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P: Operator;;
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P: Stephen Albert Laws;Raymond James & Associates, Inc., Research Division;Research Analyst

+++ presentation

Operator^ Good morning, and welcome to Safehold's Second Quarter 2021 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^ 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; and Marcos Alvarado, President and Chief Investment Officer.

This morning, we plan to walk through a presentation that details our second 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 1:00 p.m. Eastern Time today, and the dial-in for the replay is (866) 207-1041, with the conformation code of 7260006.

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^ Thanks, Jason, and thank you all for joining us today. The second quarter saw a nice ramp-up in investing activity with both transactions closed and future deals in the pipeline growing strongly from the first quarter. We continue to gain traction by providing long-term, well-priced and well-structured modern ground leases that unlock significant value for our customers.

This quarter, we also expanded our ability to source high-quality ground leases in major markets through our Ground Lease Plus program. Working together with iStar, we can create ground leases early in the development process, where iStar funds the pre-development ground lease and Safehold commits to acquire the ground lease at a predetermined price once the development meets certain "shovel-ready" criteria.

During the quarter, iStar closed on a pair of Safehold-approved ground leases covering a full city block in Downtown Austin, Texas, which Safehold committed to acquire once construction is ready to begin. We also secured an option on a major site in the Seattle MSA that will be triggered once construction begins on an anticipated 1 million square foot development. Together, these 2 opportunities could generate between $300 million and $500 million of irreplaceable ground leases in 2 of the top technology markets in the country.

Along with our progress on the customer front, we also began to highlight for investors the significant value building up in Safehold's U~~u~~nrealized C~~c~~apital A~~a~~ppreciation account and provided a simple valuation formula for investors to understand the potential value of this asset as we continue to grow. We've been quietly tracking this asset's value for shareholders since we went public, but now believe we have demonstrated both the track record and the scale to be a bit more vocal about the embedded value that is being captured for shareholders.

As you saw in our earnings package, our U~~u~~nrealized C~~c~~apital A~~a~~ppreciation asset grew by some $374 million in the quarter, increasing to approximately $6 billion. By consistently growing our Ground Lease portfolio, ~~—~~and diversifying across top markets and major assets in the U.S., we believe this $6 billion asset will come into sharper focus in investors' minds and begin to be reflected in the value of our share price.

Okay. With that, let's have Marcos walk through the details of the quarter. Marcos?

Marcos Alvarado^ Thank you~~,~~ Jay, and good morning~~,~~ everyone. Turning to Slide 3. We are pleased with the performance of our portfolio during the quarter, as we continue to make steady progress scaling our business. Highlights for the period include solid earnings results, increasing investment activity, UCA growth, and as Jay mentioned, we introduced a new origination channel to serve our customers across the life cycle of an asset that I'll discuss in more depth shortly.

We utilized our recently awarded investment-grade ratings to access the unsecured debt markets, which left us with a significant amount of dry powder at quarter end to take advantage of the expanding ground lease opportunity. This inaugural offering is our first step towards educating the unsecured market about SAFE with the goal of innovating with our liability providers and driving down our cost of capital.

Moving to Slide 4. Let me walk you through this quarter's earnings results. Revenues were $44.2 million for the second quarter, an 18% increase from the $37.4 million in the same period last year. Net income was $14.7 million, an 18% increase from the $12.5 million we earned in the prior year period. And earnings per share was $0.28, 13% above the $0.24 we earned last year. Additionally, during the quarter, the Board of Directors approved a 4.8% increase in our dividend to an annualized rate of $0.68 per share.

Slide 5 provides an overview of our investment activity. During the quarter, we closed 6 new ground leases, 5 multifamily and 1 office asset across 6 markets totaling $222 million. Of note, this quarter, we expanded into a new market in Jacksonville, Florida. The investment metrics associated with these deals are in line with our targets, with a weighted average effective yield of 4.9%, ground lease to value of 39% and a rent coverage of 3.5x.

In addition, we completed our first transactions under our Ground Lease Plus product this quarter. We came to realize that our customers have a need for our efficient capital in the form of a ~~properly-sized~~properly sized, properly ~~-~~structured ground lease to capitalize the acquisition of land for development. Partnering with iStar, SAFE developed the product to meet this market need. Ground Lease Plus is an innovative origination channel that expands the use of ground leases to predevelopment assets that don't yet meet Safehold's “shovel-ready” criteria.

During the second quarter, iStar closed on the first Ground Lease Plus transactions with a new client and 2 adjacent tracks in Downtown Austin, Texas, which have been zoned for mixed-use development. In these transactions, iStar used its balance sheet to originate the ground leases. Concurrently, Safehold committed to iStar to purchase the ground leases once the developer has assembled its capital stack and is prepared to go vertical and build the assets.

The Ground Lease Plus product allowed our customer to unlock value in high-quality core CBD land by locking in low-cost 99-year ground lease capital. At SAFE, we were able to obtain the right to acquire ground leases that meet our economic targets, metrics and risk profile. By innovating a ground lease product to meet our customers' needs earlier in an asset's life cycle, we continue to prove the principle that as we create value for our customers, we create value for Safehold as well.

In addition to our transactions in Austin, our Ground Lease Plus product unlocked an opportunity for Safehold to create a future ground lease in the Seattle MSA in one of the most attractive office markets in the country. Safehold acquired an option to purchase the ground lease when the development is shovel-ready and meets our criteria. This opportunity, combined with the 2 Austin developments, could allow SAFE to invest up to $488 million in what we consider to be trophy-quality ground leases.

Slide 6 provides an overview of our portfolio expansion. At the end of the quarter, our aggregate portfolio stood at $3.6 billion, representing 11x growth since our IPO 4 years ago. This amount does not include the Ground Lease Plus transactions we just discussed. More portfolio metrics can be seen on Slide 7.

As of June 30, our in-place portfolio generated an annualized yield of 5.4%. The portfolio's annualized cash yield was 3.4%, with annualized in-place cash rent of $118 million. Our portfolio's weighted average ground lease to value was 40% and weighted average rent coverage was 3.3x. By property mix, our portfolio consists of ~~45 --~~ 54% office, 28% multifamily and 17% hotel. Our weighted average lease term is 89 years.

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

Slide 9 provides an update on our capital structure. During the quarter, we successfully closed on our debut unsecured debt offering, issuing $400 million of 2.8% senior notes, which are due in 2031. At the end of the quarter, we had $2.2 billion of debt comprised of approximately $1.5 billion of non-recourse secured debt, $400 million of unsecured notes and $272 million of our pro-rata share of debt on ground leases, which we owe in partnership.

Our weighted average maturity is 26 years, which is down from the prior period, primarily due to the 10-year unsecured notes we issued this quarter. In addition, we had $35 million drawn on our $1 billion unsecured revolver. Combined with the $34 million of cash on hand, we have approximately $1 billion of liquidity. We are levered 1.6x on a book basis and 0.5x levered on a debt-to-equity market cap basis.

The effective interest rate on our non-revolver debt is 3.7%, a ~~163 basis~~163-basis point spread to the 5.4% yield on our portfolio. The weighted average cash interest rate on our non-revolver debt is 3.1%, a positive spread to the 3.4% current cash yield on our portfolio.

Moving on to Slide 10, we provide an update on UCA. With the addition of the 6 new properties we closed this period, that are highlighted on the right side of the page, unrealized capital appreciation in our portfolio grew $374 million to $6 billion, representing an annualized growth rate of 27%. As Jay alluded to, we have been spending more time highlighting this unique and valuable asset with the market and are encouraged with the initial feedback we've had from investors.

In conclusion, we continue to make steady progress as our pipeline expands and remain optimistic about reaching our growth target of $6.4 billion by the end of 2023. During the second quarter, we executed an important initial bond offering and launched new innovations, which should allow us to better serve our customers and drive down our cost of capital as we continue to scale our business and modernize the ground lease industry.

With that, let me turn it back to Jay.

Jay S. Sugarman^ Great. Thanks, Marcos. ~~So~~So, it feels like we're on track to finish the year strongly, as we continue to find ways to provide our customers better and more efficient capital. And if we can continue executing on the customer side, the benefits to Safehold should also be very strong, as higher growth and higher unrealized capital appreciation deliver a one-two punch of earnings and value creation for our shareholders.

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

+++ q-and-a

Operator^ (Operator Instructions) Our first question comes from Nate Crossett with Berenberg.

Keegan Grant Carl^ It's Keegan on for Nate. I think to kick things off, can you give us a little bit more detail on the origination volume in the quarter? Outside of Jacksonville, where were the other properties purchased? And can you give us a little bit more detail specifically on the multifamily assets?

Jay S. Sugarman^ Marcos, why don't you give a little more detail?

Marcos Alvarado^ So we closed brand-new multifamily asset in Denver, Jacksonville, as we mentioned; a 2018 vintage deal in Portland; a brand-new multifamily in South Florida in the Fort Lauderdale area; and another multifamily asset in Atlanta, Georgia, and an office asset in New York City.

Keegan Grant Carl^ Great. And I know you guys don't give any formal origination guidance. But can you remind us on the target over the next year or so? And do you think you're still comfortable saying you can double the portfolio in the next 3 years?

Marcos Alvarado^ Yes. As we've said in prior quarters, given the lumpiness of our business, we don't provide quarterly or annual guidance. I think we remain extremely optimistic that we'll hit our target of $6.4 billion by the end of 2023.

Keegan Grant Carl^ Okay. And just one final one. Can you guys speak to the current pipeline right now? I mean do you guys have anything else under LOI? Kind of what are the expectations for the remainder of the year?

Marcos Alvarado^ We don't disclose the amount of transactions under letter of intent. I will tell you that we are busier than we've ever been. We're seeing this kind of thought that we've talked about really start to happen, the awareness of our product, our cost of capital, customer satisfaction, network effect. So as Jay alluded to, I think the second half of this year going into early next year feels really good right now.

Operator^ Our next question comes from Rich Anderson with SMBC.

Richard Charles Anderson^ So on the Ground Lease Plus program, what's the benefit to iStar? Did they buy the land? And do you pay them a markup? Is there a return for iStar? Or are they -- is it sort of an even trade and they're just kind of doing this on behalf of Safehold knowing what the longer-term intentions of iStar and the Ground Lease business?

Jay S. Sugarman^ Rich. Yes. No, you've got it. The iStar's putting out capital at market risk returns that it finds attractive. We've actually had third-party capital also interested in participating. ~~So~~So, there's a pretty robust conversation around what's the appropriate risk award for iStar. They would not commit capital if it didn't make sense. But this is really one -- another one of those places in the ground lease world where 1 plus 1 equals more than 2. So we think both iStar can benefit and make smart investments here as can Safehold. So it's another way we're leveraging the full power of what we've been building here to really help our customers access capital that's never been available to them before. And we think there's a real possibility to continue to grow this idea.

Richard Charles Anderson^ So does SAFE though pay a premium to what iStar paid? Or is that how it works?

Marcos Alvarado^ Yes.

Jay S. Sugarman^ Yes, it's based on a return to iStar.

Richard Charles Anderson^ Okay. Got you. Within iStar today with the land that it owns, are there opportunities to sell existing parcels of land to SAFE for a similar execution?

Jay S. Sugarman^ Certainly, it could be. We've got -- still got some very high-quality assets inside of iStar. Again, we're fundamental believers that this is the way to unlock the most value. And certainly, as iStar looks to monetize assets, we would continue in that belief in trying to maximize value by being ~~ultra efficient~~ultra-efficient. We think certainly creating ground leases is one and perhaps the best way to do that. ~~So~~So, nothing recently, but it's certainly something we've done in the past and certainly something we will look at again in the future.

Richard Charles Anderson^ Okay. And not to make this about iStar, but it's kind of the same conversation. You've kind of testing the market on your net lease portfolio. Is that just kind of exactly that? Or how close might you be to selling that portfolio all or some of it? And what does that say about your level of confidence about a pipeline of ground lease opportunities within Safehold? Is it telegraphing that there's a growing kind of pipeline out there because you're starting to investigate more formally the net lease portfolio?

Jay S. Sugarman^ I think everything is consistent with what we said. Scaling Safehold has been a major focus of both companies. We, as Marcos said, are really starting to feel the markets reopen, and our product really reaching a new level of acceptance and desirability to a lot of different customers. We're also seeing lots of interest in iStar assets. And so I would say we're in the exploration phase, Rich, nothing definitive. But we certainly believe all the strategic initiatives that we set up 2, 3 years ago are certainly playing out the way we hoped. And so we're going to continue on this path. We think both iStar and Safehold can deliver significant value if we continue to execute on those plans.

Richard Charles Anderson^ Okay. Last one for me. Is there a ceiling to how much you can do in terms of raising public debt because you have the liability asset, duration mismatch issue? So understanding you put $400 million to the market, but how much can you really do while trying to preserve some level of duration on your debt?

Jay S. Sugarman^ Yes. Look, this was our inaugural issue. The 10-year was obviously a sweet spot in the market, but we had significant reverse inquiry at much longer tenors. ~~So~~So, we will need to try to drive a book that has some of the longest maturities in the entire industry. We've internally targeted sort of that 25- to 30-year. We're kind of in the 26-year range even with that 10-year offering. ~~So~~So, I don't think the strategy has really changed, but this ability to tap the unsecured markets is going to make us faster, bigger, better as we serve our customers. So we'll find the right tenors to match fund the business. But I think the opportunity to now access both unsecured and secured just puts us way ahead of anybody else in the game.

Operator^ Our next question comes from Anthony Paolone with JPMorgan.

Anthony Paolone^ So first question, I guess, is on STAR and SAFE dynamic. I guess I had a thought that with STAR exploring the net lease sale, maybe that would accelerate maybe some ultimate event between STAR and SAFE, but now STAR is getting into this predevelopment ground lease business. So I mean, anything to take away in terms of what these various initiatives at the STAR level suggest in terms of something happening between STAR and SAFE ultimately?

Jay S. Sugarman^ No, I wouldn't read too much into that. Again, our mission at STAR and SAFE is to grow this business, be the dominant player. This is another piece of that puzzle. I don't think it changes anything in our minds about thinking about the right architecture long term for the business. We publicly said when we get past about $5 billion of assets, it will be appropriate to have a conversation with both companies about that architecture. This is just a piece of the puzzle that we sort of thought would work. We mentioned it a while back.

We've been testing the hypothesis refining it, and now we're starting to see some results. We think there's plenty of capital in the world that would certainly be interested in that. So iStar is really good at helping launch this kind of new innovation, but it doesn't have to be the long-term capital source if it doesn't want to be.

Anthony Paolone^ Okay. And then what is specifically the markup or the mechanism when STAR does one of these predevelopment land deals and then flips it over to SAFE?

Jay S. Sugarman^ Yes. Obviously, both independent Boards have to approve every transaction. ~~So~~So, it's really predicated on sort of market returns that are appropriate for the risk and the profile of the asset where it is in the stage of predevelopment. It is a -- again, a 1 plus 1 equals more than 2, and each independent group of directors gets to see the entirety of the transaction and has to feel comfortable with it or we can't move forward. ~~So~~So, there's a measure of equity that we, as management, try to start with. And then there's a little bit of negotiation, and then, it has to meet kind of market standards or it won't get done.

Anthony Paolone^ Okay. And so I guess if SAFE is doing deals at, call it, a 5, what would that equivalent number be for STAR?

Jay S. Sugarman^ Well, obviously, a very different duration tenor risk profile. So, the predevelopment world has capital that's certainly in the double digits, and that's not unusual. But when you look at what Safehold is buying, it's a constructed 99-year contractual cash flow stream. So 2 very fundamentally different instruments. We know the market from the predevelopment world very well at the iStar side. And Safehold knows the ground lease market very well from the long-term ground lease side. And there's some pretty good benchmarks that are shared with both Boards just to make sure that everything is sort of in that range that guardrails of what we've seen in the market and feels appropriate.

Anthony Paolone^ Okay. And then just in terms of thinking about future commitments. I think there were some of the deal flow in the quarter that you have yet to fund. I think it was like $12 million, and I think you've done some things like that in the past. And then also, you've got this $273 million now out of the Ground Lease Plus program. Just wondering if you could just kind of help add up kind of what's like pending, if you will, that's pretty visible that at some point will go into SAFE?

Jay S. Sugarman^ Yes, I would sort of segment it into things that we have closed and are just funding up as construction reaches sort of full cycle on that single asset. That number is probably in the $75 million to $100 million range. The GL Plus program is further out than that. There are conditions that must be met, capital stack that must be put together. ~~So~~So, I would sort of bucket the near term as $75 million to $100 million, and the $273 million or the $488 million that Marcos mentioned is further out in the future.

Anthony Paolone^ Okay. Got it. And the $273 million is just basically the 2 tracks in Austin and then the $488 million is when you add in Seattle, is that the right math on that?

Jay S. Sugarman^ Correct.

Operator^ Our next question comes from Stephen Laws with Raymond James.

Stephen Albert Laws^ Marcos, I wanted to follow up on your comments. You mentioned in the prepared remarks the Ground Lease Plus lets you become involved much earlier. And the Ground Lease business as a whole has become more competitive over the last 3 or 4 years since you've started the company. Can you talk about the competition in really that more early development or where STAR is going to play? And really what is more the medium and long-term opportunity there? If that's less competitive? Is that really an opportunity for outsized growth as we think about 2 and 3 years from now?

Marcos Alvarado^ Yes. Let me address the competitive landscape overall for our business. I can tell you, we still haven't seen anything that we wanted to do that we didn't do. So our cost of capital advantage are the proven track record of closing transactions, the flexibility we've received through this unsecured issuance. I think we are serving customers better than anybody else can in the marketplace. So we haven't really felt competitive pressures on just our normal way ground lease business.

We certainly compete with the fee financing markets, which are liquid and functioning as we -- as this market thaws. Ground Lease Plus as a product is just another additive origination channel. It allows us to capture the entire life cycle of an asset. It allows us to capture the entire investment life cycle of our customer, more importantly, so they come to us for everything. And given the risk profile, the sort of 1 plus 1 equals more than 2 dynamic made all the sense for us for iStar to take extra risk kind of earlier on in the life cycle and SAFE be that natural takeout, which obviously creates future growth, as Jay alluded to in the coming years.

Stephen Albert Laws^ Great. Moving to the expense side. Can you talk about G&A a little bit? I do think Q2 is seasonally a little higher due to some stock-based comp. But can you talk about what else went into the increase sequentially for G&A?

Jay S. Sugarman^ Sure. Yes, we have a little bit of a quirk in that our directors get their full-year pay in the second quarter, and it is fully expensed. So that's quirky and should be clear on, let's a little bit over $1 million. So that you'll see every second quarter. Maybe we can smooth that out in the future. But right now, that's the way we're handling it from an accounting standpoint. We do have some significant legal costs this quarter, and some of that will continue. These innovative products do take a bit of expertise and intellectual property that we develop in-house. Got a tremendous team of in-house legal experts who work on this stuff. ~~So~~So, every once in a while, you'll see that crop up in second quarter with GL Plus.

Doing our first deal, we did a lot of extra work to get it right. And as we innovate, we'll continue -- we think it's well worth it to spend that money. But it's onetime in one sense, but in another, we are trying to innovate what we hope is a $1 trillion business. ~~So~~So, we think these are all really smart investments for building out the full potential of this modern ground lease industry. So those were the 2 things that sort of pushed the expenses this quarter. And certainly, the directors' compensation will go away next quarter. And -- the legal fees, right now, I would say this was a little bit on the high side.

Operator^ Our next question comes from Caitlin Burrows with Goldman Sachs.

Caitlin Burrows^ Maybe just to start a quick follow-up on that last topic. Jay, could you just confirm those legal costs? They were included in the line for expense reimbursement to the manager, is that right?

Jay S. Sugarman^ No, they're actually at the Safehold level. What ~~line item~~line-item guys that we have those under?

Marcos Alvarado^ G&A.

Jay S. Sugarman^ This is straight G&A.

Caitlin Burrows^ Okay. ~~So~~So, then I guess if I'm looking at the expense reimbursed to the manager, it looks like that was higher in the quarter 2. Is that something -- you know what, never mind, I'll look into that again. Okay. Moving on. Then just on the Ground Lease Plus product. Could you just talk about -- it sounds like the reasoning behind iStar's involvement versus it being faithful from the beginning might be risk related. So just wondering how pre-leasing plays in. And is it that iStar is just taking more of that leasing risk, but then Safehold is only involved once the property is leased up? Or can you talk a little bit about that relationship?

Jay S. Sugarman^ Sure. I think the easiest way to think about it is Safehold wants to be in sort of 35% to 40% of the value of a capital stack and wants to know that there is a physical asset on the property or about to be on the property. ~~So~~So, what iStar is doing is obviously taking more risk. There's not a physical asset, and there's not a shovel-ready capital structure or GMP or construction. Leasing in and of itself obviously depending on different products. Leasing happens at different points in that predevelopment cycle, but that's not really the standard.

The standard is do you have your capital stack and is the project going to get built? Do you have your GMPs, permits, entitlements? Are you ready literally to put a shovel in the ground and build the building in the pretty picture that you've shown your investors? That puts Safehold in that 35% to 40% GLTV zone. That's the moment it's a Safehold deal. Obviously, these predevelopment deals don't line up on that risk and/or GLTV basis. And so they're really not appropriate yet. But we think there's a great opportunity to tie up really great land in the best markets with some of the best developers. And we think iStar return profile and any third-party capital, we also use for that, is going to benefit from our ability to see those deals very early, provide the best combination of near-term and long-term capital.

And we think there's real possibilities here. We've only done a couple of deals. ~~So~~So, it's still early, but I can tell you it's another, certainly, arrow in the quiver when we're sitting with customers. As Marcos said, we're building relationships, not on a single building or a single asset. We're building them with customers. And when they go places and do things in great markets in wonderful locations, we don't want to say, "Hey, come back to us 2 years from now." We want to engage with them now. We want to be the best capital source for them now. We think iStar can provide that capital. And we think Safehold is the best long-term capital provider, and we can give them one-stop shopping in a way that we don't think very many others can.

Caitlin Burrows^ Got it. Okay. And then maybe just on the funding side for the investments that over $200 million of investments that you made in the quarter, you did the unsecured $400 million deal. I guess just thinking on the equity side, what are your plans for equity issuance this year? And what metrics are you looking at to decide when the right time to raise equity is?

Jay S. Sugarman^ Yes. I think we said we have about $1 billion of liquidity. So liquidity is certainly not a constraint. We've also said, I think, in the past, we like to have about $500 million of liquidity lying around at any point in time. ~~So~~So, the pipeline feels good. Marcos' team is fully engaged on all fronts. And ~~so~~so, if we start knocking down these deals and eat into that liquidity, certainly, those are the kind of metrics we'll be thinking about.

Caitlin Burrows^ Okay. And then maybe a last one, just in terms of the acquisitions that were completed in the quarter. Wondering if on those 6 deals, you could give some detail on the timing of them, although actually, I think, one of them is actually closed, but the timing of the deals that did close in the quarter?

Marcos Alvarado^ So all of them except for $12 million closed in the quarter.

Jay S. Sugarman^ Somewhat late in the quarter.

Marcos Alvarado^ Yes.

Caitlin Burrows^ Okay. Rather late in the quarter?

Jay S. Sugarman^ Yes, sort of June was a big month.

Operator^ Our next question comes from Haendel St. Juste with Mizuho.

Haendel Emmanuel St. Juste^ Now there's been a lot on the Ground Plus already, but I've got a, I guess, one more. I guess I'm more curious, how much of your pipeline proportionally could use Ground Lease Plus deals represent or perhaps what level you'd be comfortable with? And then maybe could you talk about the target returns and any key differences in the underwriting of these types of investments versus your more traditional ground lease assets?

Jay S. Sugarman^ Yes, I'll let Marcos talk about the pipeline dynamics. Again, this is one of many products we offer our customers, so -- and it's a new product. ~~So~~So, we don't want to overstate our certainty around those kind of numbers. But what I would tell you, Haendel, is when we think about the opportunity to penetrate the very best markets in the very best locations, this is a powerful tool. And we think it's one that allows us to get into markets on all the good metrics that we've talked about. I mean we know where we want this stuff to price. We know where we wanted to be sort of in that AAA slot.

~~So~~So, the real question is, how do you get into some of these really high-quality markets, how do you work with some of these really high-quality customers, so that they're calling you all the time everywhere they go. ~~So~~So, they do the hard work tying up off-market deals. We want to be available to them. And what's in it for us is we're getting a shot at some assets that we probably wouldn't get a shot at if we showed up much later in the life cycle. ~~So~~So, it's a really powerful idea. Again, I don't want to overstate it. We've only done a couple, but the reaction has been really positive. The caliber of the customers we can't really talk about, but it's extremely high. And so this feels like right up our alias sort of a Safehold/iStar fit. This is what we do really well.

And so Marcos, what do you think the potential here is?

Marcos Alvarado^ Yes. As Jay alluded to, we're excited about capturing more of our customers' mindset. And I think we're optimistic that every quarter or every other quarter will hopefully announce a super high-quality Ground Lease Plus transaction. But as I think about our overall pipeline, the lion share is ordinary course ground leases. Our regular way business is very engaged, very active. ~~So~~So, most of the pipeline is just regular way business.

Haendel Emmanuel St. Juste^ Got it. Another question in the pipeline. At NAREIT, I think you guys intimated about the potential for larger transactions. Were you alluding to these Ground Lease Plus deals in Austin and Seattle? Or are there other larger deals in the pipeline that could represent some upside here?

Marcos Alvarado^ No, regular way business is outside of the GL Plus transactions is what we're alluding to. ~~So~~So, GL Plus is just additive future super high-quality growth.

Haendel Emmanuel St. Juste^ Okay. Then the conversations around some of these larger potential transactions continue? Any movement or sense of -- any sense of imminent conclusion? Or we're still just -- still waiting and doing an -- this ongoing conversation?

Marcos Alvarado^ I would call it -- some could in diligence and closing process, ongoing conversations, I think that's why we've been reticent to provide guidance because these lumpy transactions take -- some of them have been worked on for 1.5 years as an example. So we can't predict exactly when they're going to close, but we feel good about the growth going forward.

Haendel Emmanuel St. Juste^ Got it. Got it. And one more. I think you mentioned you closed on the New York City office asset in the quarter. I'm curious how you underwrote that, the yield? And did you notice any meaningful change in the asset value? And then I guess, how comfortable you are doing more office deals going forward?

Marcos Alvarado^ Yes, certainly. We bought an interest in it, New York City office building, super high-quality asset. I think the relevant metric is we're in the $200 foot range at our bases. ~~So~~So, we feel like we're below land value. We do agree that there is some -- there's been some value deterioration from where the office asset traded in 2015 when it was probably worth pre-COVID and where it sits today. And so we took that into account in our analysis, and it's consistent with our metrics at a reset basis.

Haendel Emmanuel St. Juste^ Can you share just a ballpark estimate what you feel that change in value has been?

Marcos Alvarado^ 15% down.

Operator^ Our next question comes from Matthew Howlett with B. Riley.

Matthew Philip Howlett^ Just back to the Plus program, does that start funds for mortgage and do they sell the first mortgage? Just curious how that works.

Jay S. Sugarman^ Yes. It's not actually structured as a mortgage. It's structured as a ground lease to some others.

Matthew Philip Howlett^ Do they have corresponding first mortgage with it? Or just curious as it will go along with it?

Jay S. Sugarman^ Yes. At least in this case, it's just a 100% equity check. So there's not -- iStar is not lending to itself. If we bring in third-party capital and lay off some of the total investment, certainly, the entity could go seek financing. But these are probably -- our guess is 2-year kind of predevelopment cycles. It may not be worth it to try to go leverage them. We have partnerships that have significant capital, they'd like to deploy with iStar. So capital shouldn't be a problem. So we haven't really focused on trying to optimize the 2-year hold period. Certainly, iStar at this point has plenty of liquidity and is working closely with Safehold to just create these one-off opportunities to expand our presence, but something we can think about down the road.

Matthew Philip Howlett^ Got it. And then the Jacksonville getting into that, expanding that market, what do you think in terms of how many more markets you can get into? Talk a little bit about what's interesting with Jacksonville and comparable markets like that?

Jay S. Sugarman^ Yes, I think we're in 27 of the 30 we originally talked about. Jacksonville is an NFL city, which was one of the original concepts we kind of followed, is go the bigger cities with the bigger assets. This asset is actually almost directly adjacent to multiple stadiums in that market. ~~So~~So, I think our viewpoint is there are 30-ish top markets. We did a deal in Portland this quarter. It's a great market for multi; Atlanta, beautiful asset; the Fort Lauderdale asset, beautiful asset; Denver is a gorgeous asset. These are all really high-quality physical properties and in great locations where the land has appreciated materially over time.

So really happy with the mix we're seeing. There is a steady flow of business on that multifamily side that we're really happy about. And then we've got some fairly large transactions we're still working on. So I think the -- our job is just to execute now on the pipeline ahead of us. And if we do that in these top cities, whether it's a San Antonio or a Jacksonville or whether it's a gateway city like Boston, New York, San Francisco, Chicago, L.A., we think these are exactly what we should be doing.

Matthew Philip Howlett^ When you say you've been the busiest you've ever been, is that just with the array of products, the more awareness of the products, but what's just -- what's driving it?

Marcos Alvarado^ I think it's a combination of all that. I think we're busy because we're in the process of closing a lot. We're innovating. So there's different ways to talk with our customers, which requires an education process. I think the brand awareness is at its peak. And so we're involved in a lot of processes early on. "How would you guys look at this, I'm thinking about selling it. How would you guys look at this, I'm thinking about refinancing." And we used to not get those calls. So we're cranking.

Operator^ Our next question comes from Ki Bin Kim with Truist.

Ki Bin Kim^ Just going back to the Ground Lease Plus strategy. I'm just curious for these development -- predevelopment deals. Like how are you getting compensated for the inherent risk with development in terms of the yields that you're getting?

Jay S. Sugarman^ Yes. Look, I mean, see if I can make it really clear. ~~So~~So, you have 2 investments here. You have a ground lease during a predevelopment phase that Safehold is agreeing to take out 2, 3 years forward depending on when the conditions are met. The predevelopment phase is a risky phase. The return profile of that in the marketplace is definitely double-digit returns on an unlevered basis. And so we are competing with other sources of capital to provide that capital. But we also think that the Safehold dynamic is one that -- again, we want to be in these markets. We want to be in them long term. We know where the pricing is. We know where we want to be on a GLTV basis.

~~So~~So, the benchmarks are out there in terms of we have to beat alternative forms of capital. We think in the predevelopment that kind of capital should earn high-single digits, low-double digits, maybe even a little bit higher depending on the risk-reward profile. And we think Safehold's ground lease needs to earn, as we've said, historically, 100 to 125 basis points above its cost of funds. So those benchmarks are pretty well established. Both Boards are well aware of them. The teams are out there competing with other sources of capital.

~~So~~So, there is a pretty liquid market of, "Hey, where is this deal? Where should it trade? What's the right risk-reward equation?" But if you're asking simply, what does the predevelopment deal earn? Again, depending on the asset type, depending on the marketplace, it's high-single digits to mid-double digits -- mid-teens. And if it's a core central CBD ground lease, it's going to be in that, I don't know. Our ROA targets, as you've seen in the past, are kind of 100 to 125; however, sometimes they've been better. But that's still the benchmark by which we try to set these deals up.

Marcos Alvarado^ Yes. I think the way to think about it from SAFE's perspective is we're getting access to transactions we probably wouldn't get access to by grabbing them earlier in their life cycle. And economically and from a metric standpoint, they're consistent with the rest of our portfolio or even better in certain instances and the quality of the assets is fantastic.

Ki Bin Kim^ Now do you, from a legal standpoint, write in more language in terms of if the project doesn't deliver the yield expectations, what kind of safety parameters do you build in for yourself, if any?

Jay S. Sugarman^ If the product doesn't get built, SAFE doesn't have to buy. And so that's -- the starting point is if it doesn't meet those metrics that Marcos talked about, it is not a requirement for Safehold to buy a project that isn't progressing. So that's one safety measure. Usually, as you can imagine, we build in -- if the building is a little bit bigger, if the building is a little bit smaller, if this eventuality happens, if this one doesn't. ~~So~~So, I think our view is we are setting up Safehold deals that feel and look and will be exactly like the rest of the book, while recognizing that we don't know exactly when those conditions are going to be met. And so this is a great way for us to not only work with the customer when they're forming the transaction, but also beat our long-term capital source essentially forever.

Ki Bin Kim^ Okay. And just more of a macro question here. We've seen a lot of movements in treasuries, and of course, concerns about inflation. But I'm curious from your business perspective, is there a certain scenario where you see more inbound calls or more activity in your pipeline scenario -- maybe interest rate scenario?

Jay S. Sugarman^ Yes. I mean we just have to be the lowest-cost, longest-term, most-efficient capital, whether rates are 100 basis points higher or 100 basis points lower. Our competition in most cases is the regular way financing markets, which we think we have built a better mousetrap, a more efficient mousetrap. So our customers have responded to that. They're not doing anything more, Ki bin, than looking at what their alternatives are and saying yours is better. So that's really our goal.

We saw the sort of reflation trade and people getting a little bit nervous. They wanted to lock in long-term rates. That was a nice storyline, but I don't think it drove the business at all. I think it's really just people beginning to understand how powerful a tool being efficient with your capital is. And again, this is tried and true in the corporate world with their real estate. We think it's going to become a tried-and-true tool in the commercial real estate world regardless of interest rates.

And we are helping shareholders understand that we are embedding inflation protections into our long-term ground leases. ~~So~~So, we feel like this is one of the better protected places for our capital given it has protection CPI ~~look-backs~~lookbacks. It has this long-term asset that continues to grow at high rates with UCA. ~~So~~So, I think you can feel comfortable whether the markets are worried about reflation or deflation, we really haven't seen it impact the business.

Operator^ (Operator Instructions) Our next question comes from Derek Hewett with Bank of America.

Derek Russell Hewett^ Most of my questions were addressed. But maybe some housekeeping issues. First, the portfolio yield was up about 10 basis points to 5.4% on a quarter-over-quarter basis, while the second quarter investment activity yield was only 4.9%. ~~So~~So, what accounted for the overall portfolio yield growth?

Jay S. Sugarman^ I don't know if there are specific transactions where the bumps kicked in. We'll take a look at that, Derek, just to see if there's any specific asset bump that caused that to happen. But 5.3%, 5.4%, 5.2%, they're just sort of moving around very small margins. We probably could take it out to 2 or 3 decimals and figure it out for you.

Derek Russell Hewett^ Okay. And then just in terms of the UCA. Has all of the headwinds associated with COVID kind of flow through that calculation at this point?

Jay S. Sugarman^ We still have 10% to 15% of our assets being revalued each quarter. It just depends on how many new assets come in. But I think by the end of this year, you'll see it all flush through because most of the assets will have been relooked at. I think -- we're seeing what we kind of expected. Hospitality got pretty good knock. Office got a little bit of knock. Multifamily, in some cases, is actually up, given rates falling and sort of a voracious bid for multifamily these days. So we're still in the process of getting those quarterly reports from our third-party appraisers. And I would say by the end of the year we'll see that full impact. But right now, it's nothing that we're not expecting. And certainly, new growth is a far more important variable right now.

Operator^ (Operator Instructions) Our next question comes from Anthony Paolone with JPMorgan.

Anthony Paolone^ I just have a follow-up around just how you're pricing things in the market between current yield and bumps. When we think about something like Seattle, where the prospects for rent growth may be pretty strong given the tech element. Are you pricing that land differently or the structure where there's higher than the 2% typical bumps or a different yield in comparison to say something like Jacksonville or some other markets or maybe take us a bit into the pricing?

Jay S. Sugarman^ I'm going to kick it to Marcos, but I'd say again, that 100 to 125 basis point benchmark was sort of a starting point for all these thought processes. That puts you in kind of the starting cash rate of 2.75% to 3.25% zone, depending on the transaction with 2% bumps that gets you into the kind of high 4s ROAs. And Brett and the capital markets team have a pretty good eye on where we can fund. So we feel like we're comfortably meeting those benchmarks spreads that we want. But individual pricing is sort of the art that Marcos and the team go through on every transaction.

Marcos Alvarado^ Yes. I would say super high quality, very liquid assets, tons of institutional demand. There's probably a slight pricing difference. So we -- I'll say, a multifamily in Jacksonville would probably make a little bit more than a trophy office building in Seattle MSA. But across the portfolio, we're just trying to accomplish that spread over our cost of debt.

Anthony Paolone^ Got it. So it's not changing much the -- how much is the coupon versus the bump, like that's pretty -- the bumps are pretty standardized around that too still, almost irrespective of the market?

Marcos Alvarado^ We -- I will tell you, every new ground lease has 2% bumps. Occasionally, there's some discussion around certain bump relief initially, and we catch up later on. But generally, it's 2% bumps with our inflation look-backs.

Operator^ Mr. Fooks, we have no further questions.

Jason Fooks^ Okay. Great. Thanks, everyone, for the good discussion. If you should have any additional questions on today's earnings release, please feel free to contact me directly. Tiffany, could you give the replay instructions again?

Operator^ Absolutely. Thank you. Ladies and gentlemen, this conference will be available for replay after 1:00 p.m. Eastern Time today through August 5th at midnight. You may access the executive replay system at any time by dialing 1 (866) 207-1041 and entering the access code 7260006. Those numbers again are 1 (866) 207-1041 with the access code 7260006. That does conclude our conference for today. Thank you for your participation. You may now disconnect.