our pipeline and remain optimistic about reaching our growth target of a \$6.4 billion portfolio by the end of 2023. With the first 2 individual properties having gotten round-trip for our customers and more expected in the coming quarters, we now have even more compelling data to show our customers about how Safehold ground leases create value.

With that, let me turn it back to Jay.

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

Thanks, Marcos. And let me just finish up by touching on inflation. While we can't control our inflation and interest rates go over the life of a ground lease, we have built significant protections into our modern grounding structure and our long-term liability strategy. These not only help mitigate the impact on our cash flow returns, but also enable us to benefit from inflation's positive impacts on the value of our future ownership asset. If inflation is a concern, we encourage you to let us take you through the CPI protection in our leases and the impact on our unrealized capital appreciation asset and we think you'll walk away quite pleased with how we are positioned. Now let's go ahead and open it up for questions. Operator?

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### **QUESTIONS AND ANSWERS**

#### **Operator**

(Operator Instructions)

And our first question will come from Nate Crossett from Berenberg.

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

A good quarter. Curious, the 2 sales transactions that happened in the quarter, are those buyers, new customers of you? And does that kind of open the door for potential new engagements with those buyers?

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

Nate, fantastic question. You should come on our originations team. They are new customers. We immediately obviously reached out to them, and we're engaged with both of those new clients on potential new transactions.

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

Okay. And it sounded like the pricing for both of those deals was -- if the ground lease didn't really affect the pricing. Maybe if you could just comment on the amount of (inaudible) and expectations of sellers what they wanted versus what they got? It's just a good case study for new business.

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

Yes, given the confidential nature of the transactions, we can't get into too much detail, it was a liquid bidding marketplace, and I think the pricing expectation exceeded our customers' expectations. So it was a very fruitful transaction for both clients.

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

Okay. It seems like most of the deal flow (inaudible). And I was curious if you could comment on what you're seeing in terms of office and hotel and if you're expecting that to kind of at any level?

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

So it's a good mix. As we've talked about in prior quarters, the multi family business, the repeat customer business within that asset class has been going really well, and we continue to add to that with new clients. Selectively, we're looking at hospitality and office assets within our pipeline. So if they fit our metrics and our profile, and as we see those markets start to open up and assets actually trade, we'll start to continue to see some additional hospitality and office assets to supplement the multifamily business.

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

Okay. And then just 1 lastly on pricing trends. It looks like a similar to last quarter, but it's down slightly from last year. I just wanted to know is there anything that there is more multifamily? Can you give us an update on any new conditions that you're seeing?

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

So we're really focused on harnessing the power of our overall enterprise. And so as our cost of capital has dropped over the last 12 months or so, we're passing on that benefit to our customers. We're really focused on continuing to maintain that kind of a 100 to 125 basis point spread over our cost of liabilities we're still doing that. So we are still making our margins but excited about the potential scaling opportunities as we pass down that cost of capital to our customers.

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

Okay. And then just competition-wise. I'm assuming that your cost of capital is helping you continue to win everything that you do. I mean, have you seen an uptick at all competition in the market?

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

Not particularly. Our main competition is still the fee financing market which Nate, as you know, is really liquid and aggressive, especially for high-quality assets, which we're focused on. That's still our primary competition. We're working very hard to convert potential customers over from the old way of capitalizing their real estate. We still run into the start-up nascent ground lease providers. But to the extent we want to execute on a transaction, we do have cost of capital advantage. And as Jay alluded to, certainty of execution, the amount of transactions we've done, the partnerships we have with the leasehold lending community, those things really matter to our clients.

**Operator**

And our next question will come from Caitlin Burrows from Goldman Sachs.

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

So you guys made \$300 million of new investments in the quarter across 6 ground leases, which is another significant quarter of activity. I was wondering if you could give some detail just on depth and mix of your current pipeline and if you think that run rate is sustainable?

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

Caitlin, as of a few weeks ago when we did our equity offering, we disclosed the pipeline of \$1.4 billion of transactions under letter of intent. As Jay alluded to, we've closed a few transactions since quarter end to take our portfolio over \$4 billion. So we've done a nice job of closing some transactions through the quarter as well as backfilling our pipeline. So we feel good about hitting our long term growth targets of \$6.4 billion by the end of 2023 and of course it goes without saying when we talk about future pipeline, some of these transactions will potentially not close.

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

Got it. And then just following up on the inflation point that Jay referenced earlier, I guess could you guys just remind us the inflation protection that is embedded in your portfolio and whether you are making any changes to what might be fixed versus CPI linked?

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

Yes, look our standardized ground leased has a long-term inflation built-in through rent resets every 10 years that look back. And if inflation has been above 2% over that period, there's a modest adjustment at the end usually capped, protects us from the first 100 basis points of inflation pickup over the long-term 2% level. So we studied inflation over the past 50 years. We think temporary changes are not really the focus. It's really what happens over longer periods of time. We've built a nice protection that gives us what we need and protects our customers so that everything is underwritable within a boundary that's quite comfortable for the market. So we're not changing that. We think that's the right way to approach it. We think it optimizes for both the finance markets, our customers and our investors. So we think we found the right solution. We do think the future ownership is the positively correlated piece of the equation. So we'll be talking about that some more. And when you think about our long-term liability strategy, the nature of a 25- or 30-year fixed liability at a fixed price certainly mitigates quite a bit of the inflationary risks. So that combination of those 3 things, we think, puts us in a pretty good position.

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

Got it. Okay. And then maybe a last one. I know you guys have talked a lot about how maintaining your current portfolio is relatively straightforward, but growing it is what takes the most amount of effort. I was wondering if for the 4 new clients in the quarter, you could give some background on just how those relationships kind of came to be and maybe how long they took if that's relevant?

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

Caitlin, great question, looking at the list right now. So 1 of them is a large institutional multifamily owner that we've been pursuing for about 2 years. And we're actually pursuing 2 transactions with them right now. So it was a long work in progress. Another was a new client on a high-quality asset in the Denver market, institutional fund manager and operator and the balance, I'm looking at it was a repeat business.

**Operator**

And our next question is from the line of Rich Anderson from SMBC.

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

So Jay, on the inflation protection, I think you said, and I think I understand this to be like a kind of a 10-year cycle where you can look back and correct for any inflation. First of all, do I have that right? And second, is there any circumstance where that could be fast track if there is a sort of a suddenness to inflation so that you don't have to wait around for -- to address that?

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

I think you got it right, Rich. Again, that's our standard form. We do have some assets that is a little bit different. Some actually have CPI protection on a shorter-term basis, but that's not the baseline in our business. So I think the way you described it in the first piece is the right way to think about it. Again, we're trying to capture long-term changes in the value of real estate and create above-market returns

for the credit risk we take. Those are dynamics that we want to protect over the long term. So we want our customers to have the benefit of the low-cost capital and be able to know what it is. So we're probably not going to change that format to try to chase short-term movements, but anything that jumps up above 2% is basically in the account and will get picked up on these sorts of 10-year cycles. So I think you've got 2 things happening one is going into the calculation and then the actual impact is out in the future, but in effect, it's in your account and you can kind of track that and we know where inflation has been running and where it may run next. And so we'll be able to give some visibility on that if inflation does pick up and stay there for a while.

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

Okay. Great. On the UCA, you talked about -- you said this many times over the past several quarters about getting investors interested in owning a piece of that asset. I can't figure out if that -- if you're thinking more in lines about just valuing it inside Safe or if there's been a renewed thought about some sort of securitization or something beyond that? Or is it still a TBD? Or are you going -- are you leaning any specific way at this point?

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

Yes, I think we definitely believe that we need to go down all paths, Rich. We think our shareholders should get the benefit of it inside of Safehold stock, and we have been talking about it more this year. But we also are a company that believes different assets should be owned by different owners. We think this is fundamentally a new asset class that has some very compelling attributes that lots of investors would like to own. So we'll continue to look at the best way to reach those investors with something we think they want, they will understand, they will compare to other alternatives and realize what we believe which is -- this is one of the most compelling ways to create wealth and have it compound. So no specific guidance I can give you other than we feel stronger every quarter that we can monetize this for shareholders, and have it reflected in the share price, and we'll do it in the most efficient and compelling way possible.

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

It's correct to say right now, though, that it's owned 15% by management and 85% by shareholders? Is that correct ?

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

That's correct. There is a few more time vests before the full 15% actually is fully vested, but for working purposes, that's a good assumption.

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

What is -- Can you provide any update on Park Hotel master lease, which is mirroring -- closing in on its due date? Any conversation going on there?

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

I think COVID got to put that on the shelf a little bit. We've seen some nice recovery in a number of the assets in that portfolio, but certainly, the business travel has not come back yet. So I think it's probably not the best time to try rework that but we will remain open to that conversation when things stabilize.

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

Last question. Any status of the net lease portfolio in iStar. I know it's not this company, but it's obviously related to what's going on here in terms of the growth of the ground lease business. Can you comment on that now? Or do I have to wait for the iStar conference call?

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

Let's put that 1 up to the iStar call, but we feel like we've built a valuable portfolio. And so we're looking forward to sharing those results with the market when it's appropriate.

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**Operator**

Our next question is from Haendel St. Juste from Mizuho.

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

(inaudible) here. I guess, first question, just on the accounting item in the quarter, I think you mentioned reclassification of a lease from a sales lease and operating list. I guess I'm curious, maybe if you could give us a bit more color what drove the change? Why now? How much more of this type of, say, risk is in the portfolio?

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

So there was -- this is an old lease pre-the accounting change. And there was a provision when the asset was sold that triggered us to effectively reclassify it from an operating lease to a sales type lease. -- and that's what triggered the change. So I would say most -- the lion's share of our portfolio does not have these provisions. This is a -- we truly view this as a onetime occurrence.

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

Got you. Got you. And going back to inflation to a degree here, but maybe from a cost of capital perspective, I think it's clearly been 1 of the items that's caused your staff perform here. We obviously have implications on your cost of equity and your ability to grow accretively you mentioned having \$900 million of liquidity, I think, after the equity offering. So I guess I'm curious -- On the -- your appetite for acquisitions, how much more robust that could be into next year? And if your stock price continues to lag, I guess, broadly what level of acquisitions could you do without the need for more equity?

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

Look, I think 2 things. One, we believe we are adding value extremely accretively every time we do a deal. So growth is still very much a focus here. We're building what we believe can be an enormous market. So I think there are places we have to make a decision where capital needs to come into the company, either on the debt side or the equity side. But one thing doesn't change, which is every deal we do is highly accretive for shareholders. So that's really the driving focus here. We have begun to raise capital in the unsecured debt markets and that's certainly a place we want to continue to expand the spectrum of capital available to us.

And then on the equity side, again, I think you'll hear us talk more about the unrealized capital appreciation asset because we think right now, we're trading at candidly half of fair value. So our focus right now is to continue the growth to get the shares valued more fairly to help people see why every transaction we do is highly accretive for them, and we feel quite confident that there will be a plenty of capital available. That's a rare and unique story in the investment world, and we'll continue to execute on it and share it with more and more people.

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

Appreciate that One last 1 on me. I think you mentioned 5 different markets in the quarter, 4 new customers. I'm curious if you any new asset types you're underwriting are looking at here? Obviously, portfolio tilted focus multifamily hotel. Is it too early to discuss retail, is that still maybe redline? And maybe thoughts on casinos or other asset classes as you expand your investment portfolio here?

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

So no new asset classes in Q3. We alluded to this in our equity offering. We're pursuing some transactions in the life science space, which we think would be a great addition to our portfolio. We're looking at some health care assets as well, which we currently don't have in our portfolio. And then I would say, for the more esoteric assets that you're describing kind of in the casino space. I think for the right asset and the right location, we would of course take a look.

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**Operator**

Our next question is from Stephen laws from Raymond James.



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

A follow-up on the origination questions. It looks like the average size, \$55 billion, up from less than \$4 billion last quarter. Can you talk about the pipeline? Are you seeing a bigger sold starting to materialize in your pipeline? Or is that just coincidental from -- on a sequential basis?

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

I think it's a little coincidental. There's 1 larger transaction within that skews the averages a tad. Our sweet spot has always been kind of the \$20 million and up ground leases because usually, when you're talking about the markets that we're investing in, that means you're investing in high-quality locations and institutional assets. On the large transactions, they're ruminating in our pipeline. As we've discussed in prior quarters, it's often difficult to predict when those are going to come across the line. But there are some large transactions along with our flow business in the pipeline.

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

Great. And somewhat on the Star front, but any I know on the ground lease plus opportunities there where you're looking at ground leases and construction assets that feed any of (inaudible) come through this quarter? What is the timing of when you expect some contribution to safe portfolio growth from those leases moving over?

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

So we closed 2 of those ground lease plus transactions in the prior quarter. Too early to tell exactly when those will hit at SAFE when those conditions are met, my expectation is beyond 2022. And we have some transactions in our pipeline that we're working on to continue that profit offering.

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

Great. And finally, Jay, I know you kind of deferred to the star call for the comments on the -- any actions there, but I did see that (inaudible) about this solicitation for say, in your notes and thinking about that. So clearly, you guys continue to move pieces around to try and position some type of combination. I know you talked about \$5 billion assets like number will hit sometime middle or second half next year. Can you give us an update on how you're thinking about combination? What are the key things that need to happen? And how likely is that to be a '22 event?

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

Yes, I think the good news is both companies are laser focused on how to maximize the value of this ground lease ecosystem that they're both deeply invested in. So we have set out some markers, you mentioned \$5 billion which feels like a good milestone in terms of scale at Safehold, but things going on iStar, obviously will make a conversation simpler, the fewer distractions that are part of that conversation, the better. So all those things are in process. You're right. We're clearing a pathway to what we think could be a good conversation about how to unlock even more value, make Safehold more mainstream for more investors. We've talked in the past about internalization as a possibility. Architecturally, that may make sense, but not until we are at a certain scale. We also think there are things that the companies do together that are very powerful for our customers. So we'll continue to make the potential for that conversation a good one. There's still a lot of work to do between here and there, but you're seeing the breadcrumbs as we sort of clear the path and iStar has got a big stake in Safehold success. And so it's fair to say a lot of the steps we're taking are meant to prepare for the moment where we really can get the market to understand how valuable this company is, Safehold is, and to understand what we're building and why it's so unique. We still -- we keep saying it. We keep saying we're in the first or second inning. I think there's just a lot of people who are not yet really fully paying attention to what we're building. You need to give us a little more time, but every quarter, it feels like we get closer and closer to being able to tell a really compelling story. And so I think you'll see other steps we're going to take to get us in that position. And then once we've checked off all the boxes, we think are appropriate to check off and that conversation can take place in earnest.

**Operator**

Our next question is from the line of Anthony Paolone from JPMorgan.

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

My first question is, as it relates to the ground lease plus pipeline, can you put some dollars around just what amount of deals are over at STAR that could ultimately make their way over to SAFE at this point?

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

Tony, let me just get that for you. Give me a second. Why don't you go to the next question.

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

Yes, sure. And then you talked a lot about inflation and effect on the business, stuff like that, but just from a more practical point of view near term, what's the most attractive source of debt capital that you see right now? And mean how do you trade off, I guess, the options between going something perhaps fixed in the unsecured market with perhaps the more ratcheted debt that you've been able to get from life insurance companies?

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

Yes. Good question. Anthony, I think we have told the market we want to be an unsecured borrower and the same sort of tenors that we have historically done today, I think it's around 25 years. So that 25- to 30-year context is important to us. So we'd like to see some depth in that market, get them comfortable with this asset class, so they understand the safety and the quality the way we do and the agencies have evaluated us on that basis. So that's a key piece going forward and probably a piece we'd like to establish. We obviously have those relationships in other places in the secured world. And I think we'll be thoughtful about that. But right now, I think our next important step is to establish a 30-year unsecured type of transaction to really give us the full suite of everything we need to run this business long term. We've got the revolver. We've got the 10-year, we've got the secured. We've got the step rate really the last piece of that puzzle is about 30-year unsecured context.

And so it's something that I think rounds out a liability strategy that we think is pretty darn unique, both in terms of its long-term nature and some of the features that our capital markets team has created is kind of perfect for our business plan.

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

Tony, to circle back on your other question about GL Plus. So the total opportunity for SAFE within the GL Plus product today is at about \$275 million.

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

Okay. Got it. And then just last question. I think there was a footnote in the deck about some of the deals having -- that you did have some percentage rents piece to it. Just wondering that material or if we should think about adding a chunk of income in a given quarter going forward like you had with the Park hotels percentage piece?

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

No, I wouldn't worry about that thing, not something to focus on.

**Operator**

Our next questions is from Matthew Howlett from B. Riley.

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

Great. Just on the UCA change in the quarter, the 7 new properties was that -- was any other sort of changes with the existing properties to get to that \$700 million change?

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

Yes. As you know, we have a third party that does rolling evaluation throughout the year that reset appraising numbers. It's a small delta. Obviously, the hotel has probably made up the bulk of the downward adjustments and some of the multifamily made up the bulk of the upward adjustments. But overall, it was a sub-5% delta on all the appraisals they did.

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

Got you. So the bulk was from the new additions from the 7 the transactions?

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

Yes.

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

Got you. And then Jay, just switching to -- obviously, I think the next step is going to be debt. But clearly, over time, you're to get to the \$6 billion the way I think about a 60-40, so the debt-to-equity structure. You're getting the somewhere in the order of \$500 million to \$700 million of equity per year. When I look at STAR, they participated less significantly less in the transaction in September, but they've been out buying these Form 4 as since filed, almost every day. Buying stock in the open market, they're obviously going to come on a capital event soon here. I mean, do I -- how do I think about further participations? I mean you said that the stock is 50% of where it should be at. Do I think about start stepping up, private placement participating more in transactions going forward? How do I think about their role?

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

Look, I think you touched on 2 big themes there. One is, we believe the stock is materially undervalued. We think one large component of value isn't even being focused on other than by a few leaders, thought leaders. So we think there's plenty of opportunity there. We've also said we need to create a larger shareholder base. We want to broaden the shareholder base to all types of investors who should have the opportunity and desire to invest. So while it's a compelling investment, iStar has to make room for other people to participate and make money. That dynamic played out in our last offering. But now that, that's over, it's sort of free market opportunity. If the stock is going to trade at substantially less than iStar believes it's worth. Certainly, a chance to deploy some of that growing liquidity at iStar into an asset that knows better than anybody else in the marketplace is a good opportunity. Longer term, again, our goal is to expand the shareholder base well beyond just the group that I think today understands it as a compelling way to play one sector of the real estate world. We think this is a growth opportunity. We think it's a value opportunity. We think it's compelling for everything from 401k all the way up to and sovereign wealth funds and we're making good progress in meeting with investors who probably never heard what a ground lease is ever, finding the right pocket in those places, getting a chance to meet with them, walking them through the above-market returns, the growth prospects, the dramatic changes we've made to the ground lease product. It doesn't happen in 1 meeting typically. It's a process, but I can tell you our Investor Relations team is continuing to stack up meetings of interested investors well beyond the real estate world. And those are -- that's really, if you think about our long-term capital strategy.

iStar can pick off the stock when it's cheap. But long term, we want shareholders who understand why this is going to be a core asset in a lot of people's portfolios. And that's really the job right now, make it mainstream for customers, make it mainstream for investors. And we're still early in that process. But in the interim, yes, iStar has a ton of capital. This is 1 of the most compelling investments we see out there. They can deploy capital. But long term, I think we want the message to be really expanded far beyond the shareholder base we have today.

**Matthew Philip Howlett B. Riley Securities, Inc., Research Division - Senior Research Analyst**

And last question, just on more on the UCA. I know you're working to educate the investment community on it, and I think everyone has their sort of own way to think about it. But when you talk about steps being plural, I mean is there something that needs to be done on the SEC side, registering tracking stock? I mean, what are the Steps that are going to be taken to unlock the value?

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

Yes, I think you're on the right track. You can imagine there is a number of things we need to do to get ready to make sure that from a corporate governance standpoint, from a valuation standpoint, there's a lot of legal steps. There's a lot of business steps. We've told the market since day 1 of our IPO, that this is going to be one of the most compelling parts of the story. We've been tracking it for 17 quarters now. And you've seen the growth. We think we've put up the key markers that we needed to see the growth over the last 4 years, long-term stability that investment-grade ratings give us. The diversity in the portfolio, the management team, the customer base, all those things are sort of prerequisite to having a larger investor base to understand what we've built and why this is a new asset class that they candidly should and will want to own. And now we can go through some of the more tactical steps of, okay, we built it. It's been

proven in terms of 17 quarters in a row, what it is and how it grows. It's tangible. Its values are out there for all to see. We've done a lot of the hard work and now we need to get really tactical and technical about how to unlock this value for shareholders. And there are a bunch of little steps along the way that will have to happen. You'll see we continue to take those baby steps, really preparing for the larger unlocking that we're confident will happen. We just -- we're giving ourselves the time to get it lined up and then go.

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**Operator**

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

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

Great. If anyone else should have any additional questions on today's earnings release, please feel free to contact me directly. Lois, would you please give the conference call replay instructions once again?

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**Operator**

Thank you. And ladies and gentlemen, this conference will be made available for replay after 2:30 today and running through November 4th at midnight. You may access the AT&T replay system at any time by dialing 1 (866) 207-1041 and entering the access code 8590415, again the numbers again 1 (866) 207-1041 with the access code 8590415. That does conclude our conference for today. Thank you for your participation and for using AT&T Event Conferencing. You may now disconnect.

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