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PRESENTATION

Operator

Good morning, and welcome to iStar's Third Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Jason Fooks, Vice President of Investor Relations and Marketing. Please go ahead, sir.

Jason Fooks ***iStar Inc. - VP, IR & Marketing***

Thank you, Nick, and good morning, everyone. Thank you for joining us today to review iStar's Third Quarter 2018 Earnings. With me today are Jay Sugarman, Chairman and Chief Executive Officer; Andy Richardson, our Chief Financial Officer and President of Land and Development; and Marcos Alvarado, our President and Chief Investment Officer.

This morning, we published an earnings presentation highlighting our third quarter results, which can be found on our website at istar.com in the Investors section. In our call, we'll refer to these slides. There'll be a replay of the call beginning at 12 p.m. Eastern time today. The replay is accessible on our website or by dialing 1 (800) 475-6701, with the confirmation code of 455269.

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 will be forward-looking. iStar's 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. iStar disclaims any intent or obligation to update these forward-looking statements except as expressly required by law.

Now I'd like to turn the call over to iStar's Chairman and CEO, Jay Sugarman. Jay?

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

Thanks, Jason. The third quarter was somewhat quieter similar to the second quarter as we focus new investments on repeat customers, push more legacy assets onto the market and continue to expand the reach of the ground lease business we launched a little over a year ago. While we simplify the focus of the company, we also continue to be highly liquid and able to move quickly as opportunities present themselves. Being cash rich and using unsecured debt as our primary liability tool did prove quite valuable as the market volatility picks up here. Consistent with our goal of finding businesses where we can be a market leader, we continue to increase our investment in Safety, Income and Growth and we'll continue to work together to open up the market for one-stop solutions that have been a hallmark of iStar's platform throughout its history.

Figuring out more efficient capital solutions for owners and acquirers of high-quality real estate by working hand-in-hand with them and bringing new tools that add value has been a winning formula for us in the past, and we see the current opportunity in the reinvented ground lease space is one of the better opportunities available in the market. Now let me turn it over to Andy to go over the quarterly results. Andy?

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

Thanks, Jay, and good morning, everyone. My remarks today will refer to the slides from the earnings presentation posted on our website earlier this morning.

Turning to Slide 4 to review some of the highlights from the third quarter. iStar reported a net loss of $19 million or $0.28 per share, and on an adjusted basis, we earned $4 million or $0.05 per share. We sold 0 legacy assets in the third quarter resulting in lower net gains than in the first and second quarters this year.

Year-to-date, we've earned $0.69 per share of GAAP net income and $2.23 of adjusted income per share. On the core business front, we remain cautious on the overall investing environment and are happy to have more than $1 billion of available liquidity to take advantage of any significant market dislocations or volatility.

During the quarter, we selectively invested $157 million of capital, primarily in lending opportunities with several of our long-standing customers. We're also finding compelling proprietary opportunities to partner with SAFE to create customized turnkey solutions for our customers.

During the third quarter, we sold legacy assets for proceeds of $53 million and $5 million of gains, and for the first 3 quarters of 2018, legacy asset sales generated $530 million in proceeds and $95 million of gain. The timing and magnitude of these sales will naturally vary from quarter-to-quarter, and we expect a much higher dollar volume of sales in the fourth quarter based upon properties currently under contract for sale or sold.

We also continue to strengthen our balance sheet, lowering our cost of capital and extending our debt maturity profile. Using proceeds from the June term loan refinancing and an October asset level refinancing, as of November 2, we will have redeemed this year approximately $400 million of the 5% notes due in July 2019, reducing the outstanding balance to $375 million. I'll discuss this in more detail shortly.

Separately, as you'll recall last quarter, we initiated a quarterly common dividend and the board has declared a fourth quarter common dividend of $0.09 per share. The dividend is payable November 30 to shareholders of record on November 15.

Turning to Slide 5, we can take a deeper dive into our investment activity. During the quarter, we originated $115 million of new investments, primarily comprised of new loan commitments. We funded a total of $214 million during the quarter and received $217 million from asset sales and repayments, resulting in an overall investment portfolio that remained approximately flat from the second quarter. As I previously mentioned, we continue to see great opportunities in the ground lease business and increased our ownership of Safety, Income and Growth through open market purchases to 40.5% of shares outstanding.

Moving to Slide 6, we provide some additional details on our legacy asset progress. Total legacy assets decreased slightly from the second quarter to $1.25 billion comprised of $729 million of land and development projects, $489 million of operating properties and $27 million of NPLs. This is down approximately $0.5 billion from $1.74 billion at the start of the year.

We continue to execute on our legacy asset monetization strategy by repositioning and selectively investing in assets to ready them for sale. The Naples Reserve master plan community is a good example of a legacy asset for which we made a strategic decision when we took control of the MPC to reimagine and invest in a repositioning of the asset, including adding infrastructure, amenities and developing finished lots, rather than pursue of bulk raw land sale.

We recently entered in new agreements with 2 national homebuilders to deliver a total of 413 lots in 2 take downs, one in the fourth quarter this year and one in the fourth quarter of next year.

Assuming the homebuilders close on these lots, the deals represent an additional $57 million of revenues. These contracts, together with the contracts entered into last year with another homebuilder having 92 lots remaining to be taken down through the first half of 2020, represent a substantial sellout of the MPC. These 45 lots reserved for custom builders remain available for sale. Assuming that the homebuilders close on their takedown agreements, we expect to realize over $30 million of profit from the project since we began our development efforts, exclusive of any future sales of the custom lots.

Turning to Slide 7. This slide shows our progress since 2013, over $2.6 billion in sales proceeds and more than $700 million in gains. Earlier this year, we stated that our goal is to have legacy assets comprised approximately 15% to the overall portfolio valued by the end of 2019. As of September 30, these assets represent approximately 24% of the portfolio. Furthermore, we're optimistic about the progress we expect to achieve by the end of the fourth quarter. We have over $150 million of assets sold or under contract for sale with nonrefundable deposits that we expect to close during the fourth quarter this year. Although the buyers have deposits that will be forfeited if they do not close under these agreements, there can be no assurance that the deals will be completed.

Flipping to the next slide, I'd like to recap some performance highlights in each of the businesses in the portfolio. Our total portfolio had a gross book value of $5.2 billion at the end of the third quarter. The performing loan portfolio stands at $1 billion and generated an 8.7% yield during the quarter.

In the net lease business, the consolidated portfolio currently stands at $2 billion and yields 8.8%. As we have previously announced, we closed on Net Lease Venture II at the beginning of the third quarter with our net lease joint venture partner, GIC. The fund includes a $526 million equity commitment and total investment capacity with leverage of approximately $1.5 billion.

Also included in our net lease business is our 40.5% ownership of Safety, Income and Growth as of September 30. SAFE had a strong third quarter, closing $106 million of new investments, which grew with aggregate portfolio to $770 million.

Annualized in place cash rent is now $31.2 million, over 30% higher than a year ago. We also began earning our management fee in the third quarter. We have previously agreed to waive the fee for the first year of operations after SAFE went public. The management fee equals 1% of total equity per annum or approximately $919,000 for this quarter. We believe SAFE offers a unique and innovative investment opportunity due to its strong growth story in an untapped market.

Our operating properties totaled $552 million of gross book value at the end of the quarter, which is comprised of $489 million of legacy properties and $63 million of strategic nonlegacy investments. The legacy commercial operating property assets yielded 8.3% in the third quarter, which was aided in part this quarter by strong seasonal performance at the Asbury hotel. The land and development portfolio was $729 million at the end of the third quarter. We transferred Asbury Lane for the operating property segment due to completion of its redevelopment.

Lastly, in October, we refinanced the existing $106 million, 5.05% fixed rate mortgage on our preferred [freezer] net lease assets with a new $228 million 10-year nonrecourse mortgage at 4.5%. In addition to reducing the coupon by approximately 50 basis points, we also extended its maturity from 2021 to 2028. The new mortgage was underwritten at a 60% LTV based on the lender's appraisal, valuing the investment $137 million or approximately $2 per share higher than our undepreciated gross book value of $243 million.

The net proceeds, together with cash on hand, will be used to redeem at par an additional $122 million of our 5% unsecured notes in 2019. This will bring the balance of those notes down to $375 million, which is the only corporate debt we have maturing between now and September 2020.

So to sum up the quarter, we remain cautious about the current market environment and very selective on new investments we are pursuing. We also like the opportunities within the ground lease sector. In the meantime, we are fortifying our balance sheet by extending our debt maturity profile, lowering our cost of capital and maintaining a significant amount of liquidity to pursue opportunities should the market correct. With that, I'll turn it back to Jay.

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

Thanks, Andy. So the mission is pretty clear. Keep simplifying, reduce assets that don't fit, expand investments in areas that can create growing value and help the market to see and value the deployment of capital into non-commodity areas where we have competitive advantage. All right, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Steve Delaney representing JMP Securities.

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

(technical difficulty)

mortgage refinance was an interesting transaction. Should we assume that was a net lease asset? And was the financing, was it longer-term fixed rate and was it recourse or nonrecourse?

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

Steve, you cut out the first part. Were you asking about the mortgage, the refinancing of the assets?

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

Yes. The -- was it -- on your books, was it a net lease asset that you own that you put financing on, and just curious whether the borrowing was recourse or nonrecourse.

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

Yes, it was a 10-year nonrecourse fixed-rate mortgage at 4.5%. The deal had been originally financed with a mortgage financing that had amortized down and the value of the assets that appreciated significantly. So we took an opportunity to -- of the current interest rate environment and current interest in -- from a life company to put out the money long term.

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

Now that's sounds very opportunistic. And obviously, the appreciated value helped you on your LTV and your terms, but that value, you didn't have a sale transaction. So no recognition of that higher value, correct, at this point?

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

Absolutely correct.

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

Okay. Given that you have a large net lease portfolio, is this -- does this represent a potential future source of cash or investment capital to the extent that you identified other assets that you could refinance in a similar way?

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

Yes, Steve. I think we've always viewed that triple net lease book as highly liquid, highly attractive, continues to have long terms, continues to grow in terms of individual assets. Typically, that bumps over periods of time. So it's a great store value for us that when the markets are attractive, we can tap for liquidity, either through refinancings or sales. But it's always been a core piece of the puzzle for us and continue to look for opportunities in that sector.

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

That's great. And shifting over to SAFE. You guys continue to steadily pick up shares. Obviously, they're trading at a discount to NAV. Do you envision getting to the point, and I guess, that would be 50% or higher, where it would trigger the consolidation of SAFE onto iStar's balance sheet?

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

No. I think our goal is not to have it consolidated at iStar, but we certainly value, I would tell you. It trades at a discount to book value, but we would tell you NAV is substantially higher in our minds than book value. So we think it's a very attractive place to deploy capital. I'd say we're more focused, though, on helping the entire enterprise at SAFE grow and continue to capture market share and be a innovator in that space. We really don't see any reason why that business can't continue to grow at accelerating rates. And as its largest shareholder manager, we would like to do everything we can to help it really break out into a much bigger company where that value gets recognized.

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

Okay. And my final thing, gentlemen, is the -- on Page 5, the weighted average yield on the portfolio, the loan portfolio, the finance business. You showed at, I believe, 8.7%. I may have the page wrong, but 8.7% for the third quarter. But we noticed that was down from 9.7% in the second quarter. I'm just curious if the second quarter was inflated by some repayment penalties or yield maintenance or something of that nature.

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

We're -- Steve, we're at a point where we have about $1 billion of investments in that line of business. And so we had a few of the repayments in the third quarter were higher-yielding investments. And we're at the point where when you get $100-plus million dollars of prepayments on $1 billion over 10% of the portfolio, it can change the yield more significantly than maybe you would otherwise (inaudible)

Steven Cole Delaney ***JMP Securities LLC, Research Division - MD, Director of Specialty Finance Research and Senior Research Analyst***

Got it. Yes, so just a little chunky and one big one -- big high yielder goes away. I get it.

Operator

Our next question today comes from the line of Stephen Laws with Raymond James.

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

Really kind of a 2-part question around originations. Jay, in, I guess, Slide 4, you guys kind of start off the core investments with a bullet about remaining cautious on the overall market environment and volatility. Can you give us a little color on that statement, what you're cautious about, where you're seeing the selective new opportunities? And then as a follow-up to that and maybe a little more detail, some examples or a little more detail on the opportunities you have partnering with SAFE and the type of proprietary deals that you could do with them together.

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

Sure. Well, I'm sure you guys have heard a lot of other calls. The finance markets, in particular, continue to see spread compression. Call protection has all but collapsed. What that typically does is it means you -- when you're right, you get paid back relatively quickly, so you really can't make the kind of returns that we would like to make in many cases. So we've really focused, at least on this point, on not trying to play in that sandbox where everybody's competing on terms and pricing. We've gone back to our repeat customers, sat down with them, gone through their portfolios, looked at situations where we may have a knowledge advantage, a speed advantage, something that differentiates our capital. And that's where we've been spending most of our time, just while we try to sort out where this market is actually going to go. But we see the dynamics and we would tell you that as a lending institution, they're not particularly favorable in our side of the table right now. But markets are pretty choppy, so we're happy to have a lot of cash sitting on the sidelines waiting to see exactly where this shakes out. We see the net lease business continue to be an interesting area for us. But again, we have to find places where we're not just in competition with other lower-priced capital. We'd like to try to make these long-term investments, knowing the day we close, we've done a good deal. So we're still fighting in that arena as well, which has left us with a lot of cash, but also an opportunity to work with SAFE to really create these proprietary opportunities. And it can come in a couple of different ways. It can come in the form of this one-stop capital solution where we provide both a ground lease and a leasehold loan, really make the execution smooth and seamless. And again, this custom tailoring, this customer-centric approach where we actually try to solve the customer's needs with all the tools in our quiver, those differentiate us. We're often in situations where we're the only one proposing the combined structure that we think unlocks the most value for that owner-operator. So it's been a good dialogue opener because it does set us apart from some of the more commodity approaches that others have provided to some of these owners. So I think you'll see us try to use that as a lever to get into situations that feel more proprietary and generate better returns with better structures for us and for our customers. And then, frankly, we're still looking at ways to expand the marketplace and again, having iStar's reach into the triple net lease world, into the debt world, into the equity ownership world, that gives us insights into markets where we think working with SAFE can really be attractive for both parties. So haven't done a ton of it yet, but more and more, we're seeing opportunities where that dialogue is much more interesting than just going in with, hey, would you like a loan or, hey, would you like to do a particular deal. We're coming at it with a unique capital solution. We're really taking the time to work with the customer to say, what's the optimal outcome and then coming up with something that really they haven't seen from anywhere else. It helps the brokers look smart, it helps the owners have choices and it helps us stay out of the fray that, again, we still think there's a lot of capital out there and some of the pricing in terms just don't look as attractive as we're used to. So that's the combination of factors that is pushing us in the direction we're going.

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

Great. Appreciate the color on that.

(technical difficulty)

Prior question on the real estate loan portfolio, yield as well. Is there any kind of large outliers in there from this most recent quarter? Is there some type of weighted average yield range that we should think about as far as how this generating -- this portfolio generating income as we move forward?

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

Yes. Steve, I can just tell you, the investments that we made during the third quarter are in line with what our overall loan portfolio yield is today, around 8.7%. Obviously, those new commitments haven't had a full quarter impact on that yield yet, but that's kind of where we are today.

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

Right. So the current level is pretty normal. And then should prepayments or anything occur, that would be a temporary upside, I guess?

Andrew C. Richardson ***iStar Inc. - CFO and President of Land & Development***

Yes. I mean, it's hard to predict the prepayments. And as I said, when you're dealing with a portfolio of this size, depending on the type of size of the prepayment, where the yield is, that could probably move the number a little bit more than you might normally see. But I just look at the investment volume that we did this quarter, and it's like right on line with where that yield is in the overall portfolio.

Operator

And our next question comes from Jade Rahmani with KBW.

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

I guess, starting with your view of the environment. Does it reflect lack of discipline you're seeing in the credit markets? Any deterioration in actual credit performance? For example, we're starting to see a lot more modifications, at maturity, default from the commercial mortgage REITs. Or is it actually indicative of iStar's cost of capital? I just saw today you had another debt fund announced. It's, this time, by LaSalle Investment Management, JLL's investment management group. So just wondering if you could comment on those 3 things.

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

Yes, I'd say a couple of things. When you have floating rate debt on an asset and floating rates move up as quickly as they appear to be moving up, it definitely has people trying to think about where values will actually be. It changes the refinancing profile of assets. So you have to be thoughtful not just of where things are today but where they might be down the road. And I definitely think we've been cautious on that for the last 6 months because the Fed and most of the indicators suggest floating rates are going up. So you see a little bit of spread compression just because if you have a nominal rate of return target with higher base rates, you can afford to drop spreads a little bit. But depending on your financing vehicle, we've always had a little bit higher target ROEs, we've always tried to create a little more alpha out of the box when we do a deal. So we haven't played around with leverage to get higher returns. We haven't thought about using some of the tools that we could use if we really felt the market was attractive, we think we could access some pretty interesting capital. So our cost of funds is it does prevent us from doing some of the things we'd like to do. We continue on the path of trying to get higher unsecured ratings. We think that will definitely open up the market. And we think as we continue to strengthen the balance sheet, that's a conversation that should and needs to be had. And so we've done a lot of things to make sure that it's apparent to the market and to the agencies that we have done a lot to strengthen this balance sheet. So that's been a path we've been on. We've not actually gotten the benefit of that just yet. But we think there's opportunity there to lower our cost of funds, give us a little more flexibility. So I would say the market definitely is going through a little bit of a transition period as rates rise. I wouldn't say there's credit problems endemic out there. But definitely, the underwriting has to be a little bit careful right now. And we were probably a little bit early on that because we saw some of these trends happening. So we've stuck with repeat customers and markets we know well. Probably cost us some volume, but we think it's the right call long term.

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

Your comments about access to interest in capital. Are you talking about third party capital, JVs outside fund investors that you might partner with?

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

No, more on the liability side.

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

Okay. Just looking at the year ahead, as we think about the migration of legacy assets, you've said about 15% by year-end 2019. So I think that would imply about $400 million of liquidations. Is that correct? And what kind of magnitude of gains or impairments might you expect?

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

We kind of look at that both globally, and there are some real winners in there, and there are some not-so-good assets that we have been working on a long time just to get them in a position where we can monetize them and move on. They tend to be the most time-consuming assets. So overall, we think -- we can't predict the timing and whether they'll match up exactly in a quarter or even in a year. But we think overall, that book, we can monetize out with still a profit on the book basis. But our goal is to get it down just to simplify this story. We've got a team working on it pretty diligently. We should be in a position to meet that 15% target by the end of next year. We got a number of assets under contract already for the fourth quarter. And then as we look into '19, we have a number of assets moving into a position where we should be able to take them to market. So all that's still tracking pretty comfortably if the markets don't change dramatically. And we think again, it's more about simplifying both externally the story but also internally, by giving us back those resources that have been tied up in those assets. And that process continues and continues to be one of the things we're really looking forward to is having more of our high skill set people be able to focus on these investment areas where we think we have a specialty practice.

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

In terms of the $150 million of sales slated for the fourth quarter, any sense of magnitude of gains you might expect? I think Naples Reserve is anticipated to be a pretty high earning project.

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

We should be well next quarter. Again, we can't predict quarter-to-quarter where the monetizations will all shake out. That's a tough game, given the length of some of these sales processes. But feels pretty good going into the fourth quarter.

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

And what are the other large meaningful land projects slated for sale over the next year?

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

We've got 5 or 6 still meaningful ones. I think in terms of dollars, just raw dollars, Asbury Park continues to be a very large investment. We'll continue to invest capital there to finish out a major project that will come to market next summer. And we should be able to repatriate a significant amount of capital out of that, so that will be a big milestone to look towards. And then we have a number of other projects where we're -- Andy's team is going through the analysis right now of when is the optimal moment to bring to market. Some of them we think do have a longer-term time horizon, some of them feel like they're going to be ready next year.

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

And how about on the operating side with the portfolio generating north of an 8% yield? Are you planning to retain those assets for now? Or are those also slated for sale?

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

That portfolio is definitely one we're continuing to work to monetize, so that -- unless the asset has some either strategic reason for being around, right now, most of that portfolio is slated for sale.

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

I'm turning to the real estate lending business. I think consistently, repayments have exceeded new origination. So should we basically be modeling that book as essentially running off until there are some kind of change in the investment outlook where returns there would be an attractive again? The weighted average yield is above what's available today in the market. The maturities are pretty short, 2 to 3 years, and there's been a huge pickup in repayment activities. So a lot of those loans, assuming the credit quality is decent, will likely refinance.

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

That's the challenge in that business right now, is call protections really been very difficult to achieve. So high-quality deal that are performing well are subject to other people trying to refinance here. So I think it's a fair point that high-yielding, high-quality deal are, once the call protection period has burned off, are susceptible to repayment. We do think as we go into '19, the market may create some opportunities. And so we'd like to see that lending books stay around $1 billion. But we're going to go where the market lets us make the best returns. So there's no hard and fast rule, but it feels like we're in enough dialogues and conversations on interesting things that there will be ups and downs in that book, but it will still be a meaningful piece of the story.

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

Turning to safety. If the outlook over the next year for new investments on iStar's balance sheet doesn't change, and safety continues to trade below book value and below your estimate of NAV, how do you assess the probability of iStar acquiring the entirety of Safety, operating it as a subsidiary and scaling it from within using iStar's excess liquidity since we continue to be extremely bullish on that business?

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

I'd start with the premise of we think the business will be a big business and iStar will want to invest in it anywhere close to the values we see today. So there's certainly an opportunity to infuse capital in the current construct in a meaningful way. We are the manager, we think the combination of the 2 companies working together is a powerful one. We do think the liability structure over at SAFE needs to be different than the liability structure at iStar, so that was one of the original thesis for why we separated them. I think it's pretty mature to think about some sort of future transactions, but I think it's a fair point to say we think this is a really attractive business. We think the value is underrecognized by the market. It's our job to get it recognized, and certainly anything iStar can do to help support and get that value recognized will accrue to iStar's benefit. So we're working on a number of fronts to really get this business up to scale, show people why it is a -- very advantageous for customers to consider it as part of their capital plans. And the more repeat customers we get, the more volume we get in our core markets. I think, that value is going to start to be recognized. So we're going to stay on the path. We already try to really help that business grow, both organically and with whatever support iStar can provide it. And then we'll see next year if we can really get the market to see where we're going with that business and understand the growth prospects. So I think we're going to be able to commit quite a bit of capital in the current construct, and that I hope to see the values next year recognize far closer to what we think fair value is than what we see today.

Operator

Our next question is from Mike Levine with Wells Fargo.

Mike Levine

I was curious about the opportunity to right size the expense structure and kind of where you see that going. I know you have a lot of moving parts these days, but I know you've talked about that in the past.

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

Yes. I mean, we focus it in 2 buckets. One is the fixed bucket and the other is the type of performance bucket. And so one of them will move up and down, depending on how we do. The other one is the one you can attack with sort of efficiencies and we've tried to do that. We've consolidated some offices, we put some focus into figuring how to rightsize the business for some of the business lines. It is a trickier process than we'd like, simply because we have these different asset classes we're still having to manage out. And those tend to be some of the most people-intensive, and therefore, cost-intensive. But long term, the goal is to make sure our revenue streams and our ability to commit capital covers our overhead easily and that requires growth. And so ultimately, at the end of the day, the answer to the equation is we need to make iStar grow. It's got unique and really special capabilities that right now, we have not been able to deploy because of the complexity of the book that we've brought with us over the last financial cycle. But as we simplify, as we get closer to the day where we can focus on the areas we know we will be market leaders in, I think you'll see us really start to make sure that the 2 things line up better than they have in the past because candidly, without the land book as big as it was, and the operating property book as big as it was, there wasn't much we could attacked. So as we streamline, as we get better at is, you'll see us focus our resources, be a little more streamlined in terms of where we commit our internal people. That should all lead to a good story, but it's been difficult to do it in big chunks so far.

Mike Levine

One other question. I know you -- obviously, iStar's been buying SAFE. How are you thinking about repurchasing iStar stock these days?

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

Yes, that's interesting. I mean, our primary path right now is to show a strengthened balance sheet to get these better unsecured debt ratings because we think that opens up more the market, enables us to grow and would certainly give us a cost of funds that we think would be better for the businesses we're pursuing. So that's been our primary focus, but when the stock is not trading at fair value, either at SAFE or iStar, we always consider repurchase as part of the opportunity. I think we'd like to go through the rating agencies cycle showing the progress we've made on legacy assets, showing the liquidity we've built up, showing the strength of the balance sheet and the portfolio as it's currently composed, and get an upgrade. That would be our first choice here. But anytime we can find interesting opportunities to invest money, including our own capital structure, we definitely put that on the table.

Operator

Mr. Fooks, we have no further questions.

Jason Fooks ***iStar Inc. - VP, IR & Marketing***

Good discussion. Thank you. If you should have any additional questions on today's earnings release, please feel free to contact me directly. Nick, would you give the conference call replay instructions again?

Operator

Certainly. As stated earlier, today's conference call was recorded and available for replay beginning at noon and lasting until November 15. To access the replay system, you may dial 1 (800) 475-6701 and enter an access code of 455269. Toll free again is 84756701 and international callers may use (320) 365-3844 with a common access code of 455269. That does conclude our conference for today. We thank you for your participation and for using AT&T teleconference. You may now disconnect.