REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SAFE.N - Q2 2024 Safehold Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2024 / 1:00PM GMT

CORPORATE PARTICIPANTS

Pearse Hoffmann *Safehold Inc - Senior Vice President - Capital Markets & Investor Relations*

Jay Sugarman *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Brett Asnas *Safehold Inc - Chief Financial Officer*

Tim Doherty *Safehold Inc - Chief Investment Officer*

CONFERENCE CALL PARTICIPANTS

Nate Crossett *BNP Paribas - Analyst*

Caitlin Burrows *Goldman Sachs - Analyst*

Anthony Paolone *JPMorgan - Analyst*

Mitch Germain *Citizens JMP - Analyst*

Harsh Hemnani *Green Street - Analyst*

Ravi Vaidya *Mizuho Securities - Analyst*

Stephen Laws *Raymond James - Analyst*

Kenneth Lee *RBC Capital Markets - Analyst*

Kelly Kunath *Morgan Stanley - Analyst*

Matt Howlett *B. Riley - Analyst*

PRESENTATION

Operator

Good morning, and welcome to Safehold's second-quarter 2024 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 Pearse Hoffmann, Senior Vice President of Capital Markets and Investor Relations. Please go ahead, sir.

Pearse Hoffmann - *Safehold Inc - Senior Vice President - Capital Markets & Investor Relations*

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; Brett Asnas, Chief Financial Officer; and Tim Doherty, Chief Investment Officer.

This morning, we plan to walk through a presentation that details our second quarter 2024 results. The presentation can be found on our websiteat safeholdinc.com by clicking on the Investors link. There will be a replay of this conference call beginning at 2:00 PM Eastern Time today. The dial-in for the replay is 877-481-4010 with a confirmation code of 50921. In order to accommodate all those who want to ask questions, we ask that participants limit themselves to two questions during Q&A. If you'd like to ask additional questions, you may re-enter the queue.

Before I turn the call over to Jay, I would 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 it over to Chairman and CEO, Jay Sugarman. Jay?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Pearse, and thanks to all of you for joining us this morning.

The second quarter was highlighted by solid earnings, attractive deals and progress on G&A. New originations improved, but the smaller dollar size and allocations to our Sovereign Wealth partner under our existing JV limited the net origination number. That said, we were pleased to see activity pick up and with the overall level of customer engagement.

Earnings were helped by further efforts to run the business as efficiently as possible. Not sure how much more we can do on that front, but we've made good progress against our targets so far. In terms of the market environment, the potential for lower rates later this year should help overall real estate markets and transaction activity. The multifamily sector remains our focus with opportunities in other asset types more limited.

Lastly, valuations from CBRE for our UCA estimate were again impacted by higher cap rate assumptions and tougher office market fundamentals, somewhat offset by UCA additions from new originations, leaving overall UCA little change for the quarter.

With that, let me turn it over to Brett, to review the quarter in more detail.

Brett Asnas - *Safehold Inc - Chief Financial Officer*

Thank you, Jay, and good morning, everyone.

Let's start with the summary of the quarter on slide 2:

During the quarter, we originated six multifamily ground leases for $98 million. Of the six new deals, five were in the affordable housing space and one was student housing, and they spanned across four markets and three sponsors.Credit metrics are in line with our portfolio targets with the GLTV of 33%, rent coverage of 2.8 times, and an economic yield of 7.5%. We are pleased to have converted most of our previously announced LOIs into closings particularly at what we believe are very attractive risk-adjusted returns. We are optimistic that a clearer path on interest rates as well as increasing liquidity and price discovery in the market will stimulate broader transaction volume in which we can participate.

On the capital front, we announced in April our new $2 billion unsecured revolving credit facility, which replaced and upsized our previous $1.85 billion aggregate facilities. This recast had several strong positive outcomes for the company immediately increasing credit capacity to $150 million lowering borrowing costs, extending our nearest-term maturities with a fresh five-year term, which includes two six-month extension options, and further improving overall financial flexibility.

In June, we closed on a new $750 million unsecured commercial paper program. We view commercial paper as a short-term funding alternative to our revolver and not incremental liquidity as the program has a full dollar-for-dollar revolver backstop. We have not yet utilized the program, but may do so in the near-term, which would help us recognize interest savings versus the revolver on amounts issued.

We continue to benefit from an active hedging strategy. The company has $500 million of SOPR swaps in place until April 2028 a rate of approximately 3%, saving approximately $3 million of cash interest per quarter at current rates. Additionally, we have $350 million of long-term treasury locks in place at a current mark-to-market gain position of approximately $37 million which is expected to provide a benefit to the true economic cost of future long-term financings.

At quarter end, the total portfolio was $6.5 billion, UCA was estimated at $9.1 billion, GLTV was 48%, and rent coverage was 3.6 times. We ended the quarter with approximately $1.1 billion of liquidity, which is further enhanced by the potential available capacity in our joint venture.

Slide 3 provides a snapshot of our portfolio growth:

In the second quarter, we funded a total of $78 million including $37 million of new Q2 originations that have a 7.5% economic yield and $41 million of ground lease fundings on pre-existing commitments that have a 6.4% economic yield.

Of the six new ground lease originations in Q2, five closed into our joint venture. Safehold's commitment is $59 million, and our JV partners commitment is $39 million.

Our ground lease portfolio has 143 assets and has grown 19 times since our IPO, while the estimated unrealized capital appreciation sitting above our ground leases has grown 21 times. We continue to emphasize ground leases under multifamily assets and have increased our exposure from 8% of the portfolio by count at IPO to 57% today.

In total, the unrealized capital appreciation portfolio is comprised of approximately 35 million square feet of institutional quality commercial real estate consisting of approximately 19,200 multifamily units, 12.5 million square feet of office, over 5,000 hotel keys, and 2 million square feet of life science and other property types.

Continuing on slide 4, let me detail our quarterly earnings results:

For the second quarter, revenue was $89.9 million, net income was $29.7 million, and earnings per share was $0.42.

EPS was up $0.07 year over year driven by approximately $7 million increase in asset-related revenue from new investments and rent growth, as well as approximately $3.8 million savings in G&A net of Star Holdings' management fee offset by approximately $3.1 million of additional interest expense.

The second quarter's G&A savings were a result of reorganizing our legal team structure to better fit what our business has seasoned into. Certain members of the legal team transitioned from in-house to external counsel where the same firm and team will continue to provide asset and corporate legal services to Safehold but in a more flexible and cost-effective manner.

On last quarter's call, we said that the annualized net G&A target for 2024 was approximately $40 million. As a result of this legal transition, we're now revising this expectation to $38 million. We've made great progress recently in finding efficiencies, and we'll continue to be thoughtful in aligning our cost structure to the business environment.

On slide 5, we detail our portfolio's yields:

For GAAP earnings, the portfolio currently earns a 3.6% cash yield and a 5.3% annualized yield. Annualized yield includes non-cash adjustments within rent, depreciation and amortization, which is primarily from accounting methodology and IPO assets but excludes all future contractual variable rent such as fair market value resets, percentage rent, or CPI-based escalators which are all significant economic drivers.

On an economic basis, the portfolio generates a 5.8% economic yield, which is an IRR-based calculation that conforms with how we've underwritten these investments. This economic yield has additional upside including periodic CPI look backs, which we have in 83% of our ground leases. Using the Federal Reserve's current long-term breakeven inflation rate of 2.27%, the 5.8% economic yield increases to a 5.9% inflation-adjusted yield.

That 5.9% inflation adjusted yield then increases to 7.5% after layering in an estimate for unrealized capital appreciation using Safehold's 84% ownership interest in Caret at its most recent $2 billion valuation.

We believe unrealized capital appreciation in our assets to be a significant source of value for the company that remains largely unrecognized by the market today.

Turning to slide 6, we highlight the diversification of our portfolio by location and underlying property type:

Our top 10 markets by gross book value are called out on the right, representing approximately 70% of the portfolio. We include key metrics such as rent coverage and GLTV for each of these markets, and we have additional detail at the bottom of the page by region and property type.

Portfolio GLTV, which is based on annual asset appraisals from CBRE, stabilized in the second quarter after several quarters of increases. Rent coverage on the portfolio also remains stable quarter over quarter at 3.6 times.

We continue to believe that investing in well-located institutional quality ground leases in the top 30 markets that have attractive risk adjusted returns will benefit the company and its stakeholders over long periods of time.

Lastly on slide 7, we provide an overview of our capital structure:

At the end of the second quarter, we had approximately $4.5 billion of debt comprised of $1.8 billion of unsecured notes, $1.5 billion of non-recourse secured debt, $956 million on our new unsecured revolver, and $272 million of our pro-rata share of debt on ground leases which we own in joint ventures.

Our weighted average debt maturity is approximately 21 years, and we have no maturities due until 2027.At quarter end, we had approximately $1.1 billion of cash and credit facility availability.

Our credit ratings are A3 with stable outlook at Moody's and BBB+ with positive outlook at Fitch.

As mentioned earlier, we have several hedges in place to manage interest rate risk and our limited floating rate borrowings.

Of the $956 million revolver balance outstanding:

$500 million is swapped to fixed SOFR at 3% through April 2028. We received swap payments on a current cash basis each month and at today's rates that produces cash interest savings of approximately $3 million per quarter that is currently flowing through the P&L.

We also have $350 million of long-term treasury locks at a weighted average rate of approximately 3.67%, which at current treasury rates is in a gain position of approximately $37 million. These treasury locks are mark-to-market instruments, so no cash changes hands each month. And, while we do recognize these gains on our balance sheet and other comprehensive income, they are not yet recognized in the P&L. While hedges can be utilized through the end of their designated term, they can be unwound for cash at any point prior.As we look to term out revolver borrowings with long-term debt, we have the ability to unwind the hedges which would then flow through the P&L thereafter.

We are levered 1.89 times on a total debt to equity basis. The effective interest rate on permanent debt is 4.0%, and the portfolio's cash interest rate on permanent debt is 3.6%.

So to conclude, we're encouraged to see transaction activity begin to pick up, and we expect rate cuts to be beneficial for our business both in terms of opportunities and valuation. The balance sheet is well-positioned and we'll look to harness our ample liquidity to deliver value to our customers.

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

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Brett. Let's go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Nate Crossett, BNP Paribas.

Nate Crossett - *BNP Paribas - Analyst*

Maybe you could just talk through like what does the pipeline look like right now? Maybe what are your expectations for the next three to six months based on the conversations you're having? And, I think you mentioned it's still mostly multifamily, is that right?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Yes. Tim, why don't you go ahead?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Yes. Hi, Nate it's Tim. As you saw, we closed six of the eight deals we announced last quarter. The other two are closing this quarter. Activity, well quarter-to-quarter can vary. We were actually pretty optimistic on what we're seeing in the market both on just general activity and then the conversion to LOIs. There has been additional LOIs signed up that deals that will close likely later this year.

And yes, it's predominantly multifamily. I think the reason for that is, that's predominantly where the activity and liquidity is right now in the market. It's pretty competitive, obviously starting with the agencies, but also in the banks, the debt funds, Lifeco, even CMBS. But, the good news there we're seeing is that spreads are tightening, competition is increasing. That's pushing capital into other asset classes.

So, we're seeing activity pick up on those, mostly front-end right now. But, we're pretty optimistic with the clarity and visibility in the market and increased transaction flow.

Nate Crossett - *BNP Paribas - Analyst*

Okay. And then, just in terms of funding the deal flow, can you guys remind us how much is left on the JV? And, then also I just wanted to know on the commercial paper program, what's the rate savings versus if you just put it on the revolver?

Brett Asnas - *Safehold Inc - Chief Financial Officer*

It's Brett. In the joint venture at quarter end, there was $353 million. So our partner's share was $159 million remaining that will go towards future investments here over the coming quarters. In terms of commercial paper, we put the program in place at the end of June. There were a couple of days left in the quarter. Now we've hit earnings. So here in the near-term, we would hope to utilize that in a judicious manner.

The savings will probably be close to 50 basis points versus our line cost. Right now, we pay adjusted SOFR plus 85 basis points on our revolving credit facility. So in the commercial paper landscape, depending on the tenor of what we issue, I'd say the average net savings will probably be around that number.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs - Analyst*

Maybe just a follow-up on the pipeline. I know you guys have obviously been focused on multifamily recently. Just wondering if you could comment on kind of, at what point you might get interested in other property types what they could be because I feel like the size of the multifamily deals ends up being relatively limited, although maybe there's portfolio deals or something you could do. But yeah, just talking about the types of deals and then the stickiness of those cap rates or yields that you expect?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Sure. Hey, Caitlin, it's Tim again. So as I said earlier, there is activity beginning in those other asset classes, hospitality probably being the one that's leading the rest of them. We're paying attention to all of them, right? Office, hospitality, retail, tracking what's going on in the fundamentals there, obviously, what's going on in the capital markets and the capital being provided there.

Transaction flow on the investment sales side remains pretty low in those areas, which is sort of the key to the capitulation of transaction flow. But again, we're starting to see more activity as the capital markets open up for all the other asset classes. So, we're ready to go on a lot of those. We're just waiting for the right opportunities and the transaction flow to increase.

Caitlin Burrows - *Goldman Sachs - Analyst*

Got it, okay. And then, we noticed that 135 West 50th property where you have a ground lease is being auctioned. So whether specific to that asset or if you don't want to talk specifics maybe just in general, I realize the best case scenario would be if a property sells for like a reasonable cap rate, there's a new owner and no change to Safehold. But just trying to understand what's the downside risk. So for example, if a property is sold for a low dollar amount, is there any impact to Safehold or if it's returned to lender like the lender, how does that end up impacting you guys?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Caitlin, it's Jay. So, obviously the sponsor is running a process there. The building has benefited from a lot of investment, and we do think the New York Midtown market is recovering pretty well. So let's see how that process plays out. I think it's fair to say our ground lease should be viewed as very effective capital by an owner. But, it's premature to speculate exactly how that one will end up. A low dollar price does not impact us, but obviously, we're more focused on long-term value preservation.

So as we do with all ground leases, we're looking to maximize long-term value. So, we're watching that process closely.

Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Can you just talk about just on the incremental debt side where your most attractive just longer-term debt capital would be right now and sort of that duration and rate if you had to go into the market?

Brett Asnas - *Safehold Inc - Chief Financial Officer*

Sure. Hey, it's Brett. So right now, you saw us, as we've talked about earlier, put in the commercial paper program, that's really just an alternative to our revolver. We do not view that as incremental capital, and that's not how we're funding the business long-term. I think on a long-term basis, what you've seen us do over the years is go to the public and private debt markets.

So right now, our bonds that we issued back in February, we did that at a spread of 200. Those have tightened about 20 basis points to 25 basis points. So, we've seen some of the benefits of all the hard work that everyone's doing here flow through. We're still focused on getting Fitch over the hump to get that second A rating. We think that will provide additional benefit as well. Right now, those 10-year bonds trade close to 6%.

If you looked at where the 30-year would be in terms of both, where the treasury market is as well as from a spread basis, that gets you into the mid-6s and where you've seen us originate here recently over 7% yield, we're creating some nice accretion.

So, I think it'll be a mix again of both public and private markets, it could be flat coupons, it could be the Step 3 coupons that you've seen us do in the past. But right now, it certainly feels like where the curve has been and the steepening that's existed, which when we look to the 2-year and 10-year at year-end versus today, that certainly has come down a bunch it's 40 basis points difference at the year-end.

Today it's about 20 basis points. And, I think that is also going to be very important as we move forward and think about our hedging strategy. So, we're constantly thinking about locking in margins and creating some nice accretion for our earnings profile.

Anthony Paolone - *JPMorgan - Analyst*

Okay, got it. Thank you. And then, just follow-up question is, as it relates to just these multifamily transactions, you seem to be doing a lot of. Can you talk about just it sounded like a bunch were affordable, but just kind of where the sweet spot is? Is it with more affordable type projects or is it terming out a lot of the development that's getting delivered these days in multifamily or is it Class B? Just trying to understand where your cap stack solution fits most?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Yes, this is Tim again. Look it expands all multifamily whether it be the age of these. It's really based on location of those multifamily and the drivers of where demographics are moving. So you see us closing deals right now a lot in the Sunbelt that's where a lot of transactions are occurring out West. The benefits of the ground lease as you're seeing across whether it be market rate affordable or any other multifamily remains the same, right. It's low cost of capital that we provide incremental proceeds that increase the liquidity for the sponsor as well as blended cost of capital goes down.

So, we're seeing activity both on the development side, recapitalization side and even acquisitions in the multifamily space. So, very positive momentum in that in multifamily.

Anthony Paolone - *JPMorgan - Analyst*

All right. So I mean, where does the sponsor like what are proceeds to the sponsor on their leasehold debt?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

So typically the people that are coming to us are going to or staying with banks or the agencies to finance their product depending on where it is in its lifecycle. And, those institutions when they see the Safehold modern ground lease there are sizing based on credit metrics they would use for fee simple cash flows because they know that our lease provides them the lender also with liquidity to be able to be recapitalized in the transaction.

So, that's one of the benefits that we brought to the market here, spend a lot of time with everyone in the cap stack in this case the lenders to make sure that they have everything that they need that provides them the liquidity that they require. Therefore, the credit metrics they can provide to the sponsor.

Operator

Mitch Germain, Citizens JMP.

Mitch Germain - *Citizens JMP - Analyst*

Good morning. I'm curious about the new sponsors that you did deals with this quarter and how long did it take from introduction for the relationship to harvest into a transaction?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Hey, Mitch, it's Tim. Great question. That's something we pay attention a lot to as we try to expand our customer base. It varies, right? I mean, it depends on what the sponsor is, where they are in the cycle of some of their pipeline themselves. We reach out to a lot of different clients and there are different parts of their investing window. But look, it can range. Some of these relationships we've started from five-plus years ago and we're getting transactions done with now.

Some of this is clients that have heard what we've done with other ones of their peers and they want to come in and see how it can work and those relationships tend to bear fruit a little bit quicker. You're starting to see that window narrow as obviously we've done over 140 transactions. You're starting to see that window of time from initial conversations to execution of a first transaction. So, it did varies quite a bit, but I would say it's narrowed as we've matured as well.

Operator

Harsh Hemnani, Green Street.

Harsh Hemnani - *Green Street - Analyst*

Just following up on the pipeline for a second. So you mentioned a lot of the activity in the liquidity continues to be in multifamily. And, against that backdrop of maybe tightening cap rates in the space, rates incrementally coming down, it feels like origination yields on multifamily could come in a little bit. Against that backdrop, maybe if you were to underwrite some other property types, you mentioned hospitality and office, how much additional yield do you think you could pick up on those property types? Could that help sustain sort of the mid-7s all-in yields that you're seeing now?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Yes. I think that the large part is that our cost of capital still remains the cheapest in the cap stack no matter which asset class you're discussing, right? From the multifamily side, obviously, hospitality and office cap rates are much wider, historically and definitely now in the cap rate levels. The cap, the spreads have compressed in the multifamily space in terms of the cost of debt. However, you're still seeing cap rates in the mid-5s, if not drifting higher on a consistent basis.

Yes, there's a couple spots where you've seen some tighter, but there's usually an instance of why that occurred. So we're still, as you see, capturing the spreads on the multifamily hospitality and office. Sure, there'll be a little extra spread there. However, for us, it's really the attachment point and the coverage that we're really focused on those on every transaction, but those transactions making sure that we're providing an efficient cost of capital but also the right attachment point for ourselves.

Harsh Hemnani - *Green Street - Analyst*

Got it. And then, could you maybe elaborate a little bit on the thoughts behind the legal reorganization of the legal team? It seems like that was a big part of helping Safehold grow to this point in terms of having a standardized ground lease contract, bringing in leasehold lenders and making them comfortable with the terms. Any thought process behind, maybe such a big driver of helping the company scale to where it is today and taking that function and outsourcing it? Any thoughts behind that?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Sure, Harsh, it's Jay. So as you know, we had a lot of work to do to really build this industry, and we wanted to be the leader. So we spent a lot of time getting the legal structures right and helping the market get comfortable with this modern ground lease format. But yes, I think what we realized is we could run that a little more efficiently now that we're a more mature company and we're running more of a steady state business.

We've kept a lot of those resources in-house, but we've also been able to get the same benefit with a little less expense by sharing some of those resources and outsourcing them. So I think it kept the best of both worlds. We've got the intellectual property and kept that in-house, but we also have the resources of some outside firms now that can leg in when we need them, but not sit on our P&L 100% of the time.

Operator

Haendel St. Juste, Mizuho.

Ravi Vaidya - *Mizuho Securities - Analyst*

Hi, good morning. This is Ravi Vaidya on the line for Haendel. Hope you guys are doing well. Just wanted to follow-up on another question that was asked earlier. How do you weigh the risk and opportunity of pursuing affordable multi to having ground leases versus traditional ones? Are you acquiring a higher return, and is there any noticeable difference, any of the deal terms or market rate, any versus market rate on multifamily?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Hey, Ravi, it's Tim. I guess the quick answer is there's not that big of a difference, right, in terms of how we're underwriting those transactions. At the end of the day, we're looking at what the cash flow that can be generated from those assets. Again, the location of those assets in the path of growth of the area those are in. These are infill well located assets that as you probably know affordable is needed across the country.

And, the cash flows that these can generate allow us to come in and help the sponsor to provide the ground lease with the low cost capital. So, I think that the short answer here is that our underwriting remains largely the same. There are nuances to every asset class and structuring. But at the end of the day, we're focused on the cash flow generation and what percentage of that cash flow should be utilized to pay the ground rent.

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

I think it's fair to say, occupancy, obviously, very high in that asset class. And I would say, generically, loan to cost is a little bit lower than straight multifamily.

Ravi Vaidya - *Mizuho Securities - Analyst*

Thank you. That's helpful. Just one more here. Can you remind us again about how do you guys decide which acquisitions go on balance sheet and which one goes into the JV? And, are there any asset classes or transactions that are restricted when partnering up with your JV?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Yes. The construct was originally put in place where the JV has first look. So, that construct is still in place here for another quarter or so. There's nothing specific excluded. There are some metrics though, where if they don't fit those metrics, they're probably not going to get in the JV. But I think those were market dependent. And so far, it's been a really good relationship.

Operator

Stephen Laws, Raymond James.

Stephen Laws - *Raymond James - Analyst*

Hi, good morning. Can you talk a little bit about the commercial paper program changed anything with regards to where you'll operate from a leverage standpoint and given the capacity in the JV running at [1.9] kind of debt to equity here, how do you think about your total investment capacity before you need to rate additional equity capital?

Brett Asnas - *Safehold Inc - Chief Financial Officer*

Hey, Stephen, it's Brett. So, from a commercial paper standpoint, we really don't think of it as additional leverage or additional liquidity. It has a full dollar-for-dollar backstop from the revolver. So, we're really looking at it as an alternative from a cost savings perspective.

So, instead of paying a higher spread on our credit line, if we're able to utilize that market and see the depth of that market and issue at different tenors, we'll see what our success is moving forward, but we think there's incremental savings there. So, from a strategy standpoint, there's no change. We just view it as an alternative.

In terms of our leverage profile, we ended the quarter at 1.89 times. You're right in terms of the joint venture and the dollars that are deployed. Right now based on our math, it's about every $100 million is about 0.05 turns of leverage. So, that takes us through another couple of $100 million of deployment. Obviously, there's other levers that we have in terms of being able to utilize both the debt and equity markets.

So, we're going to look to the pipeline, look to our current liquidity and continue to figure out how best to fund the business. We do think that the rate environment and what the Fed has indicated here recently, obviously meeting tomorrow as well is really important, but it feels like the market's pricing and cuts beginning in September. And, I think from a hedging standpoint over the last year or two, we've put in some really valuable economic hedges. But moving forward as we enter the second half of the year here and then into 2025, I think rate cuts should be a benefit for our business, both from an earnings profile standpoint, originations and pipeline, and just from a valuation standpoint as people get clarity on where the rate environment is.

Stephen Laws - *Raymond James - Analyst*

Thanks for that. And, as a follow-up, Jay, could you give us an update on the Carets, any update there as far as potential investors or liquidity event or is that really something that you're looking to accelerate originations, get the UCA moving higher again before you look to do anything with the Caret side of the business?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Yes, that's spot on, Steve. It's really going to follow the growth of the origination side. That external growth component is obviously a big component of Caret's future value. And so, I think once we have a really solid story there and it feels like we're moving to a better environment, I think you'll see us pick up our activity on the Caret side.

We've had quite a bit of interest. We've not really pursued until we can tell the whole story the way we want to tell it. But it's a when, not if. So, it will come as soon as we feel like the origination side is delivering a really clear picture of how this business is going to grow over time.

Stephen Laws - *Raymond James - Analyst*

Great. Appreciate the comments this morning.

Operator

Kenneth Lee, RBC Capital Markets.

Kenneth Lee - *RBC Capital Markets - Analyst*

Hey, good morning. Thanks for taking my question. Somewhat of a follow-up from the previous question. At a high-level, just given the outlook for potential rate reductions, how quickly do you think this could potentially further catalyze real estate transaction activity in the markets? Thanks.

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Yes. Go ahead, Tim. You're seeing real-time...

Tim Doherty - *Safehold Inc - Chief Investment Officer*

I would say, look, visibility and clarity produce transaction flow. And, that's what we're seeing. I think in the last couple of weeks as some of the reports have come out and people have a lot more visibility. I mean, Brett's you comment about rate reductions coming in the market that are pretty high probability at this point. That provides people with the confidence to go out and execute on transactions, both on the debt and the equity side.

So, what are indicators we have, we can make sure we keep in constant dialogue with the market and all the participants. It feels like there's a good swell of transaction flow starting up.

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

It's sort of a three-part cycle. They stop raising, then they say they're going to cut and then they actually do cut. And so, I think everybody wants to see that last piece fall into place. But as Tim said, definitely a shift in mentality has taken place. But, I think there's one more shoe to drop here before we really see the markets begin to accept the opportunity ahead of them. And so, we'll see if that comes in September.

Kenneth Lee - *RBC Capital Markets - Analyst*

Got you. Very helpful there. And then, in terms of the new origination economic yields, saw that you got the 7.5% on the recent deals. Any change to the potential outlook or the spread that you could expect over risk free rates there? Thanks.

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Sure. As you probably can guess, the second quarter had some pretty decent peaks in rates, when we closed some of those transactions. So, if you adjusted to where rates are today, those would be originated slightly lower numbers, still close to over 7%. But really for us, it's as we're based off the 30-year treasury. So, if you're using roughly somewhere in the 75%, 85% over the 30-year treasuries on average that's where we'd be originating. And then, obviously with the inflation sorry with our 2% bump you can get to the ROAs there. So, right today if you close the transaction you'd be in the low-7s.

Operator

Kelly Kunath, Morgan Stanley.

Kelly Kunath - *Morgan Stanley - Analyst*

Thanks, and hi, everyone. I know we've spoken about pipeline and rates a good bit here, but I was just curious, I know we've seen a few that starts with respect to the CRE transaction recovery this year. Curious if you could speak to the importance of macroeconomic conditions, rate cuts, etcetera to your current pipeline versus a more forward-looking larger recovery?

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Yes, Kelly, this is Tim. I think it kind of goes along with what our response has been on the previous questions. It all is helpful. And, as again people are starting to see the potential for rate reductions, they're just getting more confident in how they can invest, which is leading to more transactions flow.

I think in terms of rate reductions, you've seen a lot on the debt side of people going on the floating rate side. It's a little more flexibility both on pre-payment and then potential rate reductions. And, but for us translation I think where people are seeing long-term rates settle that our capital is very attractive.

Operator

Matt Howlett, B. Riley.

Matt Howlett - *B. Riley - Analyst*

Yes, hey, just to follow-up on, I mean, with the talk about these new sponsors, remind us just again why your structure is so favorable to a syndicator or real estate investor? The GSEs lend were up to about 75%, 80%, then you're talking about your product worth taking on a mezz product which is in the mid-teens. Just walk me through that again so we canhear what the pitch is to the new sponsors.

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Yes, Matt, it's Tim. Yes, the agencies are largely debt service coverage restricted right now. So, typically I think they're ending up in like the banks as well. I think everyone's really in the debt service coverage restriction level now versus LTC or V. So, you're seeing those usually come to around 60%, give or take 5% right now on a fee simple transaction.

With us coming in on a normal way transaction, typically, we're going to be somewhere as you see in that 35%ish of the capital stack. So, the leasehold position then they'll go to the market for the debt. They're going to receive, as you heard earlier, same credit metrics on the debt side. So, typically they're going to get around that 65% or so on the leasehold position, which then restricts reduces their level of equity in the transaction.

So, from that transaction, the total for versus 65% of the fee simple, now they're closer to 75% approaching 80%. So, now they're putting in about 20% equity into the transaction versus on the fee simple they were putting in 35%. So, that reduces their need for mezz, pref and reduces their level of LP equity they need. And then in turn due to our cost of capital and the senior cost of capital blended is a lower cost than just the fee simple debt and they also have the incremental proceeds to benefit their stack.

Matt Howlett - *B. Riley - Analyst*

And just to add --

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

And we think --

Matt Howlett - *B. Riley - Analyst*

Go ahead.

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

I have to say, we also always point out that our capital has no maturity. So, it looks quite different in the capital stack than debt. And so, I think you see a lot of customers who've now watched the volatility in the market over the past 10 years or 15 years.

That long-term low priced, very consistent capital is a benefit in markets like this, where rates have moved up pretty quickly and volatility gets added. This is the part of the capital structure that's very long-term and very stable. So, that's also a benefit that I think people are now starting to realize is worth quite a bit.

Matt Howlett - *B. Riley - Analyst*

It just seems like such an attractive product. Where is mezz? And, I've seen pitch books around on mezz or preferred financing on apartments. I mean, where are rates today? I know it varies, but are they generally low-teens or something?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Yes.

Tim Doherty - *Safehold Inc - Chief Investment Officer*

Yes, it depends on the asset class. Multifamily again has been pressed down pretty far. So, you're seeing low-double-digits there. And then, if you go into other asset classes or development deals, you start to see it go into the teens and match closer to where pref and LP capital is looking to get returns in the mid-teens to upper teens.

Matt Howlett - *B. Riley - Analyst*

No, really just incredible. And, that just leads me to a bigger picture question. I've asked it before and just directed to you, Jay, but in terms of I've run my model at sort of 10 years origination forecasting, annual origination, assuming a 65, sort of 35 debt equity mix. When commercial real estate prices and their clearing levels are established, what do you think the annual origination volume run rate is for Safehold? Are we talking $1 billion, $1.5 billion, $2 billion plus, I mean, just give me some help by plugging in that number 10 years up?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

Yes. Look, we built the company to do $1 billion plus a year. So, we certainly have the resources and good years have been north of that. And obviously, right now transaction activity in the market is less than we'd like. But, if you're plugging in long-term, we think certainly the $1 billion level growing over time is the number we're shooting for internally.

This is a big market opportunity. I've used the analogy before between what happened in corporate real estate, where triple net lease efficiencies have created a multi trillion dollar industry. Those same efficiencies we think should be available to all commercial real estate owners, not just corporate real estate owners.

And so, we think this is an opportunity to make the entire industry better and more efficient and give them longer-term more stable capital. So I think if we really can break through with on all product types and all the markets we've been doing business in, certainly $1 billion feels like the minimum we would want to be shooting for as the business , matures and stabilizes. But right now, we're still building this business. The biggest opportunities are still ahead of us.

And so, we're patient, but we're not patient. So, we'd like to get back to what I know our team can do. We've seen it before. And, when the market picks up, I think you'll see us pick up with it.

Matt Howlett - *B. Riley - Analyst*

Great. Thanks. And, with all your advantages, have you seen any competition? I mean, there was a few guys several years ago, but with the moat around your business, have you seen anyone try to get into this?

Jay Sugarman - *Safehold Inc - Chairman of the Board, Chief Executive Officer*

We're still obviously the only public company. We have seen some smaller private players. It's been a struggle, because if you don't have the investment grade ratings and you don't have the access to capital we have, it's a different business. But there will be niches that others can fill. Certainly, as you heard Tim say, we try to stick to our underwriting standards as best we can.

Some others could certainly take more risk and get higher yields. That's not our play today. But, right now, I think we really like our position. We've spent an awful lot of capital really building intellectual property. And, I think just scale in this business matters. So, we think the public format with investment grade ratings serves our customers best.

And, we want to really continue to pursue that path and have the market get back to where we saw it, when we started the business, which is this should be a very large business.

Matt Howlett - *B. Riley - Analyst*

Great. Thank you.

Operator

Mr. Hoffmann, we have no further questions.

Pearse Hoffmann - *Safehold Inc - Senior Vice President - Capital Markets & Investor Relations*

Great. If you do have any additional questions on today's earnings release, please feel free to reach out to me directly. Operator, would you please give the conference call replay instructions once again? Thanks.

Operator

Thank you, sir. The dial in information for the replay is 877-481-4010, with the confirmation code of 50921. This concludes today's conference, and you may disconnect your lines at this time. And we thank you for your participation.