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Q3 2020 Safehold Inc Earnings Call

EVENT DATE/TIME: OCTOBER 22, 2020 / 2:00PM GMT

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PRESENTATION

Operator

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

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

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

Good morning, everyone, and thank you for joining us today for Safehold's Third 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 third 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. The dial-in for the replay is (866) 207-1041 with a confirmation code of 9919992.

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 our Chairman and CEO, Jay Sugarman. Jay?

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

Thanks, Jason, and thanks to everyone, for joining us today. While transaction activity during the third quarter remained slow by the impacts of COVID, we have begun to see some signs the market is beginning to thaw and we use the third quarter to focus on building a pipeline of transactions in our targeted asset classes and markets. While most of these efforts will show up in the fourth quarter and beyond, we are pleased with our progress in penetrating deeper into the multifamily space and using the innovative strengths of our platform to create entry points into target markets like San Jose, Seattle and Philadelphia. It's been good to see everyone on our investment team busy and engaged in transactions again.

It's also been good to see the safety of our ground leases, once again, highlighted with 100% rent received during the quarter and the strong growth in our earnings and revenue from the same quarter in 2019. As Safehold continues to expand its footprint across the country, we are seeing further evidence that the low-cost long-term capital provided by our modern ground lease can unlock value for

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building owners in a wide variety of situations. And low interest rates, together with our growing scale and increasingly efficient balance sheet, mean we can continue to drive pricing and open up even more of the market while generating strong and attractive returns for shareholders.

With that as a backdrop, let me have Jeremy take you through earnings. Jeremy?

Jeremy Fox-Geen *Safehold Inc. - CFO*

Thank you, Jay, and good morning, everyone. Please turn to Slide 3 of our earnings deck. Highlights for the quarter include strong year-on-year growth in our financial results, 100% ground rent collections and strong year-to-date share price performance. We closed $105 million of investment since the end of Q2, and we're encouraged by an increase in customer activity, with more than $200 million of potential new investments under signed record of intent.

Moving to Slide 4. Let me detail this quarter's results. Revenues were $38 million for the quarter, up 70% year-on-year. Net income was $14.2 million, up 159% year-over-year. Earnings per share was $0.28, up 84% year-over-year. For the 9 months ending September 30, revenues were $115 million, up 81%; net income was $44 million, up 96%; and earnings per share was $0.88.

Slide 5 provides an overview of our investment activity. Since the end of Q2, we've closed $105 million of new transactions, $34 million during the quarter and $71 million subsequent to quarter end in October. These transactions have a weighted average effective yield of 5.2%, a ground lease to value of 37% and rent coverage of 3.5x, all in line with our targeted investment criteria.

Slide 6 shows our portfolio growth. At the end of the quarter, our portfolio stood at $2.9 billion, representing 8x growth since our IPO. Pro forma for the deals closed in October, our portfolio stands at $3 billion. And while, of course, there can be no assurance that we'll close any deals in our pipeline, we currently have over $200 million under signed letter of intent. Based on cash and availability on our revolver and our leverage targets, our purchasing power to acquire ground leases is over $700 million.

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

Slide 8 presents the key metrics for our portfolio. The weighted average rent coverage of our portfolio was 3.7x, down from 4.0x at the end of Q2. And the average ground lease to value was 39%, up from 37% at the end of Q2. As we've previously mentioned, we expect our coverage ratios to moderate, reflecting the ongoing impact of the economic slowdown due to COVID on the real estate industry overall. However, we continue to remain comfortable with our portfolio based upon our senior position in the capital structure, our long-term investment horizon and our geographic diversification.

For the quarter, annualized GAAP rent after depreciation and amortization was $157.4 million, representing a 5.5% yield. Annualized cash rent was $99.3 million, representing a 3.5% cash yield. Our portfolio is 61%, office; 19%, hotel; and 19%, multifamily. And our weighted average lease term is 88 years.

Slide 9 shows some detail on our capital structure. Our equity market cap is $3.3 billion of $1.2 billion of book equity. We presently have $239 million of cash and revolver availability. We are conservatively leveraged at 0.5x to equity market capitalization and 1.4x debt-to-book equity. We have $1.7 billion of total debt and the weighted average interest rate of our debt is 4%, which is a 150-basis point spread to our 5.5% portfolio yield. On a cash basis, the cash interest rate is 3.1%. Our debt has a 31-year weighted average maturity. And subsequent to quarter end, we received an additional $32.5 million commitment to our revolving credit facility from a new banking relationship, bringing the total capacity of our revolver to $557.5 million.

Moving on to Slide 10. The unrealized capital appreciation in our portfolio stood at $5.1 billion, representing 12x growth since our IPO, but a sequential decline from $5.2 billion at the end of last quarter. We determined UCA based largely on CBRE appraisals. And as each asset is typically appraised on an annual basis after it is acquired, the decline represents part of the impact of the economic slowdown due to COVID on the value of the properties sitting on top of our land.

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In sum, our portfolio has demonstrated its resilience despite the challenging economic conditions. Further, we're pleased to see growing activity in our pipeline and increased real estate transaction volume.

With that, let me turn it back to Jay.

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

Thanks, Jeremy. As the creators of the modern ground lease some 3 years ago, we are now focused on demonstrating its benefits to more owners in more situations. And while we continue to educate the market on the growing number of ways that ground lease can enhance value for building owners, we're also working to help more investors understand the compelling value created by our growing portfolio and our nationally scaled multibillion-dollar platform.

So despite COVID's temporary drag on market activity and its impact on values in certain markets, we remain quite happy with the progress we've made reinventing the ground lease sector and in establishing Safehold as the leader and standard bearer for the modern ground lease industry.

Okay, operator, let's 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***

I wanted to touch on investment activity a little bit and kind of dig into the $34 million in transactions in the quarter. Maybe you can just let us know where were those transactions? What were the property types? I think you mentioned multifamily. And then the effective yield, 5.2%, it was a bit below average again. I'm just wondering if there's anything to note there.

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

Sure, Nate. Let me take the last question, and then Marcos will walk you through what's going on in the book and how we're really pleased with a real penetration into this multi space. I mentioned in my remarks that we have become a lot more efficient and can start to really drive pricing here. Our long-term goal is to create a margin to our debt costs. And with the overall cost of debt going down, we can drive pricing by being more efficient on our liability structure, by being more efficient with our balance sheet. We're seeing the benefit of being able to pass some of those efficiencies on to our customers. And so as long as the spreads and the ROEs are holding up, we think the ROA is really dependent on where the interest rate complex is. But it's that spread to our cost of debt that really drives our business. And with our cost of debt declining, we can pass along some of those savings to customers and open up even more of the market.

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

Nate, both Jay and Jeremy alluded to this. We're starting to see the market thaw and customers start to engage with us pretty dramatically. So, in the quarter and subsequent to the quarter end, we closed on 3 brand-new Class A multifamily transactions, 1 in Seattle, 1 in Philadelphia and 1 in San Jose that was closed in the quarter, all consistent with our methodology and investment thesis.

Post quarter, and I have to be frank, really since Labor Day, we've seen a dramatic pickup. So when you think about the letters of intent that are $200 million plus. 80% of those are multifamily transactions, all in major markets across 8 transactions in total. And we feel optimistic about the next wave behind that. So, the team has done a really, really great job, and we're taking advantage of this kind of de-thawing of the market.

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

Okay. That's helpful. And then the $200 million in letters of intent, are we -- are you guys kind of expecting closing by year-end? Or what should we kind of be modeling for that, I guess?

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

Yes. I would say that we're highly optimistic that most of those transactions should close. But as you know, with letters of intent, we can't promise that they'll all close, but it feels pretty good that, that number should close in Q4.

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

Okay. And just last question. I mean, what's the latest dialogue on just office properties, specifically New York City? Obviously, there's a lot of headlines and tenants are now saying, now their employees can work from home permanently. So I'm just wondering what you guys are seeing on the ground?

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

Yes. I think we, at our basis, still remain very optimistic about the future of our position. And I think we also remain extremely optimistic about the future of New York as the financial and cultural hub. We're certainly going through a rough period, but we believe in New York City in the long term. And if you think about our basis at around $200, $250 a foot, it's land value or below land value in some of our transactions. So, there will be certainly some noise in the equity. There certainly will be some noise in reduction in value, but we feel really good about our position.

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

And Nate, I'd tell you, our anecdotal evidence is more and more companies understand that both productivity and frankly, cultural reasons for going to the office still exist. I think in our own case, we felt we were in great shape going into COVID. We were able for many, many months to remain tight knit. But over time, you just feel like having people back together in an office environment ups your energy, ups your activity levels, ups the productivity. I'd be surprised if long term, there's a giant systemic change here, but certainly, patterns of behavior are going to change.

Transportation, I think people can be more flexible on when and how they commute. So, there's some changes coming for sure in office, but we think this idea that everybody is going to work from home, that's not the future of New York, per se. And I think this -- as Marcus said, this transition period is going to be rough. But our assets are some of the better assets in the marketplace. Transportation wise, I think the physical proximity is still going to be important for many, many companies.

So, we're going to see some interesting dynamics come out of this, some changes in in the way people think about 9 to 5, Monday to Friday, that may definitely get tweaked, but the idea that office is obsolete, we're not a believer in.

Operator

Our next question comes from Zach Silverberg with Mizuho.

Zachary D. Silverberg ***Mizuho Securities USA LLC, Research Division - Assistant VP***

Just a follow-up to Nate's. Do you guys provide a cap rate or effective yield range for the $200 million under LOI?

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

It's consistent with the transactions that we've closed in Q3 and the pipeline, so low to mid-5s.

Zachary D. Silverberg ***Mizuho Securities USA LLC, Research Division - Assistant VP***

Okay. And I guess just sticking with the investment pipeline, how are the tone of your conversations with your potential partners today versus sort of the height of the pandemic or during the summer? Are you sensing any shift in tone or seeing anything that gives you encouragement for maybe even more transactions in the year ahead?

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

Yes, certainly. So, I think the team has done a good job while being frustrated during the beginning of the pandemic and the early summer. We continue to hammer home to the brokerage community to our clients potential new customers, the value of our capital solution. And I think we're seeing the benefit of that. So as I said before, we feel optimistic about coming out of Q3 into Q4 and into 2021 that we're going to continue to grow.

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Zachary D. Silverberg ***Mizuho Securities USA LLC, Research Division - Assistant VP***

Okay. And just one last one for me. Just any update or insight in terms of discussion with some of your hotel partners? And could you maybe provide any update on how comfortable the hotels in your portfolio you still feel about them long term?

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

Yes. I think the hotel industry is definitely right in the line of fire here. We have seen some recovery in a number of the sectors, but I think this is still a long road back for many hospitality assets. Our largest asset is in Hawaii, which is tourism dependent. Hawaii has been for the most part, in lockdown mode, full quarantine mode. They've recently relaxed that a little bit. We've talked to other major owners on the other islands in Hawaii. I think everybody remains optimistic that this is a temporal issue and that the long-term values of what Hawaii has always offered as a hospitality market will continue to be -- come back with a vengeance when this COVID impact is eliminated.

So everybody is -- so far, as you see from our rent payment that everybody is paying, waiting for that better day. And as Marcos said, we're safe enough in the capital stack that unless this was to go on for 5, 6, 7, 8 years, I don't think people are going to throw in the towel based on 12-month operating results. But those 12-month operating results are not going to be good.

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

Yes. And just another data point on that. Currently, we're not in discussions, and we haven't been with any tenants around any sort of modification.

Operator

Our next question comes from Rich Anderson with SMBC.

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

So I want to ask another question about the multifamily sort of angle. Is that coming at you kind of reversed format? Or do you have some sort of specific interest in multifamily? And so you are sort of leading the charge on that multifamily element to the pipeline?

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

Yes. As I think about the shape of our pipeline, it -- a lot of it is in the Sunbelt, Florida, Georgia. So, think about what I would call, active, more liquid, better demographic, long-term growth prospects, and there's a tremendous amount of liquidity. We're actually surprised. Most of these are new transactions, but there hasn't been much of an impact on these high-quality assets on pricing.

So pre- and post-COVID or the kind of enterprise value for where the equity is coming in. So, we've been focused on that because we think our ground lease product is very additive to our customers. So, it's a combination of us making outbound and then relationships that we've cultivated over the last few years coming inbound. So, we think that's going to continue to grow in scale.

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

And so is this largely existing owner of a multifamily asset coming to you? Or is it transactional where there's an asset that's trading hands and you're kind of getting in your sort of team player in that? Or how are these sort of coming together? Or is it sort of a combination of everything?

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

It's a combination. It really is.

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

Okay. The other question I have is on the rent coverage of 3.7x. I actually was a little afraid that, that number would be much lower than that. And I know it's trending down for all the obvious reasons. Is there anything, though, in that 3.7 calculation that is sort of like a -- I know you have a footnote about certain estimates that you have to make, but it seems to me a hotels essentially 0 EBITDA in some cases, and that's 19% of your portfolio.

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I guess I just would have thought rent coverage would have been even lower. And I just wanted to sort of dive into that number. How it was calculated a little bit more, if I could?

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

Yes. So, if you think about the -- sorry, go ahead, Jeremy.

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

And obviously, Marcos, feel free to chip in. I mean our rent coverage metrics are largely based upon the latest available trailing 12-month NOI, right, as reported by our properties. So as such, the full impact of the economic slowdown due to COVID, right, is not yet fully reflected in these metrics. As we've said, we might expect this -- these metrics to continue to moderate as the impact of the slowdown sort of flows through into those trailing figures that we have reported from our assets. You also asked whether any sort of estimated peak places in there? I mean, we have a formula and a rubric for calculating this. If you think across the entirety of our portfolio, we have fully leased-up stabilized assets. We also have some assets that are under development. And so on some of those assets, we use our own underwritten estimates, for example, for coverage because they're not yet in a place to have those trailing 12 months reported.

So, we follow the rubric, and for the vast majority, it's as reported by the properties that we have. And we expect this metric to continue to moderate as that impact gets flowed through into those reports.

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

Okay. Last question for me. You mentioned $700 million of purchasing power. What's the wiggle room on that? Obviously, you're not going to go right up to $700 million and then raise equity. I imagine there's some number where you want to have that sort of buffer before absolutely hitting your debt sort of target. So I'm just curious, stock's up another 65% this year. What you think about the practical amount of space that you want to have for that you absolutely would need to raise some other form of equity?

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

Yes, I'll take that one, right, Jeremy. I think in the past, we have tried to have at least $250 million available at any moment in time. That represents the size, not only of pipeline today, but of some of the larger deals we've done in the past. So, we wouldn't want to see our purchasing power fall much below that. But right now, we've got sufficient firepower to go everywhere we want to go, and the guys will continue to execute on that. And as we whittle that number down and start to think about 2021 needs, but we still feel like we've got plenty of dry powder right now.

Operator

Our next question comes from Anthony Paolone from JPMorgan.

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

I think we've seen some of the loan officer surveys showing more scrutiny on commercial real estate lending. And I was wondering, can you talk about just what the lending market is like on leasehold interest right now? Like are your sponsors able to get as much liquidity on their leasehold as they were previously? And is that having any impact on what you're seeing or doing at SAFE?

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

Why don't I take that. So I would say, certainly, there is an impact across both fee and leasehold liquidity. I think there's a little bit of the haves and the have-nots, which is why you see us focused on what I would call the haves. So high-quality sponsors, high-quality assets, there's liquidity, both fee and leasehold. If you're trying to lease-up a vacant office building or a hotel asset with 0 or negative cash flow, I think those stories are difficult, both fee and leasehold. So for the transactions we're focused on, there is a liquid active market from multiple different institutions. So we're still excited about the liquidity that sits in the space that helps our transactions ultimately get done.

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

Got you. So I mean, does that naturally, I guess, is that one of the reasons that it's pointing you more towards multifamily given the GSE liquidity there?

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

Yes. Some of that is driven by the GSE, but there is some office in our pipeline that's high-quality, long lease. We're looking at hospitality assets that we think still are compelling from our basis, and there is liquidity. So multi has been good for Q3, Q4 prospects and will continue to be, but we remain optimistic that for high-quality assets, there will be liquidity.

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

Got it. And in multifamily, since it is a decent part of the pipeline and the deals you've been doing now. You always think about the yields or the sponsors unlevered being in the 4s. What is sort of the return enhancement that a sponsor gets doing sort of the safe structure with the leasehold loan versus just a traditional straight-up mortgage?

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

Yes. The pitch we make our customers, and we think they agree with it, is on a current cash-on-cash basis, you're increasing your return 100 to 200 basis points depending on the leasehold leverage. And ultimately, your IRRs over a 5 to 10-year hold are 200 to 500 basis points higher. So very compelling in a highly competitive environment, even pre -- post-COVID.

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

Okay. And then last question, you gave the effective yields on the deals basically that you've been doing. And can you talk about -- I don't know if you originated any of sort of a matched, sort of like cash flow debt that you've done in the past on any of this. I'm just wondering if you could talk about just what the spreads look like on that right now?

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

Yes. We're still targeting that 150-basis point spread that Jeremy mentioned in his remarks. Sometimes we do a little better than that, sometimes we do a little less than that, but that's still the benchmark for us.

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

Okay. So that would be, again, take 150 off the 5, 2 roughly, and that's kind of where your effective costs are on the type of debt you all have been originating for the last year or so?

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

Yes. It depends on the product type and a particular lender, but that's the centering sort of spread that we're seeing.

Operator

Our next question comes from Ki Bin Kim with Truist Securities.

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

Just a couple of follow-ups. Do you have any kind of color or details you can provide for your hotel tenants and the liquidity they have? I fully agree with you that Hawaii will come back at some point and all those things. I'm just curious if the financial position is there for your tenants to actually kind of get through that period?

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

I want to take the -- sorry, go ahead, Jay.

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

No. Go ahead.

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

I'll use that Hawaii deal as an example. There's over $500 million of capital between debt and equity to a -- and the equity is a European pension. So, when we think about access to capital, we feel highly confident that they will continue to support the asset. I think that thematic sort of capitalization flows through all of our assets.

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

Okay. And in terms of your acquisition, the 5.2% yield, I feel like I asked this every quarter, apologies, but that's not the GAAP yield, right? That is the yield, assuming -- typically, I think you add it like percentage rent or -- I guess that's different for multifamily, but is it really the GAAP yield? Or is there some other variables embedded in that number?

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

This quarter, it's the GAAP yield.

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

Yes. With multifamily, there's no -- typically, no percentage rent, so it's straight up GAAP.

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

Right. Okay. That's what I figured. And just last question. You guys provided the CPV and UCA disclosure in 10-Q, a lot less based on appraisals. I'm just curious from a timing perspective, these appraisals are done like once a year or so. But like how much of your portfolio has actually been appraised in this kind of post-COVID era?

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

Yes. I think when you look at how it's run since we started the IPO, we typically get about 15% to 20% done every quarter because they are done, as Jeremy said, annually after the date of closing. So, it's a rolling process. We don't do everything in the portfolio on one day and wait a year. About 15% to 20% comes up for renewal. As the portfolio grows, we'll never have 100% of the stuff done in 12-month period because there's a bunch of new deals being done. It feels like when we went back and looked at this number, 15% to 20% a quarter feels like a number that happened. Some quarters, there'll be more than that. Some quarters, there might be even a little tight or less, but call it, 15% to 25% is kind of the range.

So, it will take 4 quarters to get through most of the previously existing portfolio. But obviously, the new deals coming on during that 12-month period have to go through their own cycle. So, I would kind of say the 15% to 20% number feels like a good number to use.

Operator

(Operator Instructions) Our next question comes from Stephen Laws with Raymond James.

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

I guess to start with another follow-up on the pipeline, but just trying to look at maybe an optimistic or pessimistic economy. So I mean, are there anything you're looking at that unthaws the pipeline growth? Is it outlook on the next round of stimulus? Is it something to do with getting the election in the rearview mirror and having an idea of what policies are going to be pursued by whatever parties in the Oval Office and controls the Congress? Are there other things on the -- that you think will unlock or unfold kind of the pipeline and let that number build?

And conversely, is there some type of distress or anything you're looking at that might cause an increase in borrowers with unencumbered assets coming to you to put a ground lease in place to provide them some liquidity to make it through 3 or 6 more months or what we may need to get to a return to normal. So maybe anything you think unthaws the pipeline? And then anybody -- how are discussions going with borrowers that have assets that are currently unencumbered?

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

Well, let me let Marcos talk about some of the specifics you're mentioning. I'll just tell you, in terms of the top line growth is really going to be driven by real estate market activity picking back up. And as said multiple times, we feel that, we feel part of that. It's just people getting back to work. I think earlier in the call, we talked about what it was like earlier in the COVID crisis. And I think to a person, we can tell you, trying to close real estate transactions remotely. Employers are remote. We just don't have an ability to close real estate deals remotely.

So, I think the fact that people are starting to get back into the flow is going to unlock real estate transactions. And when real estate

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transactions unlock, ground leases can be a really important solution tool. So that's the general drift that we feel as people start to get back to work, figure out how to work around the COVID impact as best they can. We've always said we'll get our fair share of transactions, and we're definitely seeing that dynamic. And with respect to what kind of transactions are happening, I'll throw that to Marcos.

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

Yes. I think this is -- we're seeing things thaw. We're optimistic about the progress we've made. I can tell you the dialogue between our origination team and customers is certainly better than it was a couple of months back, and we feel good about the pipeline. I think it is entirely situational so there are certain equity owners who are waiting for the election to happen. There are certain equity owners who are trying to make a decision. I think certain asset classes still have to go through a capitulation on what value is post-COVID. I don't think that hasn't necessarily occurred for a lot of the asset classes, these are -- office is an example, in some of the major urban markets or hospitality.

So, I think we're going to continue to get our fair share of what occurs, but that sort of unlocking and capitulation hasn't truly happened. We're focused on groups of unencumbered asset basis. We're certainly a very, very great cost alternative. But we are getting our fair share. If you think about the transactions we've closed, along with the pipeline, that's on over $1 billion of enterprise value of transactions. So it's a decent volume when you think about some of the slowdown, and we see that picking up.

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

Great. And to kind of piggyback on that, I guess, I want to jump to competitive landscape. Just what you're seeing out there. It seems like you're -- the spreads you've referenced to the asset yield versus financing costs remaining relatively stable. Is that in the face of increasing competition? Or are you really not seeing a significant increase in competition, yet? I know you've got a number of advantages being a first mover here. But can you talk about the competitive landscape you see in the market today?

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

Sure. I mean, as we've said, this is a business we had to invent from scratch. So, we've enjoyed being the front-runner with really very little competition. I think as we've showed people the power of the concept, why it is radically different than what a lot of people used to think about the ground lease industry. We certainly expect copycats to show up. But what I'd tell you, Stephen, there hasn't been a lot of transaction activity. So, we don't expect to see that competition still until there's a little bit more recovery in the market activity. So right now, we feel really good about the pipeline we're building, but it's not like there's billions of dollars of transactions lying around. We're having to fight for each one. So, I think there's still a period of time here where we'll see competition for sure.

And somebody is going to try to copycat us here, but we've learned a lot in 3.5 years that is not so easy to learn on your own. And we keep a few secrets to ourselves. So, we'll keep pressing ahead. Again, the more efficient we get, the more we can provide benefits to our customers, including driving price. That should keep us in the clear lead, no matter who shows up.

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

Great, Jay. And then last question, and again, you may have covered it kind of given the lack of transactions. But when you think about the cofinancing with iStar and Safehold, are there active discussions going on there? And then, I guess, sort of pigging back from that, are there CRE loans in the Star portfolio that were originated prior to Safehold's business that maybe could be modified or refinanced into some type of combination that would benefit all parties? Is there any type of refi modification options for a joint product that may be available?

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

So we certainly pitch, depending on the situation, our one-stop capital solution. It's not perfect for every situation. There is a -- as I said before, there is a fair amount of liquidity in the resold market, which is great. So, depending on the situation, given our cost of capital, we try to pick our spots. And here and there, we pull off the transaction. And we certainly mind our balance sheet for any situations at Star that could potentially create stable ground leases there as we've done in the past.

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Operator

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

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

Just a big picture question for Jay. With the real estate markets going through potentially a drawn-out correction, a lot of price discovery needing to play out, particularly in the office sector, which is what I'm primarily focused on. And concerning the downstream risk of potentially higher inflation, do you think ground leases still represent the best risk-adjusted investment today? Just some some color we've seen opportunistic real estate deals in the low to mid-teens on a senior secured basis or a few capital situations at similar terms and higher at attractive basis, while at the same time, people do expect the office sectors in for a day of reckoning, primarily based on lower net effective rents in gateway markets, but also what we work, I think, showed the market is there's definitely a lot of anachronistic lease structures throughout the office sector.

And post-COVID, you might expect lessees be less willing to commit to 10-year leases and such. The big question is, are ground leases still the best risk-adjusted returns? And also, could you anticipate, similar to Stephen's question, iStar and SAFE in combination pursuing much more complex and structured nuanced transactions, which is really what iStar's forte historically was.

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

Sure, Jade. I mean, you packed a lot in there, so let me see if I can unpack it a little bit. There's an election coming up that's going to have a major impact on some of the states and cities that you would think about as gateway markets. Certainly, New York and the big California cities are going to be dependent on some sort of help to really get back on their feet quickly. So we'll need to see, which way that goes before we can give you a better sense of time frames, but we're in a business that has very, very long time frames. And so when we look out, not in quarters, not in years, but decades, we continue to believe these are major cities with major economic and cultural reasons and financial reasons why they will remain great cities.

And so, our thinking is more focused on that than whether there's going to be some temporary changes. We're looking for long-term systemic trends. And again, I think I said earlier, we don't believe the office segment is obsolete. We think there will be tweaks. There'll be changes. There'll be due flexibility points, but the gathering of human beings to be productive and exchange ideas, we don't think is obsolete, and we don't think that digital communications is completely made being in the same office, something that's going away.

So, I guess I'm optimistic long-term and obviously, realistic short term. There's going to be pain, there's going to be changes. Buildings that are not able to provide what tenants want are going to suffer. And so you're probably right, there's a change going on there. Does that impact our return profile? So far, not really. We think ground leases do represent very attractive capital to our customers, and a growing ground lease portfolio represents a very attractive investment for all kinds of investors.

Here's the real question I think you're asking, which is, we agree with you. There are spot opportunities right now that look really tempting. And believe me, at iStar, we see a lot of those. And it would be very easy to go try to make a 15% 1 or 2-year investment and feel really good about it. But none of those are businesses. And there is a very valuable thing embedded in ground leases, which is 99-year call protection. So when we have a competitively advantaged platform that can put out money that is good for our customers and very good for our investors, and it stays in place for a long, long time. We would actually argue to you, it is still the best risk-adjusted investment we see.

But I'll call it, risk and time-adjusted investment. And that sure, you can make a really good short-term return right now in lots of places, and you can probably deploy some pretty good-sized chunks of capital, but it's almost certainly going to come back in a relatively short period of time when things normalize. And then you got to either do it all over again or if there's no distress, you may not be able to do any of it. And I think that's where ground leases by being the one who reinvented the industry. These early market opportunities, we are the ones setting the pace and setting the pricing. And we think we've proven it's really good for customers and it's really good for investors, and that hasn't changed. So we'll keep doing what we do best. Other people will make really good returns on some short-term temporal opportunities. But if you give us a choice right now, I think we continue to tell you we want to put capital into the ground lease ecosystem.

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

And 2 quick follow-ups, somewhat related, but not entirely directly. Number one is, do you still think that secured debt is the best financing strategy for SAFE's balance sheet? And number two is, typically, internalization transactions we've seen a couple recently take place when they manage REIT eclipses the market capitalization of around $2.5 billion. So that tends to be the size that rationalizes the absorption of the managers G&A structure or warrants a pay out of the contract. If you could provide any comment on either of those or both of those two subjects, that would be appreciated.

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

Yes. That first question is really insightful because we think, certainly, the secured funding strategy has been the right one for us to date. Again, we're inventing a business from scratch, and we're inventing the liability structures from scratch. It's a difficult task to ask the agencies on an unsecured basis to go first with no data and no real industry benchmarks to look at. So, the secured financings have helped us start to create that benchmark dialogue.

So they can see how private market participants are evaluating the risk to safety. I think the fact that we've gone through COVID with 100% rent payments is also a helpful fact. So certainly, part of our long-term plans would be to continue to think about unsecured as a great part of our liability strategy, but it was not really realistic coming out of the box. As time passes and certainly 3.5 years in, we certainly feel like that can be start that conversation as part of our dialogue with the agencies.

Your second question was what again?

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

About a potential -- the internalization of the management contract?

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

Yes. Yes. So look, we certainly have said in the past that, that may make a lot of sense. I think $2.5 billion is not a magic number in our world. We're still building this business. We still get a lot of value by having all the resources of iStar, not just financial resources, but their network, the capabilities, the Safehold on its own could not replicate. The cost structure at iStar is not something that Safehold could ever replicate right now economically. So there's still a lot of benefits to sharing resources. But you're right, there's going to be a moment where that may not be as clear, and I think both boards are open-minded and thoughtful about ways to maximize value. And if that's the way to maximize value, it will certainly be on the table. It isn't probably today a conversation that actually is going to maximize value. So I can just tell you, it's not a conversation happening right now.

Operator

Our next question comes from Derek Hewett with Bank of America.

Derek Russell Hewett ***BofA Merrill Lynch, Research Division - VP***

All of my questions were addressed. But one quick housekeeping item since the 10-Q is not out yet. So G&A expense was down about $1 million quarter-over-quarter. What was driving that improvement?

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

That's just the onetime board payments that are made around the annual meeting, I'd say all at once.

Operator

Mr. Fooks, we have no further questions.

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

Okay, great. Thanks for the lively discussion, everyone. If you should have any additional questions on today's earnings release, please just feel free to contact me directly. Tiffany, would you mind giving the replay instructions once again? Thanks.

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Operator

Absolutely. Thank you. Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern Time today through November 5 at midnight. You may access the AT&T executive replay system at any time by dialing 1(866) 207-1041 and entering access code 9919992. Those numbers again are 1(866) 207-1041 with an access code of 9919992. That does conclude our conference for today. Thank you for your participation and for using AT&T conferencing service. You may now disconnect.

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