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CORPORATE PARTICIPANTS

Brett Asnas *Safehold Inc. - CFO*
Jason Fooks *Safehold Inc. - SVP of IR*
Jay S. Sugarman *Safehold Inc. - CEO & Chairman*
Marcos Alvarado *Safehold Inc. - President & CIO*

CONFERENCE CALL PARTICIPANTS

Caitlin Burrows *Goldman Sachs Group, Inc., Research Division - Research Analyst*
Derek Russell Hewett *BofA Securities, Research Division - VP*
Harsh Hemnani *Green Street Advisors, LLC, Research Division - Associate*
Ki Bin Kim *Truist Securities, Inc., Research Division - MD*
Matthew Philip Howlett *B. Riley Securities, Inc., Research Division - Senior Research Analyst*
Nathan Daniel Crossett *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*
Richard Hill *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*
Richard Charles Anderson *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to Safehold's First Quarter 2022 Earnings Conference Call. (Operator Instructions)

As a reminder, today's conference is being recorded.

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

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

Good morning, everyone, and thank you for joining us today for Safehold's Earnings Call. On the call today, we have Jay Sugarman, Chairman and Chief Executive Officer; Marcos Alvarado, President and Chief Investment Officer; and Brett Asnas, our Chief Financial Officer.

This morning, we plan to walk through a presentation that details our first quarter results. The presentation can be found on our website at safeholdinc.com and by clicking on the Investors link. There will be a replay of this conference call beginning at 2:30 p.m. Eastern time today and the dial-in for the replay is (866) 207-1041, with the confirmation code of 9277384.

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 welcome to everyone joining us today. The first quarter of 2022 was a strong one for our modern ground lease business, more customers, more cities and more property types are benefiting from the more efficient capital that Safehold ground lease can provide. Earnings grew substantially. Deal flow was very strong. We crossed the $5 billion mark in terms of portfolio size, and we made important progress in accessing 30-year unsecured debt for the first time and closing our first round of CARET investors.

Despite all this positive net share price has obviously underperformed as rates have risen, and we want to spend some more time on this call giving a clear picture of what inflation means for our business and why we continue to think our business is worth quite a bit more than what we see on the screen.

One of the most important ideas embedded in Safehold's business plan is that compounding creates wealth. The higher the rate of compounding, the better. By creating a growing diversified portfolio of high-quality ground leases, we believe we can harness that equation for investors in a unique way, both in the rental income component and in the capital appreciation component of the portfolio.

Let's take a look at the rental income component. Given the principal safety and high-grade credit metrics of ground leases, the concerns expressed to us are rarely about credit risk, but generally centered on interest rate and duration risk. Of course, rising rates take a heavy toll on fixed coupon bonds, particularly long-term fixed coupon bonds. But our ground leases are different than most fixed coupon bonds.

In addition to base rents, our typical ground lease includes fixed rent bumps of approximately 2% per year on average over their life.

Further, almost all Safehold ground leases include some form of inflation protection with the majority of our ground lease structures, including a periodic upward rent adjustment in the form of cap CPI lookbacks when inflation stays above 2% for extended periods of time.

So it's important to calculate inflation adjusted yields for Safehold's portfolio when inflation kicks up, given ground lease economics are in some respects, more like tip securities than straight fixed income investments.

Our models show these potential inflation-linked increases to our rents, mitigate interest rate and duration risk and in certain cases, can actually increase the net present value multiple on the equity in our existing portfolio after taking into account in-place leverage.

Potential inflation-linked increases also create solid value multiples in new deals and make them substantially more attractive than most fixed coupon investments.

Similarly, on the capital appreciation side, compounding at higher rates is better than compounding at lower rates. Increases in replacement costs have generally led to long-term increases in value for well-located real estate in major cities. And as a result, higher inflation has generally led to higher replacement costs and higher values.

We've seen this dynamic in our research on many of the assets in our existing portfolio. So CARET, which is intended to capture the growing value of a portfolio of high-quality institutional real estate should directly benefit from higher replacement costs over the ground lease term. Of course, short-term dynamics don't always follow the long-term arc, but we are comfortable that our business is well positioned to benefit in both high and low inflation markets and that each ground lease we execute is value additive for shareholders even as rates have risen. We can talk more about these dynamics, but let's have Marcos and Brett dig into the details of the quarter first.

Marcos?

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

Thank you, Jay, and good morning, everyone. Let's start on Slide 3. As Jay mentioned, we are pleased with the performance during the first quarter, characterized by solid earnings results and strong investment activity. Fresh debt and equity raised during the quarter provides us with a significant amount of dry powder to fund our growing pipeline. And I'll let Brett go over the earnings results shortly.

First, let me provide an overview of our investment activity on Slide 4. During the quarter, we originated 10 new ground leases totaling $677 million, marking our best first quarter ever. For these new originations, we funded $519 million during the quarter with the remaining $158 million expected to be funded in the near term.

In addition, we funded $13 million associated with prior ground lease commitments.

Separately, we also made a new $38 million ground lease plus commitment on a multifamily asset in Brooklyn, New York, our fifth ground lease plus transaction since we introduced the program in the second quarter of last year.

The 10 new originations during the first quarter span 9 different markets and 7 new customers. The investment metrics associated with these deals are in line with our targets with a ground lease to value of 38% and rent coverage of 3.9x.

Under GAAP, these assets generate a weighted average yield of 4.8%. However, the weighted average inflation adjusted yield is 5.1%.

As Jay mentioned, we believe that our inflation look backs capture significant value for our business and are not understood by the market today. Brad will discuss this topic in more depth shortly.

As we look back at Q1, the pricing for the transactions close does not reflect the recent upward momentum in rates. The Q1 transactions were liability matched with the execution of our recent debt offering. As the rate environment has shifted, we have moved our pricing upwards, targeting floor cash yields approximately 50 to 60 basis points higher and on an inflation-adjusted basis, return on assets that are 80 basis points higher based on current long-term inflation expectations.

Taking into account our increased cost of capital, we believe that these adjusted ROAs, we are still creating significant value for our shareholders. And despite the increased cost of our product, our clients have reacted positively, and we continue to add to the pipeline.

Slide 5 provides an overview of our portfolio growth for the quarter. Originations during the first quarter has driven our aggregate portfolio to approximately $5.5 billion at the end of the quarter representing 16x growth since our IPO nearly 5 years ago.

The 10 institutional quality ground leases originated during the period include 5 multifamily, 3 office, 1 hotel and 1 life science asset. We remain focused on targeting our investments in the current country's top MSAs, and we're pleased to enter 3 new markets during the quarter.

On Slide 6, you can see the geographic breakdown of the portfolio as we continue to expand our nationwide footprint with the inclusion of Boston, Baltimore and Sacramento this quarter.

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

Brett Asnas *Safehold Inc. - CFO*

Thank you, Marcos, and good morning, everyone. Moving on to Slide 7. Let me switch gears and discuss our financial performance. Revenues were $60.4 million for the first quarter, a 39% increase from $43.5 million in the same period last year. Net income was $24.9 million, a 47% increase from the $16.9 million we earned in the prior year period and earnings per share was $0.43, 35% above the $0.32 we earned last year.

While year-over-year performance was driven primarily by revenue growth associated with new originations. This was partially offset by $2.5 million of additional general and administrative expenses, which includes management fees from the equity raises over the last year plus a $1.25 million increase in reimbursable expenses that our managers charging.

Let me turn to our portfolio metrics on Slide 8. As of March 31, our portfolio's weighted average ground lease to value was 40% and weighted average rent coverage was 3.7x, which is up sequentially as TTM Hotel revenue at the properties is rebounding. By property type, our portfolio consists of 48%, office; 34%, multifamily; 14%, hotel; and 4%, life science. Our weighted average lease term is 92 years.

Turning to Slide 9. We detail our portfolios yield and how we're positioned in an inflationary environment. The market prices our cash flows relative to long-duration high-grade bonds. But the reality is that our portfolio has a meaningful embedded contractual income pickup from features that fixed rate bonds do not have. The current portfolio generates a cash yield of 3.3% and an annualized yield of 5.1%. These metrics assume a 0% inflationary environment for the life of our leases. That means no value to any CPI effects, CPI rent bumps annually or otherwise, fair market value resets or percentage rent.

Historically, because of the market's long-term inflation expectation has hovered at approximately 2%, the value of our CPI look backs were frequently ignored by external parties since the minimum contractual escalators in our Safehold ground leases are also structured with a comparable 2% annual fixed rent increase.

However, over the past months, we have seen a shift in the long term -- in the market's long-term inflation expectation. It's no longer 2%. Federal Reserve Bank of St. Louis publishes data on the 30-year inflation breakeven, which according to the St. Louis Fed, represents "what market participants expect inflation to be in the next 30 years on average." This market measure of long-term inflation, which is calculated as the spread between 30-year treasuries and 30-year tips is up to 2.49%.

As long-term inflation expectations have moved higher, we think that it's important for all parties to understand the full value of the contractual inflation capture that is embedded in our portfolio. We have inflation capture of 96% of our portfolio. So with inflation moving higher it is a critical component in understanding our value.

Assuming the market's current long-term inflation expectation of 2.49%, our portfolio generates a yield of 5.7%, which primarily includes the value captured by the CPI look-backs in our Safehold ground leases.

While we think the current inflation breakeven is a fair base case, if we assume long-term inflation settles back down at a flat 2%, our portfolio generates an inflation adjusted yield of 5.4%. And if long-term inflation expectations move higher, in the 3.0% inflation scenario, our portfolio generates an inflation adjusted yield of 6.1%. As a reminder, our CPI lookbacks are generally capped at between 3% to 3.5% compounded inflation over the look-back period.

So if we apply the 2.49% inflation breakeven to our cash flow stream, our portfolio will generate a 5.7% yield. Utilizing today's benchmark century bond discount rate results in a significant increase in our cash flow value per share versus what the market seems to be assuming of no inflation capture in our portfolio. The takeaway here is that inflation is rising and discount rates move upwards so will our contractual cash flows as we are not just a simple fixed rate bond proxy.

Moving on to Slide 10, which provides an overview on our capital structure. During the quarter, we closed and funded $475 million of 30-year unsecured notes. We also raised $309 million of equity at $59 per share. At the end of the first quarter, we had $3.2 billion of debt comprised of approximately $1.5 billion of nonrecourse secured debt, $1.2 billion of unsecured notes and $272 million of our pro rata share of debt on ground leases, which we own in partnership. Our weighted average debt maturity is 24 years.

In addition, we had $235 million drawn on our unsecured revolver. Combined with cash on hand, we had $1.15 billion of liquidity at quarter end.

We are levered 1.6x on a total debt-to-book equity basis and 1.1x levered on the debt-to-equity market cap basis. The effective interest rate on our non-revolver debt is 3.7%, which is a 141-basis point spread to the 5.1% annualized yield on our portfolio. The weighted average cash interest rate on our non-revolver debt is 3.2%, a positive spread to the 3.3% current cash yield on our portfolio.

In line with my previous remarks about inflation and how it impacts our portfolio, we have added an additional disclosure on the slide which presents the inflation adjusted yield of 5.7%, assuming current long-term inflation market expectations of 2.49% because our long-term debt is all fixed rate with no inflation adjustments, our portfolio generates a 205-basis point spread over our cost of debt.

Moving to Slide 11. We provide an overview on our tariff transaction. As we've previously announced, during the first quarter, we sold and received commitments to purchase a 1.37% interest in CARET for $24 million to 6 strategic investors at a valuation of $1.75 billion. The $19 million sold during the first quarter was classified on our balance sheet as redeemable noncontrolling interest. We believe that this transaction was an important step as we seek to unlock the full value potential of our platform. We're quite pleased with the many encouraging conversations we have had within the investment community about the significant asset and its overall intrinsic value. The sale was the first of many steps, and we will continue to keep the market updated on CARET.

Lastly, on Slide 12, we present an updated -- update on estimated UCI. The estimated value of all the unrealized capital appreciation above our cost basis grew to an estimated $9.4 billion, a $1.3 billion increase or 16% since our last update last quarter and significant growth since we negotiated the initial sale of our CARET units at $1.75 billion valuation.

To give you a better sense of what encompasses that pool of assets, we have a total of nearly 30 million square feet of institutional quality commercial real estate located in the top markets throughout the country, comprised of 13.1 million square feet of multifamily, 11.6 million square feet of office, 3.7 million square feet of hotels, 600,000 square feet of life science and 300,000 square feet of other property types.

In conclusion, it was a strong quarter for Safehold marked by solid earnings, increased investments, and we initiated a significant first step to unlock CARET's value.

In addition, we took several important capital market actions this quarter that should drive further efficiencies and give us competitive advantages to fund our growing pipeline, continue to scale our business and modernize the ground lease industry.

With that, let me turn it back to Jay.

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

Thanks, Brett. One other thing I want to touch on some investors have asked for an update on the corporate architecture questions with respect to iStar and internalization. There's nothing really to report yet. But as we've cleared the $5 billion portfolio mark, we believe that the independent directors of Safehold are positioned to evaluate the external management structure and current corporate structure and determine how best to create shareholder value. And as we've said before, whatever makes a stock more valuable, is good for both SAFE and iStar. So a good solution should be a good solution for both.

Now let's go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Nate Crossett, Berenberg.

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

I wanted to make sure I heard correctly just on the pricing of new originations. I think you said something like 50 to 60 basis points higher, and I just kind of wanted to know the timing of the ramp, like do we see 50 basis points higher in 2Q? Or does it take time to kind of flow that through?

And then just any color on are you getting any pushback from customers in terms of pricing? Or what are their alternative pricing options look like right now relative to you?

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

Nate, it's Marcos. I think the overall market is going through a little bit of a sticker shock given the speed and the volatility in rates from the beginning of the year. And so I think they're acting not just to our increased pricing, but they're reacting to the cost of fee financing, leasehold financing. What does this do? And how does it ripple through equity valuations. Generally speaking, our customers have been responsive to the increased floor pricing. And so we've gone from, call it, high 4s to kind of low to mid-5s on an inflation-adjusted basis on an ROA standpoint and we can't project that every transaction in our pipeline is going to close. But if the transactions do close, you can start to see that come through in Q2.

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

Okay. That's helpful. It seems like you did more office deals this quarter than you've done in the last few quarters. Just wanted to know, is there anything changing in that area in terms of just like pickup of deal flow? And then just maybe comment on where the pipeline is kind of waited for the next 90 days.

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

Yes, I'm not sure where you're getting that from, Nate. We did a large life science transaction, which was about 40% of the volume for the quarter, 35% of the volume was multifamily and about 25% was office and hospitality.

Operator

Our next question comes from Caitlin Burrows, Goldman Sachs.

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

Maybe just a follow-up on the question about movement in rates, how that impacts your business. And maybe the pace of investments, it did look like this quarter's activity was higher than we were expecting, especially given the year-end '23 target that you guys had given. So could you just talk about what led to the high volume this quarter and if you expect that to continue or what could make it potentially decelerate from here and whether investment spreads may play a role in that?

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

Yes. I think the high volume in Q1 was a little bit of a carryover from Q4. Some stuff didn't get closed at the end of the year. Some of those transactions were brought in the shop early in '21. So I don't expect us to hit another almost $700 million quarter in Q2.

That being said, we've seen a positive reaction and we've continued to fill the pipeline for going -- for the year going forward at these reset levels.

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

Okay. Got it. So have you seen any impact on kind of your increased target returns or yields on the amount of kind of acquisitions you're able to do or the interest from your potential tenants customers?

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

I would say modestly, there's been a shift, I think, Caitlin, we remain cautious. As you know, our business is entirely contingent on the real estate capital markets being open and liquid. And to the extent there is a real repricing of equity, we think there may be a pause broadly. We think we're positioned well to take advantage of that opportunity in the long term. But in the short term, kind of quarter-to-quarter, there may be some slowdown here or there.

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

Got it. Okay. And then just in terms of the offering that you guys did in March, it looked like iStar was about 60% of that deal. But back in September, the participation was under 30%. So just wondering if you could give some color what drives the size of their participation, how we should expect that to be going forward?

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

Yes. I think the -- as you saw, the net lease sale over iStar created a lot of liquidity. Obviously, we think the -- the long-term value of Safehold is actually continues to be dramatically underrepresented in the share price. So just from an economics and liquidity standpoint, that particular transaction made a lot of sense for iStar, can't really predict going forward. It will be sort of facts and circumstances that they're at the time but continue to be strong believers in the business plan. So we'll see how the year shakes out. But we wanted to put that liquidity in place so we could continue to execute and expand this market, which is really the most important thing, I think, from both companies' perspective is we're building a new business that is creating very high long-term compounding returns in a AAA context with upside from inflation and CARET, I still think that story is not fully appreciated, and iStar has had the benefit of 5 years of watching it and just stating it. So I'm not surprised they continue to have an interest.

Operator

Our next question is from Rich Anderson, SMBC.

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

Maybe a follow-on to that last question to you, Jay. Putting aside the participation in the equity offering from iStar's perspective, what we haven't seen much of is iStar's regular kind of investment in SAFE, sort of monthly, weekly, monthly basis or whatever it has been over the longer term. And I'm curious as to why that element of the iStar investment model has slowed down as of late?

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

Rich, yes, look, I think the $5 billion milestone was an important milestone at Safehold. It's triggered some things we have mentioned in previous calls about is there a better structure out there that can unlock value for both companies, representing the majority of shareholders in Safehold. I think you have to be a little bit cautious here, given that we have continue to believe there might be a better structure out there. So I wouldn't read much into that other than appropriate prudence.

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

When you described the Board kind of looked at it is time to start to evaluate the external management or does that introduce any roadblocks to trades happening just by making that comment.

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

Yes, nothing. I'm not a lawyer, so I won't speak. But as I said, sort of appropriate prudence given one of the alternative paths that we could certainly see ourselves on.

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

Okay. Next question. The investment in CARET by the initial investors aside from the opportunity cost of making the investment, what risks do they really take on if they're -- if they can get their money back if the securitization or whatever monetization doesn't work out as planned?

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

Yes. Look, I think, as Brett said, this was the first step in a process to unlock an enormous store of value that we believe in, our Board believes in, certain investors now believe in. This group of investors for us was really the right mix of investors to begin the process of educating the rest of the market. As you know, Rich, it's one thing for us to say it. It's another for others who come from different worlds to also reinforce that message. Our goal, as we said on the last call, was to get the right investors as quickly as possible, make this really the first step and it's had the desired impact in that more and more of our conversations, people are asking the right questions about CARET now. They're starting to understand the dynamic.

I think as you see that page in the document, we have historically not really had a chance to talk about what it means to grow from $400 million to $9.4 billion. Whatever you think of the dynamics in CARET, that's a pretty powerful one.

And so having a group of investors take on the intellectual challenge to actually come into a round, even though it is structured, even though they got an investor-friendly discount to the then current UCA values, I think it's a step. I think it was an important step and it's begun the process that we have been wanting to talk about literally since our IPO but held ourselves back until we proved out a lot of the other pieces of the Safehold story.

So I wouldn't look at so much in terms of the value or the structure. I would say these are the kind of investors who don't spend any time on things they don't see the potential for. All of them, I think, confirm to us. This is one of the most unique and interesting value-creating opportunities out there. Exactly how it should be unlocked is something we have strong thoughts on, but they may have even better thoughts.

So we built an advisory committee. We have spoken to them. They have continued to engage with us. So I don't think they sort of put it in the drawer and don't have to worry about it. There's an engagement level there that suggests they see what we see.

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

Okay. And then last for me. In the kind of the outline of inflation protection and what the adjusted returns are, why is there an increase at the 2% inflation assumption from 5.1% yield to 5.4%, if your escalators are already 2%, why would there be any increase? Or is it not quite 2% on average? Is it something just short of 2% hence you have a little bit greater yield. I just want to make sure I understand that.

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

Yes. It's not quite that. If you think about our portfolio, about 80% of it is originated on Safehold forms. About 20% is sort of non-Safehold forms, which might be an annual CPI, it might have percentage rent. So you're just -- you're pushing on the delta between a Safehold form and some of the nontraditional ground leases we have purchased that have different inflation capture mechanisms.

Operator

Our next question is from Harsh Hemnani, Green Street.

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

I just want to follow up on my first question on pricing. So 50 to 60 basis points above where it is today. So when you look at the effective yield of 4.8%, excluding inflation that you mentioned for the first quarter, how does that look all else being equal, where do you think you end up on that at the end of the year?

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

So I think, Harsh, on the go-forward transactions, at least at the floors, we're in the kind of 5.25% range. Those are obviously as rates move up, floating upwards. And then on an inflation-adjusted basis, they're closer to the high 5s.

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

Got it. That's helpful. And then my second question is around the ground lease plus program. Now a couple of quarters ago when this was launched, Jay, you mentioned that Safehold likes to be in the 35, 40% ground lease to total value range. And these ground lease plus developments really don't have that kind of security built in. So it is probably not asked to put them in the SAFE portfolio from the get-go. Now that there is some -- there is a high likelihood of iStar not being the external manager and maybe even a combination between the 2 entities, how does the -- how do you think about the ground lease portfolio -- ground lease plus portfolio integrating into the Safehold company?

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

Sorry, go ahead, Jay.

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

So Harsh, what we've decided, we took kind of the initial steps here, is we actually set this up in a fund construct and so we brought in a partner on these GL+ transactions at iStar to fund these initial GL+ transactions. So we have a 53% partner in those transactions. Our anticipation is to continue to potentially bring in other equity to fund these transactions. So to the extent there is some sort of corporate transactions, the majority of the equity would not be on SAFE balance sheet.

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

And I guess after the combination or the potential combination, you would find another partner to fund those ground lease plus holdings. Is that -- am I hearing that correctly?

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

So we've already found a partner, Harsh, and I think long term the goal would be to find additional partners to fund that business line in that product.

Operator

Our next question comes from Rich Hill, Morgan Stanley.

Richard Hill ***Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS***

So when we think about the valuation of SAFE, we sort of separate in the 3 parts: your existing portfolio, new originations and the value of the UCA.

So I want to focus on 2 questions. First, the value of the existing portfolio and then second, new originations going forward. So on the existing portfolio, as I think about your CPI look backs, could you maybe give us a view of how many of your existing ground leases have CPI look-backs that kick in over the next, call it, 3, 5, 10 years?

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

Yes, you can imagine the bulk of the 10-year CPI look back that are in place in the portfolio don't really start to hit until that 2029, 2030, 2031 period. So in some respects, we think of it as a CPI bank, high CPI in the interim, we can kind of calculate going out. But it's still early for us to predict whatever this first 10-year period it will be.

But I think what we put in the book -- the deck was Page 9, really says, what if long-term inflation is not 2, what if it's 2.5, what if it's 3. What would those inflation-adjusted returns look like? Obviously, the liability side moves very quickly and is easy to just look on the screen and see a little trickier to figure out what is the best proxy for long-term inflation.

We use a Fed number. Obviously, some people can use higher or lower. So we've given a little bit of sensitivity around that number. But that's kind of how we start with a sensitivity around the existing portfolio, Rich. And the math is pretty simple.

You can do the ROAs. You can see where our in-place debt is, you can figure out a refinancing rate and do sort of NPVs. And what we've done looking at that is the existing portfolio in a band between sort of 2% and 3% inflation, you actually can see the equity NPVs go up because we have a fixed cost debt for the first 25, 30 years on most of the portfolio, and then you have a revenue stream that's bumping up faster than our models historically have used because candidly, we thought inflation at 2% was sort of the market's proxy.

Now the market's proxy is likely to be higher, we run those same models and we go what happened. On the existing portfolio, certainly, all that's happened is you probably have a higher assumption for our rent streams and probably a slightly higher assumption on the refinancing cost 30 and 60 years from now.

When you run that all through the model, it's actually one of the reasons we love this business is you have quite a bit of inflation capture that you're not going to be sharing with your liabilities that are already in place.

Richard Hill ***Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS***

Yes. So look, I think we've chatted a lot about this. We -- you know our models are already assuming, call it, the 5.75% effective yield. So I agree with you, it is just math.

So looking forward, look, the cost of financing has risen a lot since the end of last year, we can debate how much it's risen, but I guess my question for you, Jay, is can your effective yields over the medium to long term of your ground leases rise one for one with that rise in financing cost, again, over the medium to long term?

So let's just throw out numbers. Let's assume finance costs are 100 basis points higher, 200 basis points higher. Will there be a time period in which your effective yields for your ground leases can also go up by that much? Or will there be a slow bleed lower in your spreads between your effective yields and your financing costs?

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

Let me give you my thoughts, and then Marcos can kind of tell you what's happening on the ground. Some people have asked us, is there a ceiling on sort of overall yields on ground leases. And I would say we, again, compete mostly with the rest of the capital markets. And if our capital is better capital, lower cost, lower risk, more efficient, we should always be able to move in tandem with the market. But if you ask us, realistically, and I think Marcos was hinting at this, there are pockets of change that the market will adapt to slowly.

So if you told me, can you guys go -- rates rock at another 150 basis points, can you raise your costs to the customer 150 basis points, I would say no. The market will not accept radical change that quickly. But over long -- medium and long periods of time, all we have to do is create a better solution than the alternatives. If the market is out that wide, it probably means all other sources of capital available to the real estate industry are also out that wide. And all we have to do is be a little better than that because we're already more efficient. We're already more risk reducing. So yes, medium and long term, I think we will move in tandem with the alternative cost of funds complex available to real estate. But I don't want to go so far as to say that happens on these short-term dynamics, and I think Marcos can probably give you a sense of customers are accepting world is changing, but I think if you just try to stick to that kind of methodology, if rates went up another 100, 150 basis points, I don't know, what do you think Marcos?

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

Yes. I'll give a simple example. Multifamily cap rates are still sub 4%. If we try to buy land at 4%, there's no deal. It's just an illustrative example today. I think as both Jay and Brett and I have said that even at these reset levels, 50, 60 wide of where we were at the beginning of the year, we're still creating a tremendous amount of value for shareholders, even at this increased cost of debt. Obviously, to your point, Rich, margins have decreased somewhat, but not on an inflation-adjusted basis, and that's what we want people to take away from this.

And then when we look back kind of end of '18 through '19 and you look kind of at the rate environment there, not as volatile as a spread environment. We were able to produce attractive ROAs and as we think about the opportunities on the liability side when some of this volatility dissipates, we think we're going to continue to drive solid margins and create value for shareholders.

Richard Hill ***Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS***

Yes. I mean, that's helpful. And we can take it offline. I just want -- I think the market is sending a message that there's concerns about your ability to originate ground leases accretively in the future if financing costs are higher and ground lease effective yields don't rise in lockstep. That doesn't really make sense to me for a variety of reasons. And I think your history suggests that you've been able to maintain spread over various different rate regimes. But look, we are dealing with a 100-year asset that is very sensitive to assumptions. So if the market is saying, well, spread is down and discount rates higher, we can all do that math.

So that's what I'm just trying to unpack a little bit. And Jay, I recognize what you're saying, and I think it's completely fair. I just want to make sure that when we think about our models, we're not crushing free cash flow in Stage 2, which is a long, long stage 2 and then discounting that at a higher rate because we all know what that does to bond math. So we can catch up off-line. This has been helpful.

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

Thanks, Rich. I like the methodology of existing portfolio, new originations in CARET. 2 out of 3 of those will benefit from higher than 2% inflation assumptions up to a certain cap. And then we can spend some time with you on our new origination math, which, to us, is still quite value accretive for shareholders.

Operator

Our next question comes from the line of Ki Bin Kim, Truist Securities.

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

So I just wanted to go back to the question about yields. I'm actually more curious about the economic cash yield versus the cash expense on your debt. That spread has tightened maybe for more obvious reasons. But how do you see that changing over time? And as rates have risen, what is your ability to actually originate a new ground lease with a better going in cash yield versus effective yield or inflation-adjusted yields? So that 10-year look backs are great, but I mean in the near term, that matters, too.

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

Yes. So I think the hard part of our business, or I should say, the hardest part of our business is actually building the portfolio on the asset side of the ledger. Our team is doing a great job of expanding across the country, expanding across product types, expanding our customer base, continue to see lots of repeat customers. following in that wake is how do you create the right liability structure for what we think are exceptional portfolio returns.

And you've touched on something, Ki Bin, that's quite important to us. We started with a 10-year secured debt. We then went to 30-year secured debt. We then created 50-year secured debt. We then created structured long-term secured debt, which ultimately, if you think about our revenue stream, it's an upward sloping curve.

If you think about our liability costs, we were able to create a similarly structured liability stream. So we were able to make the cash-to-cash yield to yield stay pretty good over starting point and then over its life. We've done a 10-year unsecured deal. We've done a 30-year unsecured deal. The liability side of this ultimately should match the revenue side. You shouldn't have a long upward sloping inflation-protected revenue stream and a flat debt stream.

So your point is something we are quite focused on. Can't assure you that it's imminent, but I would tell you, look at our track record in the secured world, we are trying to replicate that in the unsecured world, which gives us the maximum ability to work with our customers to create these unique long-term investments that we think are some of the best we've seen in our 30-year finance net lease subsets. And I think what you'll see us do is continue to make the capital available to our customers and to create value for shareholders. And it's not just the asset side, it's also the liability side.

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

Okay. And just to follow up on the comment you made about upward drift on effective yields of I think you said 50 to 60 basis points. I just want to make sure I understand that clearly. Are you talking about in the previous quarters, the effective pre-inflation yield of 4.8% going up to 5.25%. I just want to make sure I understand the apples-to-apples comparison.

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

Yes, that's right. I think if you think about cash yields, high 2s are now kind of 3.30, 3.35 on a floor basis, on a cash perspective and then ROAs are high 4s to 5.25, 5.35 and up depending on where they flow.

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

Okay. And just last question because of the high acquisition volumes this quarter and equity raises, there could be a timing element. Just curious about the all else equal EPS run rate going into 2Q.

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

Sorry, give me that again, Ki Bin.

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

Just because you guys closed on a lot of deals this quarter and great equity as well also timing can matter in terms of what EPS looks like going forward. So if you don't do any more deals or raise any new equity, what is the ongoing EPS run rate?

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

Ki Bin, it's Brett. So yes, in the first quarter, obviously, as you mentioned, the timing of those originations and when we were earning is a valid point. A lot of that was funded from our credit line and then the 30-year unsecured notes that we had priced in January, we had drawn or funded that at the end of the quarter. So what you'll see is an uptick in interest expense moving from the revolver to that permanent debt. And then we also have a onetime or director fees that we pay in that quarter. I think those are the 2 anomalies, but to your point the timing of when we closed deals during the second quarter will matter. But I'd say those are the 2 differentiators when you look quarter-over-quarter.

Operator

(Operator Instructions)

And our next question comes from the line of Matthew Howlett, B. Riley.

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

Just what's the outlook on the term debt market in terms of accessing that market here in the next few months to pay off the revolver.

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

Yes. Look, we're exploring a number of different options in terms of that. We like to -- I like to stay in that 20-, 25-, 30-year duration so that is generally our focus. But if we think rates are gapped out because Ukraine or short-term factors, we want to be thoughtful about that as well. So we're still evaluating that. Don't have a fixed plan yet, and we'll see how fast the investment team is putting out money and make a decision when is the right time.

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

Yes, to piggyback off that, we had $235 million drawn at quarter end. So I know we've remarked in the past that once we start to get to that $0.5 billion mark or so, we'll look to term out those borrowings with either debt or equity. And as Jay alluded to before in the long-term debt markets, looking at the playbook of what we utilized back in 2017 through 2020 and what we've done since in the unsecured markets. We're encouraged by the amount of providers who we are having dialogue with. And hopefully, we can continue to create the best returns for our shareholders by using more innovation as well.

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

Got you. And then on that note of capital like equity capital. Two questions. First, another private sale of the CARET, could you do that before, let's just say, liquid trading markets established? And then second, I know in terms of a potential merger with iStar and a balance sheet combination is there a scenario where there would be a potentially significant capital freed up for SAFE to go reinvest?

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

Yes. I think the merger conversation is too early to really get into that. But I don't think there's suddenly a pot of gold to reinvest. So I'm not seeing that scenario yet. But again, we're still early in that process. And the first question...

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

On the CARET, on a second round...

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

Absolutely. The goal here is to create a liquid security, but I think we're continuing to expand the knowledge network around what CARET is and what it can be far beyond just the real estate world. So I think it makes a ton of sense to us to look to continue that with a group of investors who will help us expand that knowledge network, timing-wise. That's something we will definitely be focused on this year.

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

Would you look at that, Jay, if the equity markets are shut out as a source of non-dilutive capital to raise another round, sell a piece of that to continue investing in new ground leases? Or would you rather just get your -- that market established first at fair value and hold back?

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

No, look, I think it is an untapped source of capital that obviously helps on a number of fronts. But most importantly, again, you guys know our viewpoint is this asset is worth dramatically more than we think it's being given credit for. We've begun the process to unlock that for shareholders. If you believe in the success of that exercise. We're not talking about $2 or $5 or $7 a share. We're talking about double, triple of where the stock trades today.

So I think that dynamic is so powerful and so important to us that we want to pick the right next step and the right investors to help us get to the final really expression of CARET in the markets which we think have a dramatic impact on Safehold and its ability to raise capital at appropriate pricing. So it all kind of goes hand in hand. And I wish we could move faster, but we have the Domino's lined up. We know which ones we need to push first. There are periods where we can move fast on things and there are periods where we kind of have to wait things to sequence but you're hitting on a lot of the big themes that we've laid out in our strategy.

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

And just to follow-up, the strategic board, if they've given you, Jim, they've been helpful in giving you ideas, moving things closer or maybe talking 2-year event? Are we talking 6 months?

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

Well, we have a 2-year window. We have engaged with that group to try to start to lay out some of our thoughts about where this could find its next best step. And yes, they've been really helpful in thinking that through and challenging us candidly on some of the ideas that we think are the right next step and they may have even better ones for us. So that's a dynamic dialogue.

And again, it's -- I think it's paramount to understanding the Safehold story. So we are certainly encouraged by what we've heard so far and the number of investors who have come back to us and said, tell me more. That to us was the big difference from last year.

Now investors are saying, "Tell me about this, not "Hey, let me tell you about this new thing." They're now coming to us and saying, that's a real value. It's tangible. It's transparent. It's growing really fast. It represents extraordinary high-quality diversified portfolio of real estate. It actually doesn't sound that hard to go from I wasn't even paying attention to, wow, this looks like it has real value, tangible value, fast growth. But we don't want to be the only messenger in the world. So give us some time to continue to lean on the strengths of that initial group of investors, bring in additional investors. And I think you'll start to see this story really gain momentum.

Operator

We have a question from the line of Derek Hewett, Bank of America.

Derek Russell Hewett ***BofA Securities, Research Division - VP***

Could you talk a little bit more about the near-term pipeline, just given the higher. I think you said 50 to 60 basis points of pricing. And should we expect a material slowdown in the second quarter just given kind of as the market reacts to the new reality?

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

Yes. I don't expect us to knock it out of the park like we did in Q1, but the client base has been pretty responsive both existing and new to our new pricing. So we've done a pretty good job of backfilling the pipeline and working through the stuff that's in letter of intent. So we feel pretty optimistic about the growth going forward. The caveat being transaction markets freeze like they have at pockets with this level of volatility, there will be a slowdown. But it feels like a good mix of what we've been able to do in the past, some more life science assets, big kind of half the pipeline is multifamily and then the balance is a mix of office and mixed use.

Operator

And at this time, there are no further questions. I'll turn it back to you, Mr. Fooks.

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

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

Operator

Certainly one moment. You may contact the AT&T replay system by dialing 1 (866) 207-1041 and the access code is 9277384. That concludes our conference for today. You may now disconnect.

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