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PRESENTATION

Operator

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

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

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

Thank you, Tiffany. Good morning, everyone, and thank you for joining us today for Safehold's earnings call. While we are all social distancing and working remotely, we sincerely hope you and your families are well during these challenging times, and we look forward to better days soon.

On the call today, we have Jay Sugarman, Chairman and Chief Executive Officer; Marcos Alvarado, President and Chief Investment Officer; and Jeremy Fox-Geen, our Chief Financial Officer.

This morning, we plan to walk through a presentation that details our first quarter 2020 results. The presentation can be found on our website at safeholdinc.com and by clicking on the Investors link. There'll be a replay of this conference call beginning at 1:00 p.m. Eastern Time today. The dial-in for the replay is (866) 207-1041, with the confirmation code of 7359470. Alternatively, the replay can also be found on our website. You'll also be able to see on our site our recently published 2019 annual report, our 2020 proxy statement and our inaugural ESG report.

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. I'll just start by expressing our sympathies to those who have experienced loss from COVID-19 and our gratitude to those on the front lines of this fight. Everyone who's working to mitigate the impact of this global crisis has our thanks and our support.

Like most of you, we entered this year confident in our strategy and excited to continue building upon our successes in 2019. Our pipeline looks to be growing nicely and our teams are engaged with customers across the country. Even as the impact of the virus began to be clear, we worked to be in a position to close deals if our customers wanted to close them and raised additional capital during the quarter to ensure our ability to be there when our customers needed us. However, by the end of the quarter, it was clear, most transactions were being halted or postponed until things become more settled. We closed a handful of small multifamily and office deals that were near the finish line when things started to unfold, but larger ground lease deals that were well along were put on hold by building owners and acquirers.

We continue to be engaged in conversations with customers on a number of fronts, and would expect our better price, more efficient capital to be in demand once there's more clarity about the future. We expect deals put on hold may very well come back, and that existing customers will find the opportunities to deploy capital and seek our help in capitalizing those opportunities. As a result, we expect to be able to give a better sense of what new transaction volume might look like for the rest of the year by next quarter.

As for the existing portfolio, all of our ground leases paid in April is expected. 100% payment is, of course, natural given the ground leases placed in the capital structure, though that did not stop a very small percentage, less than 2% of customers, from asking if any deferral of rent were possible. While we give these requests due consideration, we also try to share with customers that one of the reasons we can provide long-term, low-cost capital for them is the steady performance of our ground lease portfolio in circumstances like these.

Turning to the value of our existing portfolio. We are witnessing historic low yields in bonds of similar quality and maturity. Recent trades in our competitive set comprised of the highest quality long maturity bonds have been in the low 3% area, and together with TIPS bonds trading at negative rates suggest our portfolio's mid-5% yield have become increasingly valuable. This is one reason we believe the value of our portfolio and our share price increased further during the quarter.

Two other positives for the quarter I want to mention. First was the addition of our new CFO, Jeremy Fox-Geen, at the end of March. Jeremy comes to us from McKinsey North America and is already proven a valuable member of our senior management team. Second, Brett Asnas was promoted to EVP, Head of Capital Markets, where he continues to drive access to innovative capital to grow the business. Both moves mean we are well positioned to pursue future growth once the virus impact abates and transaction activity return.

And with that, let me turn it over to Jeremy.

Jeremy Fox-Geen *Safehold Inc. - CFO*

Thank you, Jay, and good morning, everyone. It's good to be here under the circumstances, and I'm excited to join such a game-changing company at this important time in its development.

I'll turn to Slide 4 in our earnings deck, which summarizes the highlights for the first quarter. We saw meaningful revenue growth over the past year as we've continued to scale our business. We strengthened our balance sheet by raising $150 million of equity capital and $259 million of long-term debt. And our stock performed well, as we continued to execute our strategy and reinforce with our shareholders the value of a scaled and diversified portfolio of ground leases.

Turning to our earnings on Slide 5. Revenues for the first quarter grew to $40.2 million, up 84% from the first quarter last year. Revenues this period included the $3.6 million of annual percentage rent we received related to Park Hotels, in line with percentage rent we received a year ago. Not including the Park Hotels percentage rent, our revenues grew by 24% sequentially as we benefited from the new deals closed this quarter and a full quarter of earnings related to the deals closed during the fourth quarter of last year.

Net income for the quarter was $17.4 million, up 56% versus $11.1 million in the first quarter last year. Earnings per share were $0.36 per share versus 36% (sic) [$0.36] share for the first quarter last year.

Slide 6 provides an overview of recent capital markets activity. We continue to enhance our liquidity profile. We raised $259 million of long-term debt through 2 asset-level financings, one closing during the quarter and the other in April. The financings are interest-only, with a weighted average maturity of 35 years. The ground leases collateralizing these financings generate a weighted average effective yield of 5.6% while the weighted average effective cost of the debt is 3.7%, providing us with an approximate 190 basis point spread. This debt has a weighted average cash starting interest rate of 2.8%. And similar to other recent financings, it has a step rate structure that provides for the cash interest rates to grow in line with our ground lease rents.

We also successfully completed our fourth follow-on equity offering in March, raising $150 million by issuing 3.2 million shares at a price of $46.88 a share. We were able to upsize the deal based on strong invested interest despite challenging market conditions. As Jay mentioned, the purpose of the offering was to provide sufficient capital to be able to close on deals within our pipeline and take advantage of future investment opportunities.

Slide 7 provides a little more detail on our capital structure. Following these offerings, our liquidity position is strong with $338 million of cash and available capacity under our revolver, which, if levered at our 2:1 debt-to-equity target, would give us purchasing power to acquire approximately $1 billion of ground leases as opportunities arise. Inclusive of the debt raised subsequent to the end of the quarter, we have approximately $1.7 billion of outstanding debt with a weighted average effective interest rate of 4%, a cash interest rate of 3.1% and 31 years of average remaining term. Other than our revolver, we have no debt maturing for at least 7 years. And the revolver currently has 0 balance, as it was fully repaid after our April long-term financing closed. We have a 1.4x debt-to-equity ratio based on $1.2 billion of GAAP book equity and 0.6x leverage when using our current market capitalization of $2.7 billion.

Slide 9 highlights our investment activity. During the first quarter, we closed 3 new ground leases totaling $77 million. These ground leases underlie 2 multifamily properties and 1 office property. They have a weighted effective yield of 5.8%, 3.7x rent coverage and 36% ground lease to value based upon our underwriting at time of closing.

COVID-19 has impacted our entire industry, resulting in a material slowdown in real estate transactions. Uncertainty in the market is high, financing has softened and closing deals is challenging. As a result, we think it's likely that our second quarter originations will also be below our prior expectations. As you can see on the right-hand side of the page, our portfolio currently stands at $2.8 billion.

Slide [10] (corrected by company after the call) shows the diversity in our portfolio. Our portfolio is 63% office, 19% hotel, 17% multifamily and 1% other property types. We remain focused on scaling our business across the top MSAs in the United States and building a large and diversified portfolio of ground leases.

Slide 11 presents key metrics of the portfolio. Rent coverage was 4.1x and ground lease to value was 37%. I should note that these calculations are based on data and underwriting assumptions prior to the impact of COVID-19. Given the uncertainty in operating outlook, we expect these metrics to be adversely affected for a period of time going forward.

For the quarter, annualized GAAP rent after depreciation and amortization was $149.6 million, a 5.5% yield. This compares to the 4.0% effective rate of our debt. Annualized cash rent was $95.4 million, representing a 3.5% cash yield for the ground leases in our portfolio at quarter end comparing to the cash interest rate on our debt of 3.1%. Our weighted average lease term is 89 years.

Moving to Slide 12, a quick update on the unrealized capital appreciation in our portfolio. UCA stood at approximately $5 billion at the end of the quarter. This calculation is also based on data and assumptions prior to the impact of COVID-19, and this amount may decline in future periods with respect to certain properties. However, we have a long-term view on our properties and are less focused on quarterly fluctuations. We use this metric as both a measure of the first quarter estimated value of the buildings we are set to inherit at the end of our leases as well as a measure of the aggregate value of the subordinate capital protecting our ground leases.

Before I turn it back to Jay, I'll just conclude by saying I look forward to meeting many of you in the coming weeks and months, perhaps virtually at first, but hopefully soon enough in person. Jay?

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

Thanks, Jeremy. I have just one quick final thoughts. Long-lived assets and long-lived debt mean we are much more focused on long-term values than any quarter-to-quarter moves. Through most cycles, good assets and good locations went out, and that's certainly true for ground leases as well. And this pandemic will pass. And while it'd be extremely painful and tragic in many ways, our long-term view of the United States and real estate in top markets in the country remains undiminished.

Okay. With that, operator, let's go ahead and open up for question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rich Anderson with SMBC.

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

So on the topic of rent coverage and the -- at 4.1x and 37% ground lease to total value. What is your sensitivity telling you how those can change in this environment, particularly on the rent coverage side given the changes that are happening on top of your land?

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

Sure. I mean, look, the obvious category that has seen almost complete diminution of revenue is the hotel side. So as Jeremy said, we caveat. Those are first quarter numbers. We will see how long it takes for the economy to reopen and/or some of those hotels to come back to pre-COVID kind of numbers, and we don't expect that to be in a snapback fashion. So again, I think our message is starting at 35% of value, 4x coverage. We're sitting well below the surface of the waves. And while things are certainly very choppy and take a while to recover and get back to where they were, it doesn't really change our viewpoint on where we sit in terms of safety. So a difficult period. Certainly for hotels, it will take quite a bit of time to see how this is all going to shake out. But realistically, Rich, if a hotel is closed, rent coverage doesn't mean a whole lot.

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

Yes. Okay. All right. And I guess the follow-on to that question is, are you anywhere near a scenario where you start to see you getting buildings back because of your rights to take over leasehold if they're not paying the rent? Or is that even not in the conversation at this point? And perhaps you as owners of the land would prefer not to go that route anyway.

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

Yes. Out of a pretty remote possibility, certainly I've not heard anybody even remotely, 30, 40 days into a scenario where we've got 65% of the capital subordinated to us. When we think about -- just to give you some metrics on that. If it's a $100 million building, our rent represents 1/1,000 of the value of that building and land per month. So the idea that they would give up 65% between the lender and the equity and handles the keys to avoid a one -- a tiny fraction of that value, I just -- we don't even think that's going to be a conversation unless this is an apocalyptic kind of scenario playing out. We did get 1% or 2%. Asked the question of, could we get at least get a deferral? And again, our messaging -- it's important to kind of say this is -- that we are very different than typical single-tenant net lease portfolio. We're 35% of the capital stack at 3.5%, not 100% of the capital stack at 7.5%. So just the size of our rent checks are so much smaller, our place, our seniority in the capital structure is so much more significant. And then, of course, we generally remind them that the whole purpose of our strategy is to provide long-term quiet passive capital. No phone calls on the way up. Hopefully, no phone calls on the way down. We are meant to be the quiet part of the capital structure.

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

Okay. And last question for me. Obviously, pipeline has diminished in this environment. But is there still something out there of an involuntary nature, say, there's a forced refinancing? Are those deals still sort of percolating for you that you can get involved with? Or maybe you could just comment on that perhaps much smaller piece of the puzzle.

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

Yes. Let me throw that to Marcos. I will say, as you heard from Jeremy, we've got a lot of dry powder. We're certainly in touch with a lot of customers. But let me throw it to Marcos to give you a little more fine-tuned answer.

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

Rich, so if you remember at the end of last year, we had sort of talked about rebuilding our pipeline. And if you look at the public filings for our equity offering, we had, I think, done a pretty good job of that excess of $750 million of transactions in new markets. And then we sort of hit this reset that both Jay and Jeremy obviously mentioned with COVID. So we're engaging with all of our customers. We're optimistic and hopeful that within the transactions, within the pipeline, that some of those get over the finish line. But I do expect there to be some pretty significant fallout. That being said, on the offensive front, which was the other theory behind raising the capital, not just for the pipeline, we look at our capital solution today in this dislocated market. Pre-COVID, we thought it was an attractive efficient solution for our customers and clients. And today, when I look at -- people don't even really know how to price equity. The credit markets, there is limited availability. And so when I think of our capital solution and our long-term view on these assets, I think we'll have some opportunities come our way. And so the team has done a really, really good job of continuing dialogue, not only with our existing customers, but branching out to all the bankers, to all the brokers and continuing to push our product as a solution because that gap in pricing is so much more significant. So I'm optimistic that we'll gain some share from the second half of the year.

Operator

Our next question comes from Collin Mings with Raymond James.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

First question, Jay, just going back to your prepared remarks on the deferral request. You noted, what, 2% of customers asked for deferrals. And it sounds like you're standing pretty firm on tenants continuing to meet their obligations to you. That said, could there be potential opportunities to get more favorable terms by actually granting some temporary relief in some of these one-off situations?

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

Yes. Sure. Look, I think we're 30, 40 days into this. People are still sorting through where things shake out, and we would expect the normal hierarchy of the equity and the lenders to figure out where they are first. As I said before, given where we are in the capital structure, given the relatively small size of our rent check, our strategy, which is really to be quiet and passive over long, long periods of time, our first thought is that call is not appropriate to us, but certainly there may be opportunities where we can create some win-win scenarios. It's just -- it's not something that is first on our list, but we can never rule something like that out.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

Got it. Okay. Helpful. Going back to Rich's question. Just to clarify, have you actually closed on any incremental investments here in 2Q so far?

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

That, we have not.

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

There's a small deal about the close. But other than that, no.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

Okay. Going back to your comments as far as the hospitality assets, just on the percentage rent front, can you just remind us the mechanics there with Park, especially as we think about the potential impacts looking ahead actually to, I guess, what would be 1Q 2021 at this point?

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

Yes. Sure. So we have a percentage of dollars -- revenue dollars above a certain baseline. That portfolio has been handily beating that benchmark for years and years. We definitely think there is going to be a fairly significant impact to the revenue line at each of those hotels. So we would be cautious on the expectations around that number.

Collin Philip Mings ***Raymond James & Associates, Inc., Research Division - Analyst***

Okay. And then one last one for me, and I'll turn it over. And again, going back to the comment about recognizing -- obviously, Safehold has some capacity for growth and has been pretty active in the capital markets recently. Just maybe talk a little bit more about what you're seeing in terms of the financing markets. I know that you closed on some financing earlier this month, but just maybe elaborate a little bit more on your access and cost of debt and how that's evolved here over the last month or so.

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

I think the good news, as I said, is interest rates continue to come down for ultra high-quality credit, and we still see on the screen the comps that we follow still trading around 3% right now, which is dramatically lower than it's been in the -- really during the time

Safehold existed. So we think that has a positive impact on values of the things we've already done and also makes the kind of long-term attractive financing we seek, which, again, we're willing to share some of the benefit of our business with our liability providers. So we think it's an attractive piece of paper for them as well. Without transactions, it's a little hard to know exactly where the market is. We did recently close a fairly large deal with one of our core providers. And while the pricing was certainly wider than it has been, the base rate is falling so much, still made it very accretive to our assets. So our viewpoint is people are going to look for safety. They're going to look for an ability to make good returns in this market. And when yields become hard to find, we think we're creating a very attractive place for life companies and others to deploy capital in a very, very safe space.

Operator

Our next question comes from Anthony Paolone with JPMorgan.

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

So just a couple of clarifying items. One is, did you end up granting those requested deferrals? Or you did end up staying firm and got your money?

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

No. We got 100% of our payments. I just wanted to highlight that the number of people you've been asking was de minimis.

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

Got it. And same with the percentage rents, like you actually got those cash, it wasn't an accrual at this point.

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

Yes, the Park Hotels money is cash.

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

Okay. Just -- and I know with that deal, there was this, I guess, relatively fair -- relatively near-term opportunity to kind of rework that and your lease was under market. Does -- is there any chance that this situation just brings the whole thing back to the table early? Or anything we should expect there?

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

Yes. Let me -- I think you've seen what Park has done in the capital markets. And if we can provide some attractive alternatives to them, I'm not sure exactly the kind of timing of that, but we have had conversations with parties in and around that transaction to say, we think we can do some good win-win opportunities if there's a desire to do so. But I think they've been focused, first and foremost, on building a real war chest of liquidity and run to market relatively quickly. I think our solution is probably a very long-term solution. So it will take a little bit more time to think through with them or their advisers. But it's definitely something that is on our radar, and we're open and ready to do business.

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

Okay. And just to understand the sensitivity around the roughly $4 million that you've been getting in percentage rents on that. Is -- where does occupancy need to be? Or at what point does that $4 million just kind of go away? Is it 75%, 40%, like what's the order of magnitude?

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

Yes. I think just to give you a very rough number, is those hotels are closed for 5 to 6 months with 0 revenue and be hard to see them recover enough to pay anything on a percentage rent basis. We're again 30-plus days in, so we're just -- we're using a very rough estimate in terms of revenue impacts and certainly concerned that the hospitality industry is going to struggle to come back as quickly. Some of these assets are in very good markets, but reading the tea leaves from all the hospitality folks we talked to, it's not going to be a snapback here.

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

Okay. And then just last one, I guess, a follow-up to maybe Collin's question. On the debt that you've been able to procure that ties with your bonds, it's been very attractive and long dated. What's sort of the pricing matrix? Or what are your partners looking at when they price that in terms of spreads? I guess, the AAA CMBS or is it some other group of corporates? Or just trying to get a sense as to how much maybe spreads may or may not offset the change in just base rates.

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

Yes. Look, I think the last deal we did, they definitely increased spreads relative to other things they could invest in. So it definitely depends on where they see the ability to invest in sort of the ultra-high quality, long-term sector. I would also tell you that we have been viewing it. I think you used the term partners. We have not been nickel and diming to build this business. We think the spreads we're getting to our ROAs on our assets are attractive and work for our model. And so we don't try to push them to the very edge all the time. We're looking for ways to make this a long-term symbiotic relationship. And so I think we've built up some goodwill in terms of being able to approach them when prices are moving the right way and say, we're not going to ask you to reprice it in our favor. We think the same will be on the other side. So I think it's been a really good relationship that Brett has built with a growing list of companies that do see this as an attractive place for them to put capital, lending at what is effectively 20%, 25% of the value that lands and building combined. It seems like a really safe place in these kind of moments. So I'm going to tell you, yes, we are susceptible to spreads widening if the whole market widens. We also typically will get the benefit of base rates falling, but it's not a one-to-one correlation.

Operator

Our next question comes from Ki Bin Kim with SunTrust.

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

A lot of good questions have been asked already. So maybe if we can just take a step back and bigger picture. Can you just talk about some of the conversations you're having with some of your prospective ground lease customers during this COVID-19 environment? And I would suspect there are some positives and some challenges coming out of that. And also curious if the number of new faces coming to you has changed at all.

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

Marcos, do you want to give some color there? I can certainly give my answer, but you're on the front lines right now.

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

Yes. So the first question on the existing customer base, I think the psychology around paying ground rent is somewhat similar to paying property taxes. So the fact that only 1.5% to 2% ask for any sort of rent deferral when they're obviously in the asset classes that you would expect. We didn't have much dialogue with our existing customer base around their ground leases. I expect that to continue going forward, given all the things that Jay discussed and the amount of value erosion that would have to occur. And I think that the way I think about it, we think about it is you can take a look at all the public company REITS. We own a high-quality portfolio. And you look at the value erosion, and it's not even close to touching our business. So that's on the existing side. And we are...

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

(inaudible) market?

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

Yes. I was talking about new deals, not if they were paying rents or not that, to me, I'm not too concerned about that part. So with the existing customer base with those that have capital, we are engaged with those. And I would say there has been a ton of new engagement with new customers who are looking at their liquidity options, large owners with either redemptions in their core funds, public companies who are sitting there and saying, okay, I can tap the unsecured market but that cost me x. And this capital solution is hundreds and hundreds of basis points cheaper, and I maintain all operational and financial control. It seems like a great option as I think about what to do, but there's engagement there. We've rolled out a new initiative safe as a corporate solution for non-real estate companies who own high-quality real estate as they think about their liquidity options. So we're taking advantage of the current dislocation and pushing our story across asset classes and across a broader diversified owner base than just our existing customer base and real estate owners and operators.

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

And does this kind of COVID-19 crisis environment at all changed what you want to buy going forward? Does that make you incrementally alter your investment philosophy?

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

I don't -- it doesn't. We've always been focused on high-quality land and high-quality assets with high-quality owners. I think the fact that 100% paid and only 1.5% ask for relief is a testament to that. I think we are taking a long-term view across all these assets, and so we've been proactive on pursuing office and multifamily and selective hospitality. I think that you'll see that continue. And we've been disciplined to not do any retail. And you can imagine all the retail companies called and asked that we would be a solution, and we've continued to say no.

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

Okay. And just last question. From a funding perspective, do most of your lenders keep those loans on their books? Or is there any percentage that's being syndicated out?

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

All the recent financing for the last 24 months is balance sheet with insurance companies. We have 1 CMBS transaction early on that is "syndicated" out to the CMBS market.

Operator

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

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

I wanted to ask if you could give any thoughts on the outlook for commercial real estate prices, particularly in the New York office market.

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

Jade. Yes, look, we see what's happening on the screen with some of the biggest owners. There's a little bit of a battle going on in terms of will people come back to work and want more space reconfigure the existing space to create "a little more safer environment," will newer buildings with more extensive filtration systems and no-touch systems become more attractive. And all that offset by the number of people who are working from home, who are getting comfortable with video technology. Is that going to somehow change the working environment? Our belief, first and foremost, is that New York is still one of the most important cities in the country intellectually, financially, culturally. So again, we look to do long-term investing. So we're looking at those markers more than we're looking at what happens to occupancy and rental rates in the next 6 to 12 months. But we like to keep a handle on that so we understand what our customers are thinking. And right now, what they're thinking is this is a shock to the system. Clearly, New York, even financially, is going to take a pretty hard smack. But a lot of the up and coming companies that are proving themselves to be stalwarts through this economy, the Amazons, the Facebooks, the Googles, have now major presences in the city. We don't think those are going away. We do believe the work environment is a different environment than work-from-home, a more productive environment. So I guess our short-term answer is clearly the screen tells us that values are being impacted in the near term. But long term, we would still make a bet on New York as one of the key cities.

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

Okay. And in -- and I agree with that. In terms of -- and personally, I can't wait to get back in the office physically. In terms of the 3 large deals you did last year, 685 Third Avenue, 135 West 50 -- West 50th and 425 Park, I believe that those buildings are not stabilized yet in terms of occupancy pre-COVID. So what would your outlook for the lease-up profile and the ultimate behavior of the equity sponsor be at this point? Do you think -- has anything changed that would negatively impact the outlook for those projects?

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

Jay, you want me to?

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

Yes. Go ahead, Marcos.

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

Jade, I agree with you. I would love to be back in the office versus at my dining table right now. So the -- we don't think anything changes. So if you look at 425 Park Avenue as an example, there's $1.2 billion of subordinate capital to us. Now do I think they're going to get their $200-plus rents? I think they'll have to wait for a while to get that. As you know, citadel, most of the building on a long-term basis. So there is a casual bridge for them. And I think from an equity standpoint, they may have to take some slightly lower rents. But as it relates to our view of kind of the mark-to-market underwriting and any sort of risk, it's limited. 195 Broadway was another large deal. It was 100% leased, 7.5 years of weighted average lease to sort of put away, nice rent roll that will probably perform very well through this and then come out on the back end, hopefully, as New York recovers over the medium term. 685 Third was a stabilized asset as well. They actually had 70,000 square feet of positive leasing pre-COVID at rents higher than we expected. So that deal is pretty much put away as well. And then 50th Street had done some pre-leasing prior to COVID as well, but I expect that one to probably take a little bit longer to execute. They're in the middle of their renovation and capital plan. So my gut is they will probably slow down and wait for the market to recover versus signing leases today, which are probably at levels 15% to 20% south of where they thought. But again, on that asset, there's hundreds and hundreds of millions of dollars of supporting the capital behind us, large institutional core fund ownership. So despite the volatility that may occur behind us, we're not paying too much attention to that.

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

And then the last cycle, multifamily performed probably the best of all the asset classes because there was excess homeownership that filtered in as an additional kind of cyclical demand driver. What do you expect to take place in this cycle?

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

Yes. It's good question, Jade. I think we do see multifamily still being a pretty solid performer throughout this cycle. And as people get more uncertain, it is a temporary choice that's much easier to make than making a long-term decision if your job is not certain or the economy is not certain. So we'll probably see multifamily be living solution of choice for a while here. We have been focused on multifamily because -- in good locations, good access, good markets. We think those are good places for us to provide capital. We've been trying to get into some of the larger urban markets in the multifamily space. And one of the disappointments in the first quarter was we thought we'd been able to do that, and that deal is on hold. So we'll continue to view that as a top choice market for us and think -- again, there's different stratas of assets in that. We'll try to focus on the higher quality, larger institutional-sized assets as opposed to the smaller stuff that doesn't really fit us.

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

On the offense side, I was wondering, are you getting any calls from REITs or other players with unencumbered assets looking to potentially unlock capital without having to pursue forced asset sales? And I thought that the comments around looking at non-real estate owners who have operating businesses, but also in real estate as additional market was interesting.

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

I think if you're sitting in the CEO seat at one of the publics with the unencumbered asset base, that you're surveying your options. And I would tell you, 12 months ago, we were not an option. Today, we are 100% an option. Selling assets, if you think about the hospitality side there, Park and Braemar have assets on the market. I don't think any of those sell because there's a handful of vulture bids at $0.65 of $0.70 of value. And so taking that hit, raising equity, doing some highly structured convertible preferred versus getting liquidity from us, we're sort of telling our own story here, but we think we're a much better capital solution than those alternatives. So we are in the discussion tree of their options. So we're hopeful and optimistic that we'll find some solutions for those groups.

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

And is retail, like necessity-based retail, strip centers that would include grocery-anchored and pharmacies and retail that's still performing, is that red line for you guys?

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

I would say the malls are red lined. I would say it would be very selective on the strip side, very, very selective.

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

Yes. I would tell you we haven't worked with any.

Operator

Our next question comes from Zack Silverberg with Mizuho.

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

Just a quick follow-on question. In terms of office real estate, do you foresee a future where there's less demand or need for office space due to a cultural shift from working from home more due to COVID and companies realizing productivity hasn't declined too much?

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

Well, Zack, I think this is going to be one of the debates coming out of this. But I can tell you, our anecdotal view is productivity is impacted for many of the types of office buildings that we are the logical capital provider for. Certainly, there are work-from-home solutions that will come out of this that will be interesting. But just in terms of productivity, I don't see necessarily the core office stuff that we deal in radically changing to a work-from-home model. Yes, we do see the marginal impact on travel and the marginal impact on potentially some of the high friction parts of our economy traveling across the country to have a 1-hour meeting and then flying back. I think you'll start to see people do that through technology more often. That's definitely going to happen. But the daily work environment, the daily interaction, the social energy that's created that makes working for a company part and parcel why you want to get up every day and give it your all, you just can't replicate work from home. So highly engaged workers still are important, and we just think you'll lose quite a bit of that if you undo the work environment that we're all accustomed to working in. So I think there's going to be impact. But at least at this point, we are optimistic that people will want to come back together. There is a -- certainly an intangible value that we can all talk about the dollars you save when you don't have office space or you don't get into that group environment. But you're definitely losing something as well. And I think over a longer period of time, people will start to realize that, that is an expensive cost to save a little bit of office space.

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

The one thing I wanted to add to that, which is I realize and I've had this conversation with a lot of other counterparts, we all really like our coworkers. And that intangible benefit that Jay referenced is a real thing. The culture of a company being all together, productivity, it's just more fun. Technology is great. It's a good solution. It has made this entire difficult environment easier, but I do think that intangible benefit is a real thing. And then if you think about it from a health perspective, there may be some reverse in the densification of office space usage, which can potentially impact some of the demand.

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

Appreciate the color. And just one more for me. Do you guys see an opportunity or a shift that emerges from this economic downturn in terms of your messaging or value propositions that your -- to your building owners as a safer or better way for them to secure financing for future deals?

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

Yes. Look, our 3 pillars are capital efficiency, cost efficiency and risk reduction. Certainly, having debt coming due in a tough struggling economy is going to be a real problem. Whether you're in the CMBS world or in any sort of debt situation where you've got a large block of debt coming due, it's going to be difficult. We often told our customers, interest rates are at historical lows, you can lock that environment in for 100 years and take half your maturity exposure off the table. And again, when you think about 35% ground lease to value and sort of 3.5% starting day 1 yield, the actual rent payments to buy that insurance are extremely low. So we feel like the story that we have been telling will serve a lot of people very well, protect them from exactly this kind of environment and having to have a large amount of debt coming due. Maybe not as the parent today or a month in here, but I think it's the rolling impacts begin to play out over longer time periods. Nobody is going to want to have unnecessary friction cost. Nobody is going to really be able to accept mispriced inefficient capital structures. And ultimately, people are going to have less risk in the form of debt maturity. So we think the story is very much intact. We think customers will continue to see places where it's appropriate to work with us as a better solution. But we're going to need to see transaction activity again. And obviously, here we are in the middle of April, and it's still too soon to see how big an impact and where this all sorts out. But the 3 pillars of our business look ever more attractive in our minds for a building owner who's going through and thinking about the future.

Operator

Mr. Fooks, we have no further question.

Jason Fooks *Safehold Inc. - SVP of IR*

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

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern today. You may access the AT&T teleconference replay system at any time by dialing 1 (866) 207-1041 and entering access code 7359470. That does conclude our conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.