

Transcript of
Safehold Inc.
Safehold's 1st Quarter 2025 Earnings Call
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Participants

Pearse Hoffmann - Senior Vice President, Head of Corporate Finance, Safehold, Inc.
Jay Sugarman - Chairman and CEO, Safehold, Inc.
Brett Asnas - Chief Financial Officer, Safehold, Inc.
Tim Doherty - Chief Investment Officer, Safehold, Inc.

Analysts

Ronald Kamdem - Morgan Stanley
Caitlin Burrows - Goldman Sachs
Haendel St. Juste - Mizuho
Mitch Germain - Citizens Capital Markets
Harsh Hemnani - Green Street
Stephen Kim - Truist
Richard Anderson - Wedbush Securities

Presentation

Operator

Good morning. And welcome to Safehold's First Quarter 2025 Earnings Conference Call. [Operator Instructions].

As a reminder, today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Pearse Hoffmann, Senior Vice President, Head of Corporate Finance. Please go ahead, sir.

Pearse Hoffmann - Senior Vice President, Head of Corporate Finance, Safehold, Inc.

Good morning, everyone. Thank you for joining us today for Safehold's earnings call. On the call, we have Jay Sugarman, Chairman and Chief Executive Officer; Brett Asnas, Chief Financial Officer; and Tim Doherty, Chief Investment Officer.

This morning, we plan to walk through a presentation that details our fourth quarter and fiscal year 2025 results. The presentation can be found on our website at safeholdinc.com by clicking on the Investors link. There will be a replay of this conference call beginning at 2 p.m. Eastern time today. The dial in for the replay is 877-481-4010 with a confirmation code of 52368. In order to accommodate all those who want to ask questions, we ask that participants limit themselves to two

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questions during Q&A. If you'd like to ask additional questions, you may reenter the queue.

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 it over to Chairman and CEO, Jay Sugarman. Jay?

Jay Sugarman - Chairman and CEO, Safehold, Inc.

Thanks Pearce and good morning to everyone joining us today. While many of the deals we hope to close in the first quarter were waylaid by market volatility, markets are beginning to adjust and we are finding ways to provide the capital our customers need to lock down their deals. Rates remain high relative to forward inflation expectations, but it's hard to predict when markets will fully stabilize or when the rates backdrop will be more favorable.

In the meantime, we're working closely with customers to find solutions to their needs and deploy capital that can represent attractive risk adjusted returns to Safehold. We have two goals in mind as we continue to build the business, reach a scale that starts to unlock the full value of the business for shareholders and continue expanding the universe of customers who can benefit from the long-term lower cost, capital and stability that a Safehold ground lease can provide. We need to be aggressive and tireless in these efforts and believe the payoff will be well worth the significant investment of time and resources we are committing.

All right, let me turn it over to Brett to review the quarter and full year in more detail.

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Thank you Jay and good morning everyone. Let's begin on slide 2:

2025 has been a challenging environment for new deals as the combination of interest rate volatility and market uncertainty has repriced capital and slowed decision making for our customers. This impacted Q1 investment activity as several transactions we expected to close during the quarter were delayed resulting in no new originations for the quarter.

That said, our team remains highly engaged with both new and existing customers. The pace of signed LOIs has picked up and our pipeline is further along today than at the same point last year. We have non-binding LOIs totaling approximately 386 million for potential commitments across 11 ground leases and 4 loans. While certain of these transactions have closed in Q2, there could be no assurances that the rest of

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these transactions will close. Credit metrics are strong at current base rates. We're expecting contractual returns in the low 7% range before factoring in CPI and Caret, which we believe is highly compelling.

Six of the 11 ground leases under LOI are in the affordable housing space, continuing our momentum in that sector, which we expect to be a meaningful growth contributor moving forward. We're working with 11 unique sponsors, nine of which are new to our program, which not only demonstrates the reach of our product but bodes well for our future business as roughly 40% of our portfolio is repeat business.

At quarter end, the total portfolio was \$6.8 billion, UCA was estimated at \$8.9 billion, GLTV was 52% and rent coverage was 3.5 times. We ended the quarter with approximately \$1.3 billion of liquidity, which is further supported by the potential available capacity in our joint venture.

Slide 3 provides a snapshot of our portfolio growth:

In the first quarter we funded a total of \$20 million which consisted of \$16 million of ground lease fundings on pre-existing commitments that have a 6.7% economic yield and \$4 million related to our share of the leasehold loan fund which earned interest at a rate of SOFR +386 basis points.

Our ground lease portfolio has 147 assets and has grown 20 times by both book value and estimated unrealized capital appreciation since our IPO. We have 85 multifamily ground leases in the portfolio and have increased our exposure from 8% by count at IPO to 58% today.

In total, the unrealized capital appreciation portfolio is comprised of approximately 36 million square feet of institutional quality commercial real estate consisting of approximately 20,000 multifamily units, 12.5 million square feet of office, over 5,000 hotel keys and 2 million square feet of life science and other property types.

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

For the first quarter, GAAP revenue was \$97.7 million, net income was \$29.4 million and earnings per share was \$0.41.

The decline in GAAP earnings year-over-year was primarily due to an increase in other expense driven by a non-recurring 1.9 million loss on a preferred equity investment and a Washington D.C. office leasehold interest. The leasehold was being marketed for sale with a portion of property taxes under appeal. We advanced funds to cover those taxes as we believed any unpaid amounts would have been an overhang on the sale process. The leasehold successfully changed hands recently and we have a new tenant in place with a strong track record and fresh equity committed to the building.

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Safehold will provide additional financing for building upgrades and leasing and in return will receive equity participation in the leasehold should it outperform. We believe this solution is a long-term positive for the asset. A portion of the taxes paid may be recovered in the future, but given our lack of visibility and confidence in the appeal process, we decided to write-off our preferred equity investment.

Excluding this one time non-recurring loss, Q1 earnings per share increased slightly year-over-year driven by higher net earnings on investment fundings and percentage rent offset by an increase in our non-cash general provision primarily driven by higher GLTVs and lower earnings from equity method investments primarily due to repayments in the leasehold loan fund.

On slide 5 we detail our portfolio's yields:

For GAAP earnings, the portfolio currently earns a 3.7% cash yield and a 5.4% annualized yield. Annualized yield includes non-cash adjustments within rent depreciation amortization which is primarily from accounting methodology on IPO assets but excludes all future contractual variable rent such as fair market value resets, percentage rent or CPI based escalators which are all significant economic drivers.

On an economic basis, the portfolio generates a 5.8% economic yield, which is an IRR based calculation that conforms with how we've underwritten these investments. This economic yield has additional upside including periodic CPI lookbacks, which we have in 83% of our ground leases. Using the Federal Reserve's current long-term breakeven inflation rate of 2.2%, the 5.8% economic yield increases to a 5.9% inflation adjusted yield.

That 5.9% inflation adjusted yield then increases to 7.4% after layering in an estimate for unrealized capital appreciation using Safehold's 84% ownership interest in Caret at its most recent 2 billion valuation. We believe unrealized capital appreciation in our assets to be a significant source of value for the company that remains largely unrecognized by the market today.

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

Our top 10 markets by gross book value are called out on the right representing approximately 66% of the portfolio. We include key metrics such as rent coverage and GLTV for each of these markets and we have additional detail at the bottom of the page by region and property type.

Portfolio GLTV, which is based on annual asset appraisals from CBRE, increased quarter-over-quarter from 49% to 52%. This increase was not surprising as Q1 is our largest office revaluation quarter with approximately two thirds of the office portfolio getting reappraised. We target low attachment points in our ground leases to avoid being impacted by these temporary fluctuations. Although property appraisals

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declined, rent coverage on the portfolio was unchanged quarter-over-quarter at 3.5 times.

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

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

At year-end, we had approximately \$4.7 billion of debt comprised of \$2.2 billion of unsecured notes, \$1.5 billion of non-recourse secured debt, \$0.7 billion drawn on our unsecured revolver and \$0.3 billion of our pro rata share of debt on ground leases which we own in joint ventures.

Our weighted average debt maturity is approximately 19 years and we have no corporate maturities due until 2027. At quarter-end we had approximately \$1.3 billion of cash and credit facility availability. We are rated A3 with stable outlook by Moody's, A- with stable Outlook by Fitch, and BBB+ with positive outlook by S&P.

We have benefited from an active hedging strategy and remain well hedged on our limited floating rate borrowings. Of the \$712 million revolver balance outstanding:

\$500 million is swapped to fixed SOFR at 3% through April 2028. We receive swap payments on a current cash basis each month and for the first quarter that produced cash interest savings of approximately \$1.7 million that flowed through the P&L.

We also have 250 million of long-term treasury locks at a weighted average rate of approximately 4.0% and current gain position of approximately \$30 million. Of this \$250 million, \$100 million notional was unwound in April and crystallized out of \$13 million cash gain and the remaining \$150 million notional is active and outstanding with mark-to-market gain of approximately \$17 million. These treasury locks are mark-to-market instruments currently recognized on the balance sheet, but not the P&L. They can be unwound for cash at any point through their designated term. However, only when they are applied to long-term debt would they then be recognized in our P&L over time.

We are levered 1.96x on a total debt to equity basis which was flat versus last quarter. The effective interest rate on permanent debt is 4.2% and the portfolio's cash interest rate on permanent debt is 3.8%.

So to conclude, despite a difficult market, the team is finding success sourcing new deals and expanding our customer base. We expect these efforts to translate into increasing investment activity in the near term and if markets remain choppy or there is a more significant downturn, we believe owning a diversified pool of ground leases is an attractive place to be.

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Growth has always been a driving force in our valuation, but at the current share price we think it's worth highlighting what investors own because the discount to what we believe is fair value has grown so large we have a balance sheet with no near term maturities, valuable in place hedges and significantly below market debt locked in for 19 years. At market discount rates, we believe there's approximately \$10 or more of per share value in this debt on our balance sheet alone.

On the asset side, we own a diverse pool of high-grade credit instruments, call protected and contractually compounding. We also typically own eight to nine free options on CPI in our leases, which will increase returns and protect value should inflation remain sticky, plus a free option on the future underlying real estate currently appraised at nearly 9 billion, which we believe over time will return many multiples of our invested basis.

Part of the challenge in operating in a less traditional sector in the public market is there are no direct comps and investors typically have less experience with ground leases than they do other asset classes. At the current share price, we believe the portfolio is a mispriced asset. While scaling the business remains our top priority we are actively evaluating opportunities to take advantage of what we believe is a public versus private valuation disconnect on the existing portfolio and we look forward to keeping the market updated on our progress.

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

Jay Sugarman - Chairman and CEO, Safehold, Inc.

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

Operator

Thank you [Operator Instructions] Our first question is coming from Ronald Kamdem with Morgan Stanley. Your line is live.

Q: Hey, just two quick questions. I think you talked about sort of the pipeline a little bit here on the non-mining LOIs. Just wondering if you could give a little bit more color just on the sponsors sort of the markets and just what your expectations on the ability to sort of close this and in what time frame.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Hey, it's Tim. As you can see, there's a very robust pipeline here with the 11 deals and we'd say that the majority are in multifamily. That includes existing deals that we're helping recap. Construction deals on market rate as well as affordable. As you heard from Brett, a lot of new clients here also repeats which we you see a lot of from our existing portfolio location wise also very diverse. We have West Coast, Southeast, Northeast, Midwest, all in this pipeline. So from our standpoint it's a great pipeline and it shows the diversity of deals we can close on.

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Q: Great. And then my quick follow up is just on the difference between the ground lease versus the leasehold loan value. Just maybe talk us through sort of the benefits of that to you guys as well as the borrowers and how much capacity do you have to do these sort of leasehold loan when you're doing the ground lease. Thanks.

Jay Sugarman - Chairman and CEO, Safehold, Inc.

Hey Ron, thanks for the question. So as you know, we've selectively used leasehold loans in the past. We have relatively little dollars outstanding right now. But we think it can be a useful tool when the markets are volatile and when we see an opportunity where certainty can win deals. It's certainly an arrow in our quiver. So we think it's a way to kick start some transactions that are either sitting on the sidelines because they just can't line everything up. That's a great place for us to step in. We're going to keep it to a small percentage of the balance sheet obviously, but we think it's a tool that our customers definitely benefit from knowing they've got a deal locked down as opposed to having to watch the market every day.

Q: Great. That's it for me. Thanks.

Operator

Thank you. Our next question is coming from Caitlin Burrows with Goldman Sachs. Your line is live.

Q: Hi there. Maybe just a quick follow up on the first part of Ron's question on the LOI deals. It sounds like some of those may have already closed. So I was wondering if you could quantify that and then give us an idea for expected timing and to the extent that you don't want to comment on these exact deals, I guess could you give some color around by the time a property generally enters the LOI stage, how long it could take to actually close?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Sure. I'll take the last one. First timeframe ranges on a construction deal versus a recap deal. Obviously, construction deals just take more time to put things together. And then on the recap deals, those are largely fairly quick. But our pipeline, what we expect, is the majority. All these deals will close this year. But because of the timing with the construction versus stabilized deals, it will vary over the time frame of the quarter. But again, we feel great about what the buildup of the pipeline is.

Q: Okay, got it. And sounds like then no comment on what has already been agreed upon or closed.

Jay Sugarman - Chairman and CEO, Safehold, Inc.

The earliest deals are starting to close, so we're hopeful that the momentum continues.

Q: Okay. And then just at the end there, you guys mentioned the public versus private market disconnect. So wondering if you could comment on that a little bit more. Are you suggesting that you would consider potentially selling a ground lease or more to prove value or something else?

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Sure. Caitlin, it's Brett. Yes, we mentioned on our last earnings call that for our 2025 goals, capital recycling was near the top of the list. We want to make sure that we are standing behind the stock and making sure that we are closing the gap and we certainly believe that we are trading at a discount and when we start thinking about the opportunity set of what we have within the existing portfolio, whether that mean selling assets, finding joint venture partners, etcetera, we're underway in processes to figure out how to, create the best execution so that we can continue to deploy capital as well as, stand behind the stock and we'll continue to update the market accordingly as those processes unfold.

Q: Got it. Thanks.

Operator

Thank you. Our next question is coming from Haendel St. Juste with Mizuho. Your line is live.

Q: Hi there. I wanted to confirm whether everything in the LOI that are in the non-binding LOIs were related to multifamily or affordable housing.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Yes, as I mentioned, majority of it is in multifamily and it's a good mix of market rate, construction, market rate recap as well as affordable. And we do have a hotel transaction as well, but majority is still multifamily.

Q: Got it. And as you evaluate your current capital stack, what is the appetite to potentially source maybe another joint venture with a large institutional partner. Maybe that would help with the capital deployment.

Jay Sugarman - Chairman and CEO, Safehold, Inc.

Yes, Haendel, I think as I said in my opening remarks, the goal here is to scale and right now the scarcity of deals makes it more likely we're going to try to keep stuff for ourselves. But certainly as deal flow ramps up and if our cost of capital isn't where

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we'd like it to be, that's an alternative we always consider as potentially one we can use. As Brett said, we have a couple processes underway just to think about other sources of capital that could be more accretive to the company but nothing to report right now.

Q: And just one more here and maybe it's a bit more big picture in nature, but I understand the volatility with interest rates in the past and now the volatility with tariffs and the trade war, this has really impacted the acquisition set and the capital deployment opportunity. I think it's fair to say that the volatility will persist here for a little bit, I guess. What are some of the deals you're looking to structure and how are those maybe different than maybe what we were approaching in the past?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

This is Tim again. I would say that there has been some volatility. Of course, I think the range of the volatility has tightened. If you look back over the last 24 months, we pay attention a lot to the 30-year treasury, the highs and the lows from 6 months to 24 months back. Now 6 months back only that's allowed sponsors to start to have a clearer view of what their long-term capital costs are. So I guess why you're also seeing the pipeline build up here, sponsors are now able to make decisions on transactions. Sure. The latest noise is tariffs which does impact transactions.

We use the construction for an example. So deals that started to pencil, some of those probably had to go pencils down. But look in the high quality markets with good growth and lower supply than others, which there's good examples of around the country, even with tariffs, those transactions can start to occur which you're seeing come through in our pipeline.

Jay Sugarman - Chairman and CEO, Safehold, Inc.

One thing we've seen that I think is a little bit new is Customers actually asking to lock rate early and or have some sort of floor and cap and not just have a floating spread all the way up till they close. So that's been one response we've seen from customers is they're looking for certainty. They need to put the stacks together and at least with our piece we can give them a little bit more certainty. That has been helpful.

Q: Thank you.

Operator

Thank you. Our next question is coming from Mitch Germain with Citizens Capital Markets. Your line is live.

Q: Thank you. I wanted to circle back about some of the discussion around joint venture partners and obviously you can lock in some new capital for deals, but I think when Brett had suggested joint ventures as a way to unlock value of the

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portfolio, I'm assuming you would be contributing assets to a venture, existing properties to a venture. Is that the way to think about creating some price discovery around the portfolio itself?

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Yes, Mitch, exactly. I think from our perspective, both from a, where do ground leases trade? They come for sale very unoften. It's really episodic and what we're going out and doing is creating them. So having a scarce product and one that is very low beta, especially in a choppy market, should be an attractive proposition for folks. To Jay and Tim's point, we certainly want to scale and grow, but in thinking about activity moving forward throughout the course of the year in terms of our own capital structure and what we can do to continue to tighten costs, looking for the right partners, whether that be direct sales or JVs are on the table.

In terms of go forward capital, if you remember, we still have a joint venture with our sovereign wealth partner. So we have capital tools or other tools in the toolkit here to ensure that if the cost of capital for us is not where we'd like it to be, that we can, participate at the right levels. But we certainly want to be doing as many deals as we can in this rate environment but we certainly have to look at our cost of capital as well. So that's a, it's a little bit of a moving target quarter to quarter. But we feel really good about our liquidity as well as I mentioned in my remarks, the hedges that we currently have in place that are well in the money.

Q: Got you. It's been a while since I think you guys a couple quarters ago cleaned up your carrots or at least the original tranche that you sold. Has been any consideration to use that instrument as a price discovery tool as well, or given the decline in the unrealized appreciation pool. Is that kind of off the table right now?

Jay Sugarman - Chairman and CEO, Safehold, Inc.

I wouldn't say it's off the table, but it's a much better story when that UCA number is growing quickly. And I think you see as the pipeline starts to come through, I think we can be just a better story for investors. We still have a lot of thoughts about how to use that to create capital, but I think giving ourselves the time through the end of the year to really pick a spot when the story is strongest is probably the wisest thing to do.

Q: Great, thank you.

Operator

Thank you. Our next question is coming from Harsh Hemani with Green Street. Your line is live.

Q: Thank you. It sounds like a couple deals might have closed post quarter end. Could you give us some color on whether these or the split in the closed deals

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between the four under LOI with a leasehold loan versus the seven without a leasehold loan? I'm trying to understand if the certainty that comes with that leasehold loan makes it easier to close versus maybe just the ground lease.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Sure. As you see, four of the 11 have the leasehold loan. So a minority of those transactions. Obviously when we have the loan as well as the ground lease, there's more certainty because we're more control of the capital stack. So those deals do have a higher level of certainty. However, our experience on LOIs is the vast majority of these will close. It's just timing to get those done, whether it be the capital of the LP/GP or the leasehold lender taking time. So we do feel comfortable with the certainty of this pipeline closing over the year. But as we said, the leasehold loans do provide a little bit more certainty than the other transactions.

Jay Sugarman - Chairman and CEO, Safehold, Inc.

When we prop a ground lease, that customer still has to go out and get typically a leasehold loan and their LP capital lined up and all three kind of move around. You've got multiple parties at the table. Wherever we see a chance to narrow that window is an opportunity to think through with the customer what's the best way to move forward. So again selectively using it. But it is a tool that gives them the ability to move forward. That's a good tool to have.

Q: Got it. That's helpful. And then maybe taking a step back on the pipeline, right. What's under LOI? Over 250 million on ground leases. It's already more than what originations were in 2024. So is this are you maybe two part question. The first is how has the pipeline evolved? Maybe after all the volatility in April and then given what you're seeing on the ground today. Do you think this is sort of a sign of a recovery in the ground lease market or do you feel like you need more time to be confident in that?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Yes, as I mentioned prior, the volatility in rates is less so than it was over the previous couple years, which has again helped people make decisions longer term, whether that be mostly on the construction and acquisition side, obviously what the decisions are and recaps as well. So, and yes, as you mentioned, our pipeline now, the total on the ground leases is more than we originated last year. Again, certainty becoming a little bit more clear. Obviously, there's still some volatility out there, but it is a good sign that things have reached a point where sponsors can make these decisions and therefore our pipeline and transaction flow will increase.

Q: Thank you.

Operator

Thank you. Our next question is coming from Stephen Kim with Truist. Your line is live.

Q: Thank you. Good morning. Just going back to the topic of potential new JV partners, I know the current one is more geared for larger scale deals. What is the level of interest you're seeing for potential new partners and would this be more for new deals going forward or past deals?

Jay Sugarman - Chairman and CEO, Safehold, Inc.

As Brett said, the process on the trying to use the existing portfolio is one we've been thinking about. I think on the new transactions, if it's of scale and size, certainly our existing partner is our go to and we have shown them some very, very large transactions to really see where their return parameters are these days. I will say, it's hard to talk to people when they can deploy billions of dollars into data centers and other areas about our, very safe, very long term, very attractive returns, but at obviously lower, lower nominal return levels.

So we're saving our firepower with them for the largest deals. That seems to be where they want to engage. So that right now that's our focus with them. But Brett's working on the other half of the equation which is can we use our existing portfolio to create other partnerships that might be advantageous to us.

Q: And are there any type of restrictions on because if you did sell some assets your Caret size would decrease or do you have any kind of restrictions that would prohibit you from selling down assets?

Brett Asnas - Chief Financial Officer, Safehold, Inc.

No, there's no restrictions. I think again, when think about a structure of a venture, we want to be thoughtful as well as any prospective partner in terms of desires and needs from both sides. So for us, we certainly believe that these assets are quite valuable. Both the contractual compounding cash flow streams, but the inflation strips that we have in each of these as well as to your point, the UCA, the value that sits above our ground lease. So we want to be thoughtful about the opportunity set there, both in what the give and take is near term, as well as what the ending outcomes could be longer term. And, there's always trade-offs and we want to make sure that we're creating value for our stakeholders that can come in different forms. And as I mentioned, those thought processes as well as endeavors are along the way right now and we'll update the market as we have more detail.

Q: Okay, thank you.

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Operator

Thank you. Our next question is coming from Rich Anderson with Wedbush Securities. Your line is live. Sorry, Rich, you may be on mute, sir.

Q: Thank you. One day I'll get this figured out. So dovetailing off of a previous observation or question, the 273 in an LOI is, to me, it's a good number and we talked about how that compares versus last year. I'm wondering why you're not sounding more sort of optimistic about the progression of 2025 in light of the fact that not certainty of close, but good chance a lot of that will close. Why not a little bit more effervescence in your tone given that pace that we're seeing right here and right now?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Yes, well, I apologize. We are excited about the pipeline. It's been a great beginning of the year here going to Q2. So, I guess I need to just change the tone of the answer, but no, look, the 273 is a great number. The diversity of the -- I mentioned, I guess I should have sounded a little more excited about the diversity of the sponsorship and the location, the asset classes. So I guess I just need to add a little more emphasis on the end of my senses there.

Jay Sugarman - Chairman and CEO, Safehold, Inc.

I think what you're hearing, Rich, is these guys are in the trenches every day and we've been left at the altar a couple of times on deals we thought were right at the finish line and that sort of breaks your heart for a little bit and you've to get back on the horse and go out there again and do it but we're pleased that the persistence is starting to pay off. But this is not a great market in terms of customers having clarity. We're seeing that across the board. You've seen what's happened in CMBS spreads blow out, then they come back in, then they blow out again.

So everybody's trying to grapple with the variables and figure out what should I do and when should I do it. That's a harder market for our guys to really get people to sign on the dotted line, close their deals. And again, we're only one part of their capital stack. So I think you're hearing just a little bit of the frustration that our customers want to do business with us. We want to do business with them.

But unless we can control the entire stack, which we sometimes can but rarely can, it's really hard to get deals done in a market where things change overnight. So hopefully we're moving into a more stable period where it's just our solution versus other solutions which is a place we like to compete. What we can't compete with is external factors and geopolitical and political factors that move around so much that freezes the market. We are still not seeing new acquisition activity pick up to the pace we would hope. You are seeing refi start to kick in, even some new development, but I don't think we're anywhere near sort of a stabilized market.

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Q: Yes, I can appreciate the heartbreaking component to the behind the scenes. But Jay, maybe you can comment, when you guys were doing deals in the billions per year, what was the negotiating sort of difference then like in terms of binding versus non-binding LOIs? I mean, how has the market shifted in favor of potential customers today versus when you were kind of a little bit more in the driver's seat to get deals done?

Jay Sugarman - Chairman and CEO, Safehold, Inc.

Yes, I'll let Tim answer because he's on the ground every day. Here's my 30,000 foot view is when customers think the Fed's about to raise rates, they want to lock in long-term capital. And when markets think that the Fed's going to lower rates, they're more hesitant to lock in long-term capital. We are going to develop rhythm with our customers to help them navigate these kind of markets. A lot of it is just how and when do they want to lock in what we think is a very beneficial long-term capital source.

And when we were doing billions it was a sort of double barrel. It was a better solution and they were worried the world was going to get much worse and so I think stability helps us across the board. I don't know what the Fed's going to do today, but the presumption is tariffs are going to have an impact and customers are starting to go, hey, maybe I should just lock in right now.

So I think there's a lot of variables outside our control, our goal is just to line up against their alternatives and say ours is better. You should really consider it and the more shots we get at that conversation, the better we're going to do.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Agree with you. So I would just say that, look, I think the consistency of our capital is also ringing true to the clients. Every time they've called us over the past eight years, we've been in a similar position in terms of what spread we are to the cost of the indexes. So that certainty has helped a lot, as you can see with the repeat sponsors and even now with the growing list of new sponsors as well. So I think that's an important add on.

Q: Okay, great. And last for me to Brett. What's the conversation like with S&P in terms of potentially getting them over the hump with the other two? I'm just curious if that's something that's on the radar screen. I'm sure it is at some point down the road. Thanks.

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Yes Rich, I certainly think that the momentum we had over the last 12 months to 18 months with the other agencies has helped people realize that this is a solid single A company. I think S&P, as you know, the engagement with them came further along. We got the rating public late last year. So we're in that positive outlook review

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period. We have an annual review coming up, but over the course of 2025, we're going to continue to have dialogue with them. Typically these processes take 18 months to 24 months, some a little less, some a little longer. But for us, we keep foot to the pedal on this is a very safe asset class. We're capitalizing in a very prudent way. and if we continue to find ways to deploy and originate for new deals, as well as make the spreads and margins that we desire, and that's through thoughtful rate moves and hedging as well, that steady as she goes. So we're having dialogue with them, and our hope is to get that third single A.

Q: Okay, great. Thanks very much.

Operator

Thank you. Mr. Hoffman, we currently have no further questions.

Pearse Hoffmann - Senior Vice President, Head of Corporate Finance, Safehold, Inc.

Thank you. If you do have additional questions, please feel free to contact me directly. Operator, would you please give the conference call replay instructions once again?

Operator

Yes, sir. Ladies and gentlemen, the dial in for the replay is (877) 481-4010 with the confirmation code of 5-2-3-6-8. This concludes today's call. You may disconnect at this time, and we thank you for your participation.