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Q2 2020 Safehold Inc Earnings Call

EVENT DATE/TIME: JULY 23, 2020 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to Safehold's Second Quarter 2020 Earnings Conference Call. (Operator Instructions)

As a reminder, today's conference is being recorded. At this time, for opening remarks and introduction, 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. Thank you, Tiffany, and thank you for joining us today for Safehold's Second Quarter 2020 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, Chief Financial Officer.

This morning, we plan to walk through a presentation that details our second quarter 2020 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 1 (866) 207-1041 with a confirmation code of 7079588.

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, and thank all of you for joining us today. The last 3 months in our country have been extraordinarily challenging ones. The tragic toll of COVID on many families and many businesses continues to grow. And the negative impact to our economy has been nothing short of historic. We again offer our sympathies to those affected and our thanks for those working to help overcome this challenge.

We also hope the renewed focus on racial quality and equal opportunity can help set us on the right path for the future. A prosperous United States where all are respected, where all can contribute, creates the best long-term environment for us to deliver shareholders the full promise of Safehold's unique business strategy. And we certainly hope for better times ahead for all of our country.

In the meantime, we're pleased that Safehold's strategy continues to deliver solid returns even during this difficult period. Our combination of principal safety, strong growth prospects and embedded value positions us to continue to expand our platform and capture value for shareholders.

While our growing scale enables us to provide increasingly compelling capital to our customers. That capital is capital efficient, cost-efficient and risk reducing. Our new modern form of ground leases continues to get better and should continue to offer a better alternative for many customers that will help them access the low-cost capital they need to meet their goals and their return targets.

With respect to the quarter, while transaction volume in the overall market has been significantly reduced, we remain confident we will win our fair share of deals as transaction activity picks up and continue to explore new accretive ways to deploy capital to gain market share. The strong performance of our existing portfolio, the significant dry powder at our disposal, and the low rate environment all set us up nicely to push forward once the market reopens. And we've been fielding more calls recently as the market tries to find its bearings. While still hard to predict, we are starting to see signs that it should be a more active second half of the year.

And with that, let me turn it over to Jeremy for the details of the quarter. Jeremy?

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

Thank you, Jay, and good morning, everyone. I'll turn to Slide 3 in our earnings presentation, where we present an overview of the second quarter. We're pleased with the performance of our portfolio and business during this extraordinary period. As expected, we received 100% of our ground rent during the quarter, which has given us the confidence to continue raising our dividend.

In addition, solid earnings and the quality of our portfolio has led to strong stock performance, keeping us the #1 performing REIT year-to-date. Further, we were able to close several transactions this quarter in what has been a challenging environment for real estate. We remain open for business with a significant amount of dry powder that we're actively looking to deploy.

Turning to Slide 4 for the quarter's results. Revenues were $37.4 million for the second quarter, up 90% from $19.7 million for the same period last year. Net income for the quarter was $12.6 million, up 111% from $5.9 million for the quarter last year. And earnings per share was $0.24, up 39% from the $0.18 for the same quarter last year. Year-to-date figures were also strong, with revenues of $77.5 million, up 87% from $41.5 million; net income of $30 million, up 75% from $17.1 million; and earnings per share of $0.60, up 19% from $0.51 reported for the same period last year.

On Slide 5, we show historical dividend and stock performance. As announced, we raised our dividend by 4% to approximately $0.649 per share. This is the second consecutive year we've raised our dividend by 4% and is consistent with our current policy to grow our dividend at twice the rate of inflation. Additionally, our stock has been a strong performer this year, in part because the market has begun to recognize the value embedded in a long duration contractually growing high credit quality cash flow stream with significant principal safety.

Slide 6 provides more detail on our portfolio. As we discussed last quarter, the real estate industry has significantly curtailed acquisition and disposition activity in the face of COVID-caused uncertainty. Nevertheless, we closed 4 deals this quarter, totaling $61 million. At the end of the quarter, our portfolio stood at $2.9 billion. And based on our cash at hand and capacity to draw on our revolving credit facility, we have approximately $900 million of levered purchasing power to continue our growth.

On the next slide, you can see the geographic breakdown of our portfolio as we continue to diversify across the U.S. with a focus on the top 30 MSAs.

Slide 8 shows our portfolio metrics. The average ground rent coverage of the assets in our portfolio was 4.0x this quarter, down from 4.1x at the end of last quarter, reflecting some of the emerging impacts of COVID-19 on some of our customers. Over the coming quarters, we expect this metric to further reflect the impact of the broader economic slowdown on our customers' properties. Weighted average ground lease to value was 37%. The combined property values we use for this metric are based on CBRE appraisals which are conducted annually based upon when we acquire a given asset. As CBRE continues to appraise additional assets in our portfolio, we would expect our GLTV metric to reflect the broader economic slowdown on the value of our customers' properties over the coming quarters.

That being said, we take a long-term through-cycle view of our portfolio and continue to believe our portfolio is well protected through a combination of our senior position in the capital stack, diversification and the long-term nature of our contracts, as demonstrated by our receipt of 100% of ground rent. For the quarter, annualized GAAP rent after depreciation and amortization was $155 million or 5.5% yield. Annualized cash rent was $98 million, representing a 3.5% cash yield. Our portfolio is 62% office, 19% hotel and 18% multifamily.

And our weighted average lease term is 89 years.

Turning to Slide 9. At the end of the quarter, unrealized capital appreciation stood at $5.2 billion, representing a 12x growth since our IPO in mid-2017. Our UCA valuation process obtains appraisals on the properties in our portfolio on an annual basis with a portion being reappraised each quarter. As such, this metric does not fully reflect the impact of COVID-19 on the value of our UCA. As CBRE continues its appraisal process, we would expect to see the broader economic slowdown reflected over the coming quarters.

Slide 10 presents detail on our capital structure. Our equity market capitalization is $2.7 billion with $1.2 billion of book equity. We presently have $296 million of cash and revolver availability. We're conservatively leveraged at 0.6x to equity market capitalization, and 1.4x debt-to-book equity. We have $1.7 billion of total debt, and as we previously announced, we closed $106 million of long-term financing during this quarter.

The weighted average interest rate of our debt is [4.0%] (corrected by company after the call), which is a 150 basis point spread to the 5.5% yield of the portfolio. Our cash interest rate is [3.1%] (corrected by company after the call), and our debt has a 31 years average maturity.

In conclusion, Safehold had strong, steady performance in the second quarter. We're focused on continuing to execute our strategy and remain confident in the long-term vision of what we're building at Safehold.

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

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

Thanks, Jeremy. So, I just wanted to reiterate what I said last quarter that long-lived assets financed in long-lived debt, mean we are mostly focused on long-term values. And while sectors, values and interest rates will all go through cycles, good assets and good locations usually went out, and our goal for Safehold is to assemble a high-quality portfolio of ground leases in the top 30 markets and create a unique and valuable platform for investors and customers alike. As Jeremy said, we are still big believers in that vision. Operator, let's go ahead and open it up for questions.

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***

Just wanted to kind of dig into the investment activity. I think you mentioned there was 4 deals. Just wondering where were they, what were the property types, rent coverages? And then it looks like the effective yield of 5.2% was a bit below average. So, I was just wondering if there was anything to note there.

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

Nate, it's Marcos. So, 4 transactions, 2 in the residential space, one in the lab space and one hospitality asset. Consistent with our strategy. I think we are excited by the fact that these are actually 4 transactions that were all post-COVID, so post the disruption. And I think our percentage of CPV, and our coverages reflect that. One of the ground leases we acquired with an existing one and has a short duration, only 44 years. And because of that, the yield is slightly lower, which pulled down the average.

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

Okay. That's helpful. Maybe you guys could just characterize the activity you're seeing today versus a month ago? I think you mentioned that you're hoping to see an uptick towards the back half of the year. But could you maybe quantify it a bit and just tell us how the dialogue has maybe changed in the last month or so?

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

So as we've mentioned in prior quarters and on this call, we're a transaction-based business. And if you survey the large brokerage houses, I think transaction volume is down something like 70% in the quarter. What gives us optimism going forward is the amount of dialogue that is going on between our investments team their clients in the brokerage community. So, if I go back in time, kind of April pipeline meetings in our Monday morning investment calls were somewhat slow and today, there are plenty of transactions that we're looking, we're prescreening, we're sizing, we're quoting, we're issuing [our allies.]

But we need the transaction markets to open up for those to ultimately become live deals that we end up closing. So, I think the dialogue feels a whole lot better -- a whole lot better than it was a month ago. And we continue to remain optimistic about Q3 and Q4.

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

Okay. That's helpful. And just lastly, how is the dialogue on kind of office properties right now? I'm just trying to get a sense of how work from home, potentially firms leaving New York City is kind of seeping into the dialogue?

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

Yes. We try to take a very long-term view. And so, we're believers in New York over the long term. And I'll just use New York as an example. And certainly, over the short term, there's going to be some impact on rents. And there will be some winners and the losers in the -- what we think we would classify as kind of the A assets and the B assets.

But we -- at our basis of $300, $400 a foot feels really, really good about the long-term prospects of owning high-quality land in various urban markets. So there's certainly going to be some noise in the office, and we're taking that into account in our underwriting. But we will continue to actively pursue those assets.

Operator

Our next question comes from Rich Anderson with SMBC.

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

So you mentioned and it's quite obvious stock has continued to perform very well this year through all this. Perhaps a risk-off mentality, given the safety of the product and all that. If the counter to that is, we get past this, and people start to get more excited about the world and risk off turns into risk on. To what degree do you think that, that causes perhaps a headwind to you guys, given just the extraordinary level of circumstances and the bounce back that could happen if we get to a vaccine conversation or something like that?

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

Sure. A couple of things in your question. I'd say, first and foremost, we do think there's been a lot of progress made in getting people to just do the bond math and to understand the significant discount that we had been trading at. So, I think as much as risk off and certainly collecting 100% of rent and being at the very low percentage of LTV is a very strong positive in tough times like these. But I also think we spend a lot of time with investors, are really helping them understand the qualitative and quantitative measures that are a good way to understand the value of our company. And we think there's been a lot more understanding on the part of a wider range of investors. So, we think that's helped significantly close the gap, although we're still trading at a pretty material discount.

I think our pitch is not market sensitive. It is -- this is better capital, it's more efficient. It's risk reducing. It eliminates friction costs, whether we're in a frothy market or a difficult market we think our capital should be attractive. And for investors, I think that combination of principal safety, the ability to grow a new market and basically be the largest and only publicly traded company doing it, really revolutionizing the $7 trillion industry, makes us very comfortable that, for investors, this is still early innings.

And while we've made some progress getting people to understand at least the bond math of our cash flows, which is 1 of the 3 big components, we still don't think our growth prospects for the unrealized capital appreciation embedded in our portfolio has really even gotten any attention yet. So I agree with you, Rich, that safety, in a market like this, is powerful, but I think even more powerful is, as we get more investors to understand the combination that we deliver for customers and a combination of attributes we can deliver to investors, that's when I think you'll see the full power of Safehold, and we're not there yet, and I think this is the kind of market where we're building our foundation and our reputation while we're going through something like this and having the right collection numbers we have. But we're excited when the market does come back, transaction activity does pick up. Risk on, as you said, does come back to really reignite the real estate market transaction flow. And that's going to be good for us. So, we may be doing relatively better now, but I think we're really more excited about continuing to build the business and just demonstrating to more and more people that this new industry that we've built is a unique one and a very, very valuable one.

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

Got it. Further to that, I mean, I understand the thesis about market conditions so much is about the product as an alternative to fee simple. But do low rates cause you concern? It seems the Fed is going to protect that a low rate environment for some period of time. Does that make the conversation a little bit more difficult at the margin because the availability of debt mortgages is somewhat more attractive and may stay there for a period of time?

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

Good point. I mean, it cuts both ways. The 30-year is down 150 basis points since our IPO, it's down 100 basis points this year. And that has different impacts. One, it makes the alternatives a little bit cheaper. So we have to constantly provide a better capital solution for our customers. But our cost of funds is going down. Our cost of debt has gone down. We can be more flexible. We can create some capabilities we didn't have when we went because of rates this low and our borrowing costs continuing to decline. We're still delivering the kind of ROEs that we think are generating very significant alpha the day we close the deal. And as the portfolio gets bigger as our diversification increases, we think our cost of capital will decrease, and that's going to give us flexibility to really compete very effectively, we think with the fee simple alternatives and still make the kind of returns that get us excited.

So as I mentioned in my remarks, we're looking at a lot of different ways to attack this market. There's ways when rates go up and there's ways when rates go down. And we certainly think there's very bright prospects ahead even in a low rate environment.

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

Great. And then last question on the dividend and the policy to grow at a 2x inflation. Do you have an estimate of what your payout ratio is in common vocabulary for the REIT industry? You obviously focus on EPS and have a -- perhaps a broader [swath] of investors outside of the rededicated community because of the type of product. It is, but I'm wondering what the cash flow number is as it relates to your dividend and where -- what kind of room you have to continue to grow it?

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

Yes. I think there's 3 simple kind of rules that we try to follow. One is we do try to pay a dividend that's growing at double the inflation rate.

We do try to pay out all the current cash flow to meet that standard. And our payout ratio is going to center around all the free cash flow. And then the remaining, the delta between our earnings and cash payouts is really, in effect, reinvested into the portfolio of these above market returns. So those who started the 3 pillars is we're going to pay out the current cash flow we're going to, in effect, reinvest in the assets with the delta between our ROAs and our cash yields.

And that should drive not only this double-digit or double inflation dividend growth but it's actually allowing us to, in effect, reinvest in these above market returns as a core part of the business. And I think that's something that when we do our compounding sort of calculations for people, they start to see the power of that idea that we are paying out a nice dividend from the current cash flow, but we're also getting a chance to reinvest these excess ROAs at the same above market returns, and let that ride and with that compound. So that's kind of how we think about the dividend, and the double inflation makes us feel really good.

But it's also that compounding effect for the embedded ROEs above the cash flow that's really creating this long-term value of the acquisition.

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

Okay. So basically 100% payout in...

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

Yes.

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

Consistent terms with other REITS?

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

Yes. We're trying to -- we don't need to hold anything back. We have no CapEx, no operating expenses. Obviously, ground leases are very, very good that way. So cash coming in, we will return to shareholders.

Operator

(Operator Instructions)

Our next question comes from Anthony Paolone from JP Morgan.

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

Okay. I guess, first question is, as we -- it sounds like your deal pipeline is percolating a bit more. But just from like a practical point of view, when you think you start to see things close again and pick back up from actually putting the dollars out the door, like do we think that 3Q can actually be less volume and maybe 4Q before maybe 1Q, they start to close? Or how should we think about just cash out the door in the near-term to feel like?

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

Marcos what does it feel like? Do you think it's going to be fourth quarter when you face their closing?

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

It's -- as you guys have seen with us over time, it's somewhat lumpy. And so that's why we often don't give you guys specific guidance and especially given the environment, post-COVID, it becomes a little bit more difficult. So I think it's a fair estimation, Q4, Q1. Where you start to see things ramp up. If you go back to prior crises, usually takes 9 to 12 months from the event for the private market to start to really open back up. And so that kind of feels like the end of this year, early next year. But that being said, given the dialogue we're having, our cost of capital solution and option for clients, you could see that potentially happening earlier as well.

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

Okay. Like, do you think you can do another $60 million in the third quarter? Or has some of that the 2Q stuff entered into pre-COVID?

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

No, the Q2 stuff was all post so yes, I'd remain optimistic that, hopefully, we can do better than Q2.

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

Okay. That's helpful. And then as you're looking at the pipeline and just sizing up what's happened, is there any part of the market that's emerging as either more interesting for you or not, whether that's property type preference or not or geographic preference or not or type of sponsor perhaps?

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

I would say the multi space is probably the most active engagement within our pipeline. And the reason being is those assets are actually trading. The government agencies are providing both fee and leasehold capital. And so although values are down, we've seen some of the high-quality assets trade 5%, 6%, 7%, 8% down from pre-COVID and there's actual trades. So I would say that we feel good about that asset class. And as I mentioned before, we're still engaged in the office assets in high quality locations. And even though there probably will be some significant short-term, maybe medium-term issues within that space, we're believers in the long term, especially where we invest.

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

Got it. And then just where is -- on the debt side, in the sort of like 30-year type transactions that you all have done with the rate kind of matching the terms of the underlying collateral, where is pricing today for that, both going in cash-on-cash and jusr on an effective rate basis?

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

I'll take that one. Our overall portfolio has been around 4% and sort of closer to 3% in the starting rate. We're definitely seeing new deals being quoted to us inside of that. The last deals have been quite attractively priced to us. So it's given us some flexibility on our pricing to our customers. But the market is certainly not as liquid, and so we don't want to deduce from 1 or 2 deals exactly where the market is going to shake out here, but we have definitely seen rates fall towards sort of the mid-3s. And that implies starting rates sub 3. So that's all good news for our ability to provide capital to customers at attractive prices. But and as you know, we've only closed $60 million of deals. So it's a small sample set of financings on those positions that we're going from and before we get a lot more deals than, it's hard to know other than certainly, rates have come down.

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

Okay. And then just last one for me, just a bit more of a detailed one. The yields in the quarter, I think you mentioned 4.8% effective and then 5.2% underwritten effective, what's the one that we should think about for accounting purposes, is that the 4.8%? And then the 5.2%, sounds like it maybe we think you earn because of the shorter duration on one of those deals and stuff?

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

4.8% in the accounting effective yield and then 5.2% is our underwritten yield. It doesn't have to do with the duration actually, that ground lease as a percentage rent cost, which were not for accounting purposes allowed to book.

Operator

Our next question comes from Ki Bin Kim with SunTrust.

Ki Bin Kim ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Just sticking with that topic, what was the going-in cash yield for the $60 million of deals you closed? Can you hear me?

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

Give me one second. Yes. Sorry. I'm just trying to pull (inaudible) real quick.

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

It was 3.5%.

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

Yes. Thank you, Jay.

Ki Bin Kim ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

3.5%. Okay. And your weighted average rent coverage of 4x, can you just help me understand that a little better? Does that actually reflect the trailing 12 months, including hotels? And I saw one of your footnotes that you might -- or you have this correction where if an asset is unstabilized or it's a development asset, you can use a projected stabilized NOI, is that at all being used for hotels in this environment?

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

Why don't I take that one? It's Jeremy, Ki Bin. Look, so I think you've got it right. It's largely based upon trailing 12-month NOI as reported by our properties.

So as such, the full impact of the economic slowdown [by COVID - 18] has not been reflected in this metric. Now you are specifically about hotels and whether or not we use stabilized estimates for the hotels, we don't -- our hotel properties are also for this metric. We're using reported trailing 12-months NOI as available to us from our properties.

Ki Bin Kim ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. And any insights in terms of the conversations you're having with your hotel operators, and can you just provide some -- maybe some color on the LTVs as underwritten and how comfortable you feel that those hotels will be money good for the long term?

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

I think from a...

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

I think...

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

Do you want to take that Jay?

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

No, go ahead.

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

I was just going to say that the I mean we take the 100-year view, Ki Bin, of our properties as it comes to the GLTV metric that we report. The properties on our land are typically appraised annually by CBRE, typically in the quarter after acquisition. And so they only appraise a portion of our properties each quarter. So the full impact of the slowdown from COVID has not yet been reflected in this metric. I'd ask Jay or Marcos to add some commentary about the conversations that we're currently having with the hotel owners.

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

So Ki Bin, I'd say that if you think about kind of pre-COVID world, the hotel kind of LTVs are consistent with our portfolio. And so we're, again, taking a long-term view. There currently is no dialogue with any of our hotel owners.

As we've said on prior calls, our ground rent payment represents a fraction of the invested capital behind us. So for them not to pay our rent and effectively hand us an asset for that kind of spread of almost 1,000x rent payment versus capital invested just doesn't seem probable in this environment unless you see value destruction north of 70%, which we're -- although there's been some value destruction, we're not seeing it that severe by any means.

Operator

Our next question comes from Jade Rahmani with KBW.

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

Wanted to ask if you could give an update on the SAFE/STAR program. Any potential for opportunistic investments that, that strategy could be deployed into to perhaps generate higher yields than your core strategy is targeting?

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

So if I take a...

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

(inaudible) Go ahead.

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

Sorry, go ahead, Jay.

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

SAFE/STAR was one of the things I mentioned in terms of our programs and the new ways to create accretive deal flow, it isn't so much about creating excess returns other than giving somebody a one-stop capability through the last 20 or 30 years has been a key way to really provide the best solution for a customer.

And when you provide the best solution, typically, you can charge a little bit more for that level of service, that level of capability. So that's -- our goal with SAFE/STAR is to expand our market share, expand our footprint. And we think we are getting quite a bit of interest in that program. And we continue to see, I think, we're up to about 7 or 8 deals now. It is a really valuable tool in our toolbox for certain customers and should allow us to, again, find some really accretive pockets that wouldn't be available to us otherwise.

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

And just thinking about the turmoil that's played out in the mortgage REIT and that fund space, a lot of those lenders are highly dependent credit facility and repo financing that has mark-to-market provisions.

iStar historically was active in the transitional property space, and I think some of the Safehold investments are on properties that have a lot of construction elements as an example. Are you looking to provide ground lease financing on transitional properties? Or is the core focused on existing stabilized assets?

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

Jade, I'd say we look at everything. And so some of the SAFE/STAR activity that's in our -- kind of fits that transitional bucket where capital has somewhat dried up. And our one-stop capital solution is able to offer our clients a solution, whether they have a construction loan coming due or a bridge loan coming due. And so we're having a fair amount of dialogue, especially in the multi space across these "transitional assets."

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

Okay. I wanted to find out if you could quantify the value you attribute to residual rights when you underwrite a ground lease. Is it on an NPV basis so far into the future that it doesn't have a material impact on your underwriting? Or is there some percentage that historically you equate to represent the value of those residual rights?

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

Well, we always start with the cash flow stream, Jade, to make sure that we think the deal is accretive right out of the box. As we've said before, as the portfolio grows, scales and diversifies, we think we're building an asset class in the unrealized capital appreciation account that can be monetized. And people will begin to understand its value as it gets bigger and more scaled. We have not incorporated that into our underwriting to date. We would like to be a little bit larger and a little bit bigger footprint before we really start to think about how to get that kind of value into the shareholder equation in a meaningful way.

And when that happens, then certainly, that can become part of the underwriting thought process. But right now, we're primarily focused on the cash flow component to build the business to get it to scale. And then as we get to scale, you'll see both the growth components and the unrealized capital appreciation components start to be more of a focus.

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

And just thinking about some of the comments you provided regarding CBRE's appraisal process done on an annual basis, but certain properties are on a quarterly basis. And if you think about the outlook for commercial real estate prices, I would anticipate commercial real estate value is down 15% to 20% overall and greater than that in certain geographies and hard hit asset classes like hospitality and retail. But what do you think that would imply for the value of the unrealized capital appreciation. Would it decline in line with that commercial real estate price decline? Or would it decline by more than that because it's the residual at the tail end of this very, very long time period?

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

Yes. No, I think -- look, the purpose of having CBRE go out and do appraisals is to get a real-time check on the value of the buildings on top of our land. And the appraisal process, in and of itself, is a bit of a lagging indicator. It's going to sort of phase in over 4 to 6 quarters. And appraisals, in and of themselves, tend to take a thoughtful look at what values are. We don't think the endgame of UCA is the factor in that equation. We just want to know what are the buildings on top of our land work. And we want to report that every quarter as best we can.

Really, I look at it more on an annual basis because that's when CBRE has a chance to go through most of the assets on a full annual basis. Picking up percentage each quarter. And then we look at it on an annual basis and say, how have we done? How has that portfolio grown? And we still think the growth rates in UCA year-to-year just looking forward and our projections are going to be very attractive.

So a little bit of blips should be expected, cyclical things will be expected, but the growth of our business is the long-term driver as much, or probably far more so than just the organic growth of the individual properties. So what I'd say, Jade, take a look over the last 3 years, you'll see the kind of dynamic that we think still exists, but we do expect as CBRE goes out and appraises into this environment where trades actually start happening, they can have a better sense of where values are. As Jeremy said, we certainly expect an impact from COVID, but it doesn't really change our long-term pieces.

Operator

Mr. Fooks, we have no further questions.

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

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

Operator

Yes. Thank you. Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern today through midnight, August 6, 2020. You may access the AT&T teleconference replay system at any time by dialing 1 (866) 207-1041 and entering access code 7079588.

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