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PRESENTATION

Operator

Good morning, and welcome to Safehold's Second Quarter 2022 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 Brett Asnas, Chief Financial Officer. This morning, we plan to walk through a presentation that details our second 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 today at 2:30 p.m. Eastern Time, and the dial-in for the replay is (866) 207-1041 with a confirmation code of 743-6202.

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.

Lastly, I want to highlight that yesterday, iStar filed an amended 13D disclosing that a special committee of the Board of Directors of iStar and a special committee of the Board of Directors of Safehold are in advanced discussions with respect to a potential strategic corporate transaction and that they are proceeding to negotiate definitive agreements. However, because no definitive agreements have yet been executed and there can be no assurance that definitive agreements will be executed, we won't be able to discuss the potential transaction on this call.

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

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

Thanks, Jason. Thanks to all of you for joining us today. The second quarter was a busy one for Safehold. Earnings and revenues continue to grow strongly. Engagement with customers remain high and conversations between iStar and Safehold regarding the future progressed significantly. As Jason said, we won't be able to share details in those conversations until they are completed, but hope to be able to do so in the near future.

For the quarter, year-over-year earnings were up over 30% and new investment volumes remained strong at over $350 million. Pricing has moved up with interest rates and inflation adjusted yields still feel quite compelling to us. Transaction activity in commercial real estate has started to slow, so we'll need to watch how overall markets stabilize in the second half of the year. We also continue to explore ways to align our long-term contractual cash flows and long-term liability structures. And you'll hear from Brett about a recent stair step coupon innovation that enabled us to access 30-year financing that more closely matches the growing cash flow streams of the company.

As we approach $6 billion in ground leases and $10 billion in UCA, we remain focused on 3 things: expanding the use of modern ground leases by providing low cost and attractive capital solutions for building owners and developers in top cities around the country; simplifying our corporate structure, so more of the market can participate in our equity and debt offerings; and importantly, getting the full value of the company's portfolio reflected in the share price.

Interest rates certainly play a part in that calculation, but so do inflation protection and carats value. And we will use the back half of the year to continue highlighting the sizable value of carats inside Safehold's portfolio and the positive impact of inflation on our asset returns. The cost of capital we can provide to customers is tied to our success on the last 2 points. So we'll be working hard to help the market see the full value of what Safehold is built and the value it can create as it continues to scale.

And with that, let's turn it over to Brett and Marcos. Marcos?

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

Thank you, Jay, and good morning, everyone. Let's begin on Slide 4. The second quarter was characterized by solid earnings results, meaningful investment activity and continued UCA growth. Additionally, during the quarter, we raised fresh debt capital through a new innovative structure, which left us with ample liquidity. Brett will get into the details of this quarter's earnings results.

First, let me discuss our investment activity, beginning on Slide 5. During the quarter, we originated 7 new ground leases totaling $381 million, of which we funded $338 million during the quarter and expect to fund the $43 million balance in the coming quarters. Additionally, we funded $37 million during the quarter associated with prior ground lease commitments. These 7 new originations span 4 different markets, 5 new customers and across all 5 of the property types we focus on as we continue to expand the utilization of ground leases throughout the major markets in the U.S.

As we mentioned last quarter, we've increased our pricing as rates have moved. The new ground leases we originated during the quarter generated a weighted average yield of 5.5%, assuming 0% inflation, which is 70 basis points higher than the 4.8% yield for the investments we made in the first quarter, again, under a 0% inflationary scenario. Of note, 2 of the investments we made during the quarter totaling $49 million, where the acquisition of existing ground leases that do not feature the typical Safehold fixed rent bumps with CPI lookbacks but rather have rent escalators primarily based on CPI for most of the life of the leases.

And as a result of the variable rent component show a much lower yield under GAAP. Excluding these investments, our yield for the quarter would be 5.8% on the $332 million of originations, which is reflective of our pricing levels today. We've previously discussed that we believe that the inflation protection built into our ground leases capture meaningful value for our portfolio that is not recognized by the market nor reflected under GAAP in our financial statements.

For example, assuming the St. Louis Fed's latest 30-year inflation expectation of 2.22%, the contractual inflation capture in our second quarter investments would result in a 5.7% yield. The credit metrics associated with the originations this quarter are in line with our targets with a ground lease to value of 38% and rent coverage of 4.6x.

Slide 6 provides a snapshot of our growth for the quarter. At the end of the quarter, our aggregate portfolio stood at approximately $5.9 billion, representing 17x growth since our IPO just over 5 years ago. Underscoring the widespread adoption of our modern ground lease product, the 7 high-quality ground leases we closed during the second quarter are comprised of 5 different property types, including multifamily, office, hotel, life science and mixed-use. You can see the quality of the assets we originated during the quarter on the right side of the slide.

Moving to Slide 7. We show a geographic breakdown of our portfolio as we continue to diversify across the U.S., focusing on the top 30 markets.

And with that, let me turn it over to Brett to go through the financials. Brett?

Brett Asnas *Safehold Inc. - CFO*

Thank you, Marcos. Good morning, everyone. Continuing on Slide 8, let me detail our quarterly earnings results. Revenues were $64.9 million for the second quarter, a 47% increase from $44.2 million in the same period last year. Net income was $22.7 million, a 54% increase from $14.7 million we earned in the prior year period. And earnings per share was $0.37, 32% above the $0.28 we earned last year. This quarter's results include the $1.1 million annual stock-based compensation expense for independent directors. Additionally, during the quarter, the Board of Directors approved a 4.12% increase the common dividend to an annualized rate of $0.708 per share.

Additional portfolio metrics can be seen on Slide 9. At the end of the quarter, our portfolio's weighted average ground lease to value was 40% and weighted average rent coverage was 3.8x. By property type, our portfolio consists of 46% office, 33% multifamily, 13% hotel, 5% life science and 3% mixed use and other. Our weighted average lease term is 92 years. On Slide 10, we detail our portfolio yield under various inflation scenarios. There's been a significant amount of discussion about inflation and how it impacts our portfolio.

The market largely values our cash flows relative to long-term high-grade bonds and what we've seen year-to-date is a high correlation between our stock price and the yields on these long-term high-grade bonds. However, as Marcos mentioned, this tight correlation does not reflect the fact that our cash flows aren't fixed but are positively correlated with inflation, as approximately 95% of our portfolio has some form of inflation protection built in. The current portfolio generates a cash yield of 3.3% and an annualized yield of 5.1%.

However, these metrics assume a 0% inflationary environment for the duration of our ground leases. If you take the St. Louis Fed's latest 30-year inflation expectations of 2.22%, our inflation-based rent bumps will drive the portfolio to yield 5.6%. If it settles back down to 2.0% for the next 99 years, our portfolio would yield 5.5%. And if it ends up increasing to 3.0%, our portfolio would yield 6.1%. This additional yield is meaningful when compounded over 99 years and results in a materially different valuation that the market has not priced in.

And we believe this is essential for investors to understand. Said another way, it is true that higher inflation has led to higher rates, which means investors should apply a higher discount rate to our cash flows. But in that scenario, the cash flows that our portfolio generates will also go up. They are not fixed like the comparable long-term bonds. And so keeping the cash flow assumption static is not fair.

Slide 11 provides an overview of our capital structure. At the end of the second quarter, we had $3.6 billion of debt comprised of approximately $1.5 billion of non-recourse secured debt, $1.4 billion of unsecured notes and $272 million of debt, representing our proportionate share of the debt secured by ground leases, which we own in partnership. Our weighted average

(technical difficulty)

in addition, we had $445 million drawn on our unsecured revolver. Combined with cash on hand, we had $930 million of liquidity at quarter end. We are levered 1.8x on a total debt to book equity basis and 1.4x levered on a debt to equity market cap basis. The effective interest rate on our non-revolver debt is 3.7%, which is a 134 basis point spread to the 5.1% annualized yield on our portfolio. The weighted average cash interest rate on our non-revolver debt is 3.2%, a positive spread to the 3.3% current cash yield on our portfolio.

Also during the quarter, and despite choppy markets, Safehold continues to successfully innovate in the capital markets by raising long-dated debt in an effort to best match the cash flow profile of our long-duration assets. Specifically, we raised $150 million of 30-year structured unsecured notes at 5.15% due 2052, with pricing of 30-year U.S. treasury plus 195 basis points, which was significantly inside of the spread of where our 10-year public bonds were trading.

Importantly, the financing features a unique stair step coupon rate structure in which the company will pay cash interest at a rate of 2.5% in years 1 through 10, 3.75% in years 11 through 20, and 5.15% in years 21 through 30. The difference between the 5.15% stated rate and cash interest rate will accrue to our principal balance after each semiannual payment period to be fully repaid at maturity in 2052.

In anticipation with this financing, Safehold entered into a $150 million treasury lock agreement at a 2.91% strike rate, resulting in a yield on the notes net of the hedge of 4.92%. This novel transaction is another meaningful step for Safehold and demonstrates that credit investors are increasingly responsive to long-dated creative unsecured financing structures for our high-quality assets as we continue to expand our footprint in the unsecured credit markets.

Lastly, on Slide 12, we provide an update on UCA. As of June 30, the estimated value of all of the unrealized capital appreciation sitting above our land increased by $543 million to approximately $9.9 billion, an 86% compound annual growth over the past 5 years since we IPO-ed. In total, the UCA portfolio is comprised of approximately 32 million square feet of institutional quality commercial real estate, consisting of 14 million square feet of multifamily, 13.1 million square feet of office, 3.8 million square feet of hotels, 700,000 square feet of life science and 700,000 square feet of mixed-use and other property types. So to conclude, while that's been a very challenging year so far in terms of stock performance, it was a strong quarter, and we remain focused on expanding our leadership position in the ground lease industry.

With that, let me turn it back to Jay.

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

Thanks, Brett. Lots of good progress on the right side of the balance sheet there. So let's just go ahead and turn it over to questions. I know many of you will want to ask about the Safehold iStar conversations, but I hope you understand we can't say anything at this point. So we'll stick to questions about the business during Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Rich Anderson, SMBC.

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

Okay. Jay, chomping at the bit, but I'll try to play nice here. So on the liquidity, you mentioned $930 million. Okay, let's say you ring that out over the course of the next 6 to 12 months. Do you feel in terms of optionality to raise additional capital to grow the platform might involve more in the way of joint ventures, perhaps full asset sales. What would be the game plan assuming we don't have kind of a reasonable recovery in the stock price going forward?

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

Rich, yes, I think all those ideas are on the table. We'll try to find the best capital source. We still think the transactions we're doing are very compelling and accretive, but obviously not happy with the share price. So there are other ways to bring capital in. There's been a lot of interest from third parties. Frankly, we would rather not give up any of the ground leases that we're creating. But certainly, there's an alternative if they are better that we have access to.

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

And what about for new investments or newly created ground leases? I know you have -- you talked a lot about the CPI protection, but investors do have to wait for that in terms of present day cash flow. Is there any talk about maybe stepping up the inflation protection to have it be perhaps closer to the present day? Or is this going to be the model and you're just going to sort of ride out the current macro environment as you're currently running the business?

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

Well, we are firm believers that, that inflation protection is very valuable over the life of the ground lease. I think rather than sort of push our customers, what you've seen -- Brett and the capital markets team do is really try to line up the liabilities to look more and more like the same structure on the assets.

So I think there's more opportunity there, frankly, than to go back to customers and try to push them into a different mindset. We feel like we found the right balance right now that gives us the benefit of that inflation protection, but also gives our customers a chance to execute their business plans with pretty strong certainty around what their cost of rent will be with us. So I don't see a lot of changes coming on that front, but I do see a lot of opportunity with the liability side.

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

Okay. Last question for me. And not to get too close to the discussions about the collapsing the 2 companies. But at Star, where do you feel like you are in terms of getting through the things you want to get through at iStar in terms of additional asset sales and the like. We've gotten through the net lease platform. What needs to be done in the next 12 months in your mind, just from the point of view of iStar?

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

Yes. Look, as you know, we're having an iStar call. We think the net lease transaction was a milestone transaction. That's something we can sort of talk about. Everything else, Rich, I can't really talk about it yet. But we are excited about where this ground lease ecosystem is going. And I think both Safehold and Star ultimately having created it will be the beneficiaries of our future success. So where we can, we will share those details, but we can't do that on this call.

Operator

Our next question comes from Adam Kramer, Morgan Stanley.

Adam Kramer ***Morgan Stanley, Research Division - Research Associate***

Just wanted to maybe drill in on the new ground leases from this quarter, right? So ignoring the total portfolio and just focusing on this quarter's new originations. Maybe just remind us, and I know you disclosed for the whole portfolio, but just remind us the spread between the yields on the new originations and the spread between that and your financing cost and how that spread may compare to 2, 3, 4 quarters ago before the run-up in financing costs.

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

So I think the way we think about our portfolio or Q2's originations is that is 2 buckets. We originated $381 million. Of that, about $50 million was an existing ground lease portfolio, which has variable rent. So it doesn't get reflected in GAAP so as I think about the balance of $332 million, our cash cap rates are about 3.8%, and our ROAs are about 5.8%. Again, that's pre-any inflation. So pre-inflation, I think we're still getting kind of that 75 to 80 basis point spread versus our cost of debt today. And then we obviously think about that inflation as a significant component of value.

Adam Kramer ***Morgan Stanley, Research Division - Research Associate***

That's super helpful, guys. And so maybe just drilling down a little bit on that model of buying existing ground leases. Is that something that as the product matures, do you think there'll be more opportunities out there to buy existing portfolios rather than new -- I guess, new ground leases the way that hopefully think is the way you phrased it. Is that something where maybe more portfolios out there?

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

We -- it's been about 10% to 15% of our business over the last 5 years. It's extremely episodic. As you know, these ground leases are extremely hard to create. And therefore, the owners of existing ground leases very rarely sell. It's usually an event in a family somebody passes away or a municipal institution is selling for some other purpose, which was actually the case here. This was a university selling some land. So very episodic when those assets come for sale, we are obviously part of the process as long as they fit our profile.

Adam Kramer ***Morgan Stanley, Research Division - Research Associate***

Awesome. And just the last one, if I may, or hopefully not kind of getting too clear to close the topic we can talk about. But I just want to ask when you look at kind of safe stock today, -- what are some of the maybe the reasons right? Things that could be changed, right, whether it's the flow, I'm sure it's one that you'd say, may be other reasons that investors aren't thinking about -- I think things that can potentially change for the transaction and maybe improve the stock from a more technical perspective?

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

Yes. I think you've hit on an important point, as I mentioned, both on the equity side and the debt side, we've heard from investors consistently a float on the equity side, the external management structure, the controlled shareholder structure are not things that people would naturally like to see. And in some cases, they literally make it impossible for them to invest in Safehold.

So those were constraints we laid out at the beginning of the year that we felt like if we could tackle with iStar, both parties would benefit so that's been a little bit of the North Star in terms of thinking about the future, how do we make Safehold reach its full potential.

Well, those are 2 constraints that we would hope to be able to eliminate because the underlying business in our minds, is undervalued and b, has tremendous potential. And the last thing we want is investors to be precluded from participating because of corporate architecture.

Operator

Our next question comes from the line of Connor Siversky Berenberg.

Connor Serge Siversky ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Really just one quick question, considering the forward rate curve and where the dot plot is right now and the duration of some of these ground lease terms. Are you seeing in real time any upward drift in these initial yields that you're seeing on potential acquisitions?

Brett Asnas ***Safehold Inc. - CFO***

Yes. No, absolutely. I think if you look at Q1 to Q2, that number has gone up 70 basis points on our GAAP effective yield. And then if you exclude those -- that $50 million of existing ground leases that we bought up, that pricing has gone up 100 basis points. So we're seeing it live. We're seeing it a positive reception despite that increase from our customer base on the transactions we closed in Q2 and positive reception in our pipeline going forward.

That being said, I just want to echo Jay's comments, there is clearly a slowdown occurring right now, a bid ask between what our asset values. And so as we think about the second half of the year, we expect potentially some slowdown over the first 2 quarters.

Connor Serge Siversky ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Understood. But in the same context, do you expect maybe more levered buyers might be stepping away from similar transactions, opening up some more opportunities for you?

Brett Asnas ***Safehold Inc. - CFO***

Yes. I think we sort of -- we look at our competitive advantage as what's the spread to using a ground lease versus your regular way fee financing. And I think our product actually looks better than it did at the end of last year. I think the reality is we are part of a capital solution. And today, there's still a bit -- pretty big bid ask on what our assets worth. We're seeing some positive momentum over the last couple of weeks, but we do expect the transaction volume to slow down somewhat.

Operator

And our next question comes from the line of Stephen Laws, Raymond James.

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

I guess I wanted to start first. I noticed, I think, in the deck, it showed the 7 new deals in Q2, 5 were with new clients. Can you talk about how things are transitioning now that you've got more of a track record when you do -- when you onboard a new client with their first ground lease, how many eventually do a second, third and fourth. How do you think about building those relationships and it looks like it's been a pretty strong decline at here at the beginning of the year?

Brett Asnas ***Safehold Inc. - CFO***

Yes, we're really excited, especially the quality of those clients. They are large domestic fund managers across the board. So very, very excited about the quality. If you go back a couple -- last time we did an equity raise and these stats are still pretty accurate. 65% of the people that do a transaction with us come back and show us another transaction in approximately 45% of those groups, we have done a second or more transactions. So the building the table has been extremely important. That first deal, we're getting better at it, but sometimes it's conversion, getting a deal done with the client, the first time takes almost 2 years, but we're seeing immediate effects in our ability to scale our overall business and growth by creating that stable of existing clients.

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

Appreciate the color there. Jay, to touch base, I'll stay away from the Star Safe situation, but another big initiative. I know you've talked about a lot of the carats and providing some liquidity there. I think we're now 6 months into a 2-year window from that February transaction to do some type of liquidity event or provide some liquidity. Can you maybe provide us some updates on your current thoughts there and what your outlook is on that?

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

Sure, Stephen. It is a big focus because we see it as an enormous catalyst and probably one of the most misvalued things we see in the marketplace. Our initial goal was to bring investors to the table. I think the first round did that. We have a lot of engagements that we're very positive on. It certainly gives us comfort that more and more people are digging in and trying to understand how an asset that on a mark-to-market basis, we have been tracking for the last 20 quarters with the kind of growth rates and the tangibility of value that it expresses.

How do we capture that value? And how can they be part of that? So I think those dialogues are good, positive and constructive. Our goal ultimately, as you know, is to see that full value reflected. That probably requires an ability to eliminate any liquidity discount. That's getting ahead of ourselves a little bit. We'll start with the folks who are digging in now. But long term, our goal is to see that value reflected in Safehold stock and to really get the full value, I think we need to address the liquidity around carat, and it's something we'll be working on certainly next year.

Operator

And our next question comes from the line of Harsh Hemnani, Green Street.

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

So you mentioned that in the back half, you expect transaction volume to slow down a little bit and the bid ask in the market on ground leases has widened. So just claiming that differently, does it mean that if you were to try to increase acquisition volume that you couldn't achieve pricing that's as good as, say, 100 basis points on just the ground lease originated by Safehold?

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

Harsh, just a point of clarification. When I mean bid ask, I don't mean a bit asked between our customers. I mean bid ask across the asset valuations broadly. So as we've gone through this last 6 months of volatility, I'll make a broad macro statement here that asset values are down, and we are part of a capital solution when somebody is transacting and making a decision to refinance, recapitalize, buy or sell. And so that's the bid ask I'm referring to and why we anticipate potentially a little bit of a slowdown in the back half of the year. It's not a receptivity issue with our pricing on the ground lease side.

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

Understood. So if you were to try to increase volume, you could still maintain the 100 basis points per pricing today?

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

Yes. I think where we are today, kind of this 75 to 80 basis point spread pre-inflation feels pretty good today.

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

Okay. And then just one more from me. Given that you're having more and more repeat transactions with your tenants and what some conversation of maybe giving tenants some tariffs in the future so that they can participate in this future growth? Have you had any conversation with these repeat relationship tenants on this topic?

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

I love the way you're thinking, Harsh, but it's a little premature to engage in that until we demonstrate the value and create a little bit more liquidity around it. But we still think that's a very powerful idea. A couple of steps away still.

Operator

And our next question comes from the line of Ki Bin Kim, Truist.

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

Can we talk about the balance sheet for a little bit? I noticed you guys raised some $150 million of unsecured notes. Just curious, what is the GAAP interest rate on that? Because I know those stated coupon seems like it's 5.15%, but when you look at the cash bridge over time, obviously, it's a little bit different.

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

Sure. Yes. So on our P&L, what will be booked is the 5.15% stated rate. We did enter into a hedge prior to that transaction. So there's an offsetting gain, which was close to $7 million that will be amortized over the life. So as we said in the remarks, 4.92% is the effective rate that will flow through the P&L. And then from a cash flow standpoint, from cash flow from operations, you'll see 2.5% paid over the first 10 years. And then over the next 10 years go up to 3.75%, and then the last 10 years go up to 5.15%. So that's the -- that's where it flows through in GAAP in terms of effective yield and cash.

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

And on your revolver, I noticed the balance increased to 400 -- almost $450 million this quarter. I guess, a couple of questions. What is the rate on the revolver today? I know that you put it in the Q, but it's just not out yet. And any plans on refinancing that balance?

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

Yes. Right now, it's LIBOR plus 100. I think from our perspective, we certainly like to term out some of those borrowings. I want to make sure we maintain our margins. So we'll look to hedge at the appropriate times. And we'll look to the debt markets going forward, as Jay alluded to in his remarks, I think there's additional room in talking to lots of capital providers to continue this innovation. And that's what we're currently excited by. But we'll definitely look to make sure we're prudent with our leverage and pride with our capital availability to continue to serve our customers.

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

And one last question on earnings. I thought given the amount of volume that you just did in the quarter, your EPS will be a little bit higher. I was just curious if there were -- is there a timing element of when the deal is closed or some other things that we just not aware of?

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

Yes, you hit the nail on the head there. The average days outstanding for the quarter of 22 days. So it was pretty back-ended and the largest origination we had was closed on June 28th. So you'll see that flow through in the upcoming quarter when we capture a full quarter worth of rent for income.

Operator

Our next question is from the line of Matthew Howlett, B. Riley.

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

First question, was there any onetime-ish expenses in the G&A from this strategic process?

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

For the second quarter in G&A, we have our annual stock-based compensation for our independent directors. And then there was some expense that flowed through related to our announcement in the other expense line item.

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

Okay. So there's some hiring advisers or some of that in the numbers?

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

Yes, some accrued legal tax and other fees that flow through other expense.

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

Okay. Great. Second question, Jay, I look at long-term originations, I mean, are we talking about $1 billion a year, $2 billion a year? Obviously, you've talked -- you've had some big numbers in terms of the size of this market longer term. Just when we get through sort of this product cycle, what are we -- how are you thinking about annual originations, let's just say, in the next 5 years?

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

Yes. We put out a number to get to $7.5 billion by the end of '23. Simple math, that was about $1.3 billion, $1.4 billion a year. We felt quite comfortable with that. I think, Matt, really the variable we got to solve here is we think there's so much more opportunity on the equity and debt market side that we're not capturing because of the corporate architecture because we're still educating frankly, meaningful parts of the market about what is the modern ground lease industry.

Why is it so compelling -- so I would say we feel very comfortable in that $1 billion, $1.5 billion range with the constraints. And if you take those constraints off, obviously, we think we should be able to do more. So $7 trillion of commercial real estate in the top 30 cities. We think we are providing a very attractive capital solution across multiple property types. There's no reason this business can't grow substantially from here. And it's our job to continue to provide low-cost capital to our customers, and part of that is creating the best conditions in the debt and equity markets to drive down our own cost of capital, and that's been a big exercise this year, and it should unleash additional potential.

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

Theoretically, does the ground lease investment gas? Is it more advantageous to a borrower and higher interest rates given wider mortgage spreads, I mean, theoretically, is it more attractive to your clients today?

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

Definitely. But I think, as Marcos said, customers who are looking at transactions are seeing a pretty wide bid-ask when they bring their projects to market or when they're trying to develop a budget for building something. So you're just seeing a little bit of uncertainty flow through the transaction market. We're better when markets are stabilized. You're right, we are getting calls from people who probably had a solution, not working. They need the efficiency that a ground lease can provide. So we are picking up some incremental conversations.

But I'd say macro, we prefer a more stable market than a highly volatile market. It just means more real estate transactions happen. And we have a better solution in many cases. So we like to see overall transaction volume in real estate be high and steady. We will get our fair share. And right now, we feel good about the engagement levels, but we definitely look forward and see some of our customers pulling back from doing anything. And we've seen that in the past, and it's just a little bit harder for us to push on that string. But I know our guys are all engaged and there are transactions happening. And our team is continuing to spread the gospel and it's finding a very receptive audience.

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

Got you. Makes a lot of sense. And last question, just a very high-level question. The sort of the Safe Star relationship, extremely managed relationship, I mean, it worked very well. I mean, first the stock tripled and we did extremely well over 3 years. Obviously, there's been a strategic process being run. It's been -- it sounds like a huge undertaking that you're undertaking that you're still working on it today. Can you just -- is the investment case of a strategic transaction, does it still make sense for Safe given? What you had in the past was working quite well.

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

Yes, it's a great question. I mean we think long and hard about what is the future potential of this business. And as we said, we think this can be an enormous business. There's no question an externally managed structure with the right structure to launch the business. I think it's becoming pretty clear to us and to most investors that it is not the best structure long term to really capture the full potential of the business. Whether it's today, tomorrow, at some point, it's just not the right structure. So from our standpoint, as managers, let's get on with it, let's show the world clarity.

Let's point everybody in the direction we're pointing. There's so much good happening in the business. We'd like to have fewer and fewer conversations about corporate architecture and external management and controlled shareholder. That's not a positive conversation. That always feels like a bit of a constraint to us. So I take your point. I think it's actually a good one. We do believe this architecture was the right architecture for the first 5 years. As we look forward and say, how do we go from $5 billion to $10 billion to $20 billion to $50 million? We're pretty clear in our minds that there's a better architecture if both sides can come to an agreement on it.

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

Got you. And the official communication, as you said, near term, that will have some type of conclusion to this process.

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

I'll just say the sooner, the better.

Operator

(Operator Instructions) We have a question from the line of Rich Anderson at SMBC.

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

Just a factual question. I know that termination of the management contract involves a fee, I think, 3x of the average annual management fee. Is that -- first of all, is that accurate? And second, is that subject to discussion? Or is that a cost that would probably need to be dealt by Safehold?

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

Just on the factual piece, Rich. The contract can't be terminated until later in '23, I believe that is -- so it's going to be a conversation if it happens before then, and I can't really go into anything more than that.

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

Am I right about the 3x annual average annual management fee as determination?

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

Post '23, there has to be other conditions before it can be terminated. So I think the 3x is factually correct, but I don't think it's operative until, I think, 7 more years in terms of the only issue. So I think there's -- I wouldn't fixate too much on that.

Operator

And at this time, there are no other questions in queue.

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

Okay. Great. Thank you, everyone, for joining us. Roxane, would you please give the conference call replay instructions again? Thanks.

Operator

Certainly. Ladies and gentlemen, this conference will be available for replay after 12:30 p.m. Eastern today through August 17, 2022 at midnight. You may access the AT&T replay system at any time by dialing (866) 207-1041 and entering the access code of (74)36-202. International participants may dial (402) 970-0847.

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