

Transcript of
Safehold, Inc.
Safehold's 4th Quarter 2024 Earnings Call
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Participants

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Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Analysts

Ronald Kamdem - Morgan Stanley

Anthony Paolone - JPMorgan

Ravi Vaidya - Mizuho

Caitlin Burrows - Goldman Sachs

Kenneth Lee - RBC Capital Markets

Mitch Germain - Citizens JMP

Rich Anderson - Wedbush

Ki Bin Kim - Truist Securities

Harsh Hemnani - Green Street

Presentation

Operator

Good morning. And welcome to Safehold's Fourth Quarter and Fiscal Year 2024 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 of Capital Markets and Investor Relations. Please go ahead, sir.

Pearse Hoffmann - Senior Vice President, Capital Markets and Investor Relations, 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 2024 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

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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 51963. In order to accommodate all those who want to ask questions, we ask that participants limit themselves to two 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 Chief Executive Officer, Safehold, Inc.

Thanks, Pearse, and good morning to everyone joining us today. The fourth quarter was in many ways a continuation of themes we have seen over the past 12 months. The prospect of lower rates early in the quarter helping to activate business and higher rates as the quarter went on reversing the equation. A relatively sharp increase in rates ended up posing headwinds for customers, upended many deals and put upward pressure on discount rates and cap rates used for valuing our existing portfolio.

While we can't control interest rates, we still believe that there are reasons to expect rates will come down over time, and that the current headwinds we're facing will become strong tailwinds with more deals, higher values for our cash flows and higher estimates of UCA. In the meantime, we'll work to counteract the impact of higher rates with two specific initiatives in 2025 to demonstrate value in the portfolio and build on the successes of 2024.

The first initiative is continuing our momentum and penetration in the multifamily market, particularly the affordable sector. We like this market for its stable cash flows, high occupancy rates, compelling supply-demand dynamics and the clear societal benefits that ground lease provides. In 2025, we plan to double down on our efforts with a goal of doubling last year's affordable volume and expanding to at least two new states. Deal sizes are still on the smaller side, so expanding our footprint and customer relationships will be important to increasing volume.

Second, we'll look to take advantage of what we view as significant undervaluation of our shares. To this end, our Board has approved a new share buyback authorization up to \$50 million. Any repurchases will be subject to market conditions and other factors that we deem appropriate, and our goal for this program is to be leverage neutral. We'll be looking for opportunities to recycle capital from the existing portfolio through asset sales or JVs where advantageous. We'll also focus on bridging the gap with Caret as we believe it is a significant source of long-term value

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for shareholders not currently recognized in the share price. As part of those efforts, our goal is to have Caret become more accessible to third-party investors. In sum, 2025 will be about building on areas of progress from 2024 and continuing to look for ways to highlight the significant value of the portfolio and platform.

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

Brett Asnas - Chief Financial Officer, Safehold, Inc.

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

2024 was an important setup year for the business. While persistent rate volatility negatively impacted originations in our share price, we took significant steps forward building a more sustainable pipeline and balance sheet that has us well-positioned for 2025 and beyond.

Starting with the balance sheet, 2024 was a very strong year for us in the debt capital markets. We increased corporate liquidity through the bank and bond market, closing a new five-year \$2 billion revolver in addition to two 10-year unsecured notes offerings, totaling \$700 million. We lowered cost of debt in three ways. First, our bond spreads have tightened as they outperformed investment-grade benchmarks, compressing by 62.5 basis points from our February bond offering to our November bond offering.

Second, we recognized \$43 million of cash hedge gains and proceeds that reduced the effective yield to maturity on the \$700 million of unsecured notes by approximately 65 basis points. Third, we put in place a commercial paper program that has been saving approximately 60 basis points versus our revolver.

We continued our ratings momentum in the fourth quarter by having S&P rate Safehold, initiating a BBB+ and positive outlook. We also received an upgrade in December from Fitch, moving from BBB+ to A-. Fitch is now level with Moody's, who rates us at A3. Our credit profile is one of the highest rated in all of real estate and specialty finance and a meaningful competitive advantage for us with our customers.

In 2024, new origination activity was \$225 million, including 10 new ground leases for \$193 million and one leasehold loan for \$32 million. All 10 new ground leases are in the broader multifamily category, including six in the affordable housing space, three student housing, one conventional multifamily asset. These investments are diversified across seven markets and six sponsors, with a weighted average GLTV of 34%, rent coverage of 2.8 times and an economic yield of 7.4%.

Affordable housing has been a bright spot that we expect to be a meaningful component of future growth. We've made strong inroads with top sponsors that understand the value of efficient ground lease capital. They're using our capital

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solution to deliver more affordable units to municipalities, which is a win-win for everyone involved. We will continue to seek out new channels where our product is a clear differentiator for our customers.

At quarter end, the total portfolio was \$6.8 billion, UCA was estimated at \$9.1 billion, CLTV was 49% 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 fourth quarter, we originated one multifamily ground lease for \$22 million. We funded a total of \$46 million, including \$5 million of the new Q4 origination at a 7.4% economic yield, \$41 million of ground lease fundings on pre-existing commitments that have a 6.9% economic yield and \$400,000 related to our 53% share of the leasehold loan fund, which earned interest at a rate of SOFR+271.

For the full year, we funded a total of \$319 million, including \$148 million of new 2024 originations that have a 7.3% economic yield, \$165 million of ground lease fundings on pre-existing commitments that have a 6.5% economic yield and \$6 million related to our 53% share of the leasehold loan fund, which earned interest at a rate of SOFR+579. Our ground lease portfolio has 147 assets and has grown 20 times since our IPO, while the estimated unrealized capital appreciation sitting above our ground leases has grown 21 times. 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 and annual earnings results:

For the fourth quarter, GAAP revenue was \$91.9 million, net income was \$26.0 million and earnings per share was \$0.36. The decline in GAAP earnings year-over-year was primarily driven by a one-time \$15.2 million derivative hedge gain recognized in Q4 2023. Excluding this one-time derivative hedge gain, Q4 earnings per share increased approximately 1% year-over-year, driven by a \$3.9 million net increase in asset-related revenue from investment fundings and rent growth, less additional interest expense on funding these ground leases, offset by a \$1 million increase in our non-cash general provision and a \$2.3 million decrease in earnings from equity method investments, primarily due to repayments in the unconsolidated leasehold loan fund.

For the full year, GAAP revenue was \$365.7 million, net income was \$105.8 million and earnings per share was \$1.48. The increase in GAAP earnings year-over-year was primarily driven by the \$145.4 million non-cash impairment of goodwill and \$22.1

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million of merger and Caret-related costs taken in 2023, a \$13.8 million net increase in asset-related revenue, less additional interest expense, and \$5.8 million in G&A savings, net of the Star Holdings management fee, offset by a \$6.8 million increase in non-cash general provision and the aforementioned \$15.2 million derivative hedge gain recognized in 2023. Adjusting for non-recurring and other reconciling items, full year EPS increased approximately 8% year-over-year, from \$1.45 to \$1.57.

On Slide 5, we detail our portfolio's yields:

For GAAP earnings, the portfolio currently earns a 3.7% cash yield and a 5.3% annualized yield. Annualized yield includes non-cash adjustments within rent, depreciation and 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 break-even inflation rate of 2.35%, the 5.8% economic yield increases to a 6.0% inflation-adjusted yield. That 6.0% inflation-adjusted yield then increases to 7.5% 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 slightly in the fourth quarter, a modest appraisal decline. 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 \$4.6 billion of debt, comprised of \$2.2 billion of unsecured notes, \$1.5 billion of non-recourse secured debt, \$689 million drawn on

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our unsecured revolver, and \$272 million of our pro rata share of debt on ground leases which we own in joint ventures.

Our weighted average debt maturity is approximately 19.2 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 stable outlook by Moody's, A- stable outlook by Fitch, and BBB+ positive outlook by S&P.

We remain well hedged on our limited floating rate borrowings. Of the \$689 million revolver balance outstanding, \$500 million is swapped to fix SOFR at 3% through April 2028. We receive swap payments on a current cash basis each month, and for the fourth quarter, that produced cash interest savings of approximately \$2.2 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%. At current treasury rates, these are in a gain position of approximately \$27 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 and apply to long-term debt, at which point they would be recognized in our P&L over time. Our hedging strategy has been effective in mitigating a higher rate environment, resulting in \$43 million in realized cash gains and proceeds, in addition to the unrealized current \$27 million mark-to-market gain.

We are levered 1.96 times on a total debt-to-equity basis, which was down slightly from 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, 2024 was a productive year on many fronts. 2025 has shown we're not yet out of the woods on interest rates, but we've made significant strides setting up the business and balance sheet for the long-term. We're reaching new markets and customers that we expect to translate into future growth and activity, and over the course of this year, we'll be working on the initiatives Jay laid out to create shareholder value.

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

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

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

Operator

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

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Q: Hey. Just a couple quick ones for me. If you could talk a little bit more just about the pipeline. I think you mentioned sort of the focus on the affordable housing product and that was going well. Maybe expand on that. And then just curious if any other verticals are starting to sort of perk up outside of the residential side? Thanks.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Hey, Ronald. It's Tim Doherty. Yes. So I think, as Jay mentioned, we are seeing some good activity on the affordable side we saw in 2024. I think Q4 with the election and some rate volatility, you saw some things get pushed into 2025, but the activity coming into 2025 in the last month and a half here has been quite good.

I think you're hearing that across the board in different real estate companies. We're seeing the same. The front of the funnel is quite good. Obviously, multifamily is ruling the roost where capital is flowing very, very well. Spreads are tightened. A lot of entrants into that market that were on the sidelines are now back in.

Pushing spreads down gives people more confidence and stability. So it's not just the affordable side. You're seeing the market rate side and markets that are more supply constrained, some that aren't. Everyone always says it's Sunbelt, but New York City, Boston, some submarkets in Northern and Southern California, you're seeing good momentum there on the conventional side and even development and those tight supply constrained markets you're seeing as well. So it's not just the affordable side, the market rate side as well. We're seeing good activity.

And then on the other asset classes, we see, and look, we have a pretty good portfolio here. We can track actually real time what's happening in these markets, not just from market info, we can see it from actual assets. Office is seeing good fundamentals in some spots here in New York. You're seeing quite positive leasing activity.

Non-existing lender assisted sales are occurring in these core markets, which is great to see. So you're seeing some basis reset happening. So that's a market we're paying attention to. And hospitality, similar with the stability of cost of capital. Flows of capital can all go into multifamily. So you're seeing stable valuations there. So there's another area that we're paying close attention to.

Q: Great. That's super helpful. And then if I could just ask about sort of the buyback announcement, obviously plan to be leverage neutral. Just curious about sort of the pace, where sort of the funding sources will come from and so forth to execute on that in a leverage neutral way? Thanks.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Hey Ron, it's Jay. So, look, we think the stock is materially undervalued. You've heard us say that before. It's not just on a straight economics basis. But if you start thinking

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about the embedded inflation kickers, obviously, what we believe Caret is worth, it can get quite compelling down at these levels.

So we've been looking through the portfolio and looking at some of the possibilities of ways to access capital to take advantage of that. Certainly particular asset sales, possible JVs. And we do think that this is the year we're going to find a way to unlock Caret for more investors.

So there's certainly a multiple choice equation for us to find the right capital to create the most accretive way to use that authorization. It's going to take us a little bit of time to put all that together. But again, when we start the year with a significant undervaluation in our shares, we have to compare that against anything else we can do and right now it looks really compelling.

Q: Great. Super helpful. Thank you.

Operator

Thank you. Our next question is coming from Anthony Paolone with JPMorgan. Your line is live.

Q: Yes. Thanks. Good morning. My first question relates to the affordable housing transactions you've been doing. I think we're all pretty familiar with the value proposition when you do deals on conventional assets. But can you maybe talk about just any differences in how this might work or what the sketch of a deal looks like for a sponsor when you do these LIHTC transactions?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Yes, sure. The basics of all this is it's the same as conventional, right? Our cost of capital is the cheapest around. So it provides low cost of capital into these cap stacks. Affordable has a lot of differences to conventional. The sources of these transactions have anywhere from six to ten different sources coming from federal, state, local loans, et cetera, in these transactions. So obviously we did a lot of work to make sure we understood all the different players here, make sure our structure works appropriately. But the biggest one is this is a gap filler, right? So there's different costs of capital to all those different providers. So our cost of capital is significantly cheaper than a lot of those other alternatives to those gap fillers. So that's one of the main keys.

And then, look, these developers that are in this space, they're trying to get bond allocations. So if they can find any advantage to help their capital stacks to do so, they love to do it. So I think that's where we're seeing a lot of traction in the buildup of new sponsors. The first thing is you've got to execute and we've shown that to the market and that's helping us expand both on sponsor and now you're seeing on location.

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Q: Okay. And then just my follow-up here, can you maybe just give us a sense as to where you see overhead for 2025, both on a gross and net basis?

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Yes. Hi, Anthony. It's Brett. So from a G&A perspective, we set out when we internalized the company that we thought it would take about \$50 million a year to run this company. As you've seen last year, we were able to get that number down to the mid \$40 million range on a net basis that's net of the management fee.

When you look at 2024, we were able to come in at around \$37 million, \$38 million. So we were able to nicely beat our targets and continue to refine our overhead structure. Part of the calculus from this point going forward and you rightly point out is gross and net, the management fee. And as the management fee comes down year-to-year, that'll be about a \$5 million or so difference from 2024 to 2025.

So if you take this past year's number plus \$5 million, you're in the low \$40 million range. That's our target for this year on a net basis. And that includes obviously the direct impact of the management fee, which for this year should be in the \$10 million to low-teens type range. So that's the gross and net figure for you.

Q: Okay. Great. Thank you.

Operator

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

Q: Hi there. This is Ravi Vaidya on the line for Haendel. I hope you guys are doing well. I guess if we think about your various capital deployment opportunities, how do you view buybacks versus new originations? And I guess, what's the appetite for maybe more than the \$50 million for buybacks if the stock here continues to lag, you know, sub \$20?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Hey, Ravi. So, our overarching theme is we need to scale this business. We think this is a very large opportunity and a lot of the unlock happens when you get the full scale. So that's still our main goal, but there are moments in time like today where we think the share price undervalues the fair value by a sufficient margin that it's worth considering. So we're going to start with this 50 million. We've got to create capital on a leverage neutral basis to use it. So this will be the first sort of tiering.

What our real hope is, is as the market opens up, the opportunity set opens up, the opportunity to scale. So I would say we're trying to do both. We're trying to take advantage of a below market share price, but we're also still eyes on the prize, which is this business we still believe has \$25 billion, \$50 billion type sizing opportunity for a

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leader in the marketplace, which we want to be. So the goal is not to shrink, it's really to grow. But when you're offered a fairly compelling way to capture value for shareholders, we'd like to look at ways to take advantage of that.

Q: Thank you. That's helpful. Just one more here. You mentioned earlier in your prepared remarks regarding opening up another Caret to more investors. Can you please offer more color on that in terms of maybe pricing or dollar value or timing and maybe what potentially uses of that capital could be? Thanks.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Sure. Look, over the past six months, we've talked to a number of interested investors who've gotten their feedback. The two main themes are, the long-term liquidity and the growth prospects. Certainly you have strong viewpoint on the future growth prospects.

The long-term liquidity is something we've been talking about internally and now we've begun working with our Caret Advisory Board. When we look at other attractive but illiquid asset classes, how can we enhance the future liquidity? How can we expand this investor base?

We still think this is a natural fit for lots of family offices and lots of different types of investors, but it will be an impediment if they can't see a path to liquidity over the long-term. So, we're working on some ideas on that front. Again, early stages on that, but I think we have some traction internally in terms of ideas. So, that's definitely a goal for 2025 and I would be really disappointed if this year we didn't make some progress on that front.

Q: Okay.

Operator

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

Q: Hi. Good morning, everyone. Maybe a follow-up to one of the questions from before on the affordable side. Can you just go through the differences between traditional multifamily and affordable, perhaps for now, like why affordable is more active today and then long-term? Is there any difference to Safehold on traditional versus affordable, like the yield, lease coverage or anything else, attractiveness?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Yes. Sure, Caitlin. Look, I think the key is we all know, and read the headlines, that obviously there's a significant housing shortage in the U.S. and a lot of that's in the affordable side. So, the stability of that platform nationally is quite impressive.

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So, the number of units that are delivered in 2024 was in the 70,000 range nationwide. That's consistent with what it was from the last three years before that. It was slightly lower than that, around 60. So, you see even despite the volatility in rates and how the market rate side has performed, both on deliveries and just the performance of them, you're seeing the stability in both the delivery.

And then, as Jay mentioned in his opening remarks, the stability of the assets, right? High demand for these units. They're very high occupancy and then stable growth with how their size in terms of the rent being paid based on local AMI. So, it's all fixed. So, that's been the pleasant thing to see is a nice baseline of deals, even when there's market volatility. So, I think that was the part that attracted to us. Obviously, we had to learn all the different players in that market, make sure that we fit in nicely there. I'm sorry, Caitlin, the second question. I'm not sure I answered it fully. It was the second part.

Q: Just -- like, when you think long-term of how an affordable ground lease is, the characteristics of it versus a traditional one, are there any differences in like ground lease to value or anything like that that you target or would they be similar?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Sure. Similar, I think, is the quick answer. The stability, though, I think you'll see some tighter coverages there because it's so stable. It's effectively a net lease because of the stability of a lot of these jurisdictions that we're going into. So -- and then in terms of rates, same as a high-end conventional multifamily, we're going into core markets with core sponsors, again, with solid growth on the AMI side and the demographics that they're paying attention to in the affordable space, almost more so than anything else. So we're seeing, again, the stability of that asset class helps us get comfortable as well.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. I'd add two things to that, Caitlin. One is unlike conventional multifamily, these tax credits are limited. So there is a cap. It's allocated across states. And that's the pool of money to play with. And what ground leases do is help stretch that pool of money into more units -- more affordable units. So we think there's a real market demand for affordable and we can help developers meet that. So very different in the sense that the pool of equity is limited, whereas in multifamily, it's basically unlimited.

And the other thing we see that's interesting is these are hard to put together. So, ultimately, our basis is a bigger discount to replacement cost, but because the revenues are capped, they have some similar metrics to traditional multifamily, but we know how hard these things are to put together, and on a replacement cost basis, it's actually more attractive than traditional multifamily. So there's a lot of compelling reasons. It's a hard business. It's a nuanced business. We've spent an enormous amount of time learning those ins and outs. We're going to have to do

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that state-by-state, but the team's done a really good job in California, and now we're going to take that knowledge and sort of move eastward.

Q: Got it. And then switching gears, it sounds like in 2025, you might be, to the extent you're doing new investments, funding that with dispositions or JVs. When you do that, would you expect that there would be a positive spread, like acquiring or investing at a higher yield than the dispositions?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. That's one of the metrics we obviously will be focused on. We look at the impact relative to the NAVs we see relative to, again, as I mentioned, some of the embedded value that maybe the market doesn't see, but we certainly believe in and our Board believes in. So there's a mix of metrics that we pay careful attention to. Again, long-term, we want to scale this business. But when the sources and uses line up and can be value-added for shareholders, we're going to find a way to take advantage of that.

Q: Thanks.

Operator

Thank you. Our next question is coming from Kenneth Lee with RBC Capital Markets. Your line is live.

Q: Hey. Good morning. Thanks for taking my question. Just one follow-up on the affordable multifamily, the previous comments there, the returns being potentially more attractive than traditional. Is it fair to say that the economic yields associated with ground leases for affordable multifamily would be higher than what you're seeing for other properties? I just want to get a little bit more color around that. Thanks.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

Yes. If I understand the question correctly, what's our cost of capital on those deals? And the answer to that is they're the same. There's no difference between our cost of capital on a conventional deal versus an affordable deal.

Q: Got you. Very helpful there. And then just in terms of the share repurchase program, the potential usage there, and you mentioned being leverage neutral. Once again, it sounds like there could be some portfolio changes and or dispositions occurring right around the same time for repurchases and that's sort of like the key gating factor, so to speak, terminating repurchases. But once again, just wanted to get my understanding clarified there? Thanks.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. Look, we don't want to increase debt. We have a long-term goal there that we're going to stick to. But this is a moment where we need to look hard at the portfolio. Historically, we haven't really been interested in selling assets. Again, we're trying to scale the business, not shrink the business. We think there's a pot of gold at the end of reaching that scale that the market doesn't see yet. But this is a moment in time where we see possibilities and we want to go explore them and see if there's an opportunity to make 1 plus 1 equal more than 2.

There's some work to do, obviously, as everyone on this call has pointed out. You want this to be accretive. You want it to be value accretive. You want it to be earnings accretive. And you want it to be leverage neutral. So things do need to line up. But we've got the team sort of working on all fronts to find ways to create capital that either can be deployed in new transactions or can be used to take advantage of dislocations in our share price versus what we think fair value is.

So it's an ongoing process. It strikes us that there are opportunities in the portfolio to take advantage of. And so we're going to begin that process now and really figure out how we can create the kind of capital that can be accretive for shareholders.

Q: Got you. Very helpful there. Thanks again.

Operator

Thank you. Our next question is coming from Mitch Germain with Citizens JMP. Your line is live. I'm sorry, Mitch, you may be on mute, sir.

Q: I was. Thank you for that. Just curious what the characteristics are for the types of assets that you might consider as sale candidates or JV candidates?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

We have customers who have come back to us at various points in time. Generally, if we can't redeploy the money more profitably, we have to tell them it's of no interest. If we do have attractive ways to redeploy it, that's a conversation worth having. I think we've only sold one asset in our history. So there's probably opportunities that we can take advantage of there.

But I think the JVs we've done in the past have given us some comfort that there's a real interest in this asset class. It's hard to assemble a portfolio. It's hard to get diversification. So I think we'd look to take advantage of that dynamic. Larger and more diversified is probably better than one-off. But we'll be thoughtful across all the opportunities.

Q: Great. And Jay, maybe while I have you, obviously you're doing some structuring around the Caret, it seems like. Does that preclude you from selling a stake in the

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current Caret or is that off the table for now as you work on trying to find solutions to create some more enhanced liquidity in the product?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. Look, the Caret program was set up anticipating future sales of unissued but authorized Carets. There's a fixed number. But there's plenty of room inside of that to meet the needs of enhancing liquidity, future liquidity and expanding the investor base.

So we think we've got the tools to achieve what we need to achieve. We've gotten good investor feedback from interested parties who we think are the natural parties who should own Caret. And again, it revolves around the two big drivers of Caret growth and have a 100-year line of sight. How can I feel good about future long-term liquidity? So we've got some ideas on how to do that. We're not going to reinvent the wheel. There are other folks who've kind of figured this out. We're going to explore whether those can work for Caret as well.

Q: Thank you.

Operator

Thank you. Our next question is coming from Rich Anderson with Wedbush. Your line is live.

Q: Hey. Thanks. Good morning. So just maybe a finer point on the buyback/funding of that through perhaps asset sales and JVs. I assume a couple of things are going to happen perhaps simultaneously, which is you sell assets, you trigger potentially a Caret gain, you show off a path to liquidity and you get investors that way. Am I thinking about this right, that this could all sort of come together at the same time?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. I think we have to have a high degree of comfort that we can access the right kind of capital. And again, I think it can come from a number of sources, Rich. I'm not sure. It has to be a large gain to make sense given where the share price is, but it needs to be accretive on some of the key metrics that we track.

So our goal will be first to find the source piece and then look at the share price at that moment and make sure it works to create value for shareholders. But obviously right now that dynamic looks like it can happen.

Q: Yes. Okay. And then something that hasn't been brought up in this call yet, closing in on the end of your master release with Park, wondering if you have any comment on what's going on there, if there's been any movement at all in terms of renegotiation of some sorts?

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Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. That's one we've had a dialogue for quite a while. We continue to look for ways to maximize the opportunity and I think they're doing the same. We haven't come to a meeting of the mind, but clearly there's a dialogue as that one continues to tick.

Q: Okay. And if I could just sneak in one more on this multifamily focus, is there a point where you get too invested in multifamily as a percentage of the total pie? Are you kind of keeping your eye on that or are you kind of sort of agnostic at this point in terms of getting too leveraged to the multifamily product that sits on top of your ground leases? Thanks.

Tim Doherty - Chief Investment Officer, Safehold, Inc.

It's the first time I've been asked that question before. Is multifamily getting too big? Look, it's an asset class that we have strong beliefs in with the fundamentals and stability there. And again, back to the affordable side too, the housing shortage isn't just in the affordable side, and obviously, the cost of homeownership is helping that trend even more so recently. So I wouldn't say that's a focus of ours to look at that percentage. We see that as a solid growth area.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

And we still start with the premise of all these good locations. Is this a dense infill? Are there good supply-demand characteristics in the market overall demographics? So I think we're a little less agnostic to market share of multifamily as a percentage of the portfolio. The long-term dynamics of multifamily argue for us continuing to push on it. But again, as you know, we start with the land, we start with the dirt, we start with location.

And so that'll keep that front and center.

Q: Okay. Thanks very much, everyone.

Operator

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

Q: Thank you. Good morning. I just want to go back to the previous topic about monetizing Carets possibly. You mentioned that there might be a couple of examples in the marketplace that have vehicles that have liquidity and such a security. Can you just help educate us on what those examples might look like?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. I think it's a little premature to talk about the specifics, but there are other asset classes, illiquid asset classes that some of the large complexes have figured out how

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to create long-term liquidity for the types of shareholders and investors that we would obviously like to talk to. We can't really talk about it, but this is not something that hasn't been done before in different ways and we'll look at all of those.

Q: Okay. And in 2025, I was curious, on a steady state basis, will you be covering the dividend?

Brett Asnas - Chief Financial Officer, Safehold, Inc.

Hey, Ki-Bin. It's Brett. Yes. Our goal remains to effectively pay out our FFO or operating cash flow. I think what you've seen coming out of the internalization and the transition period, along with a higher rate environment, has created a situation over 2023 and 2024 that's starting to get to a more steady state.

So, some of our goals for 2025, just in rewinding back of how we're wanting to capitalize this company, you've seen us in the debt capital markets utilize various forms of capital, one of them commercial paper, to lower our costs. Another one is repricing our revolving credit facility, lowering our costs. Another is going out to the long-term debt capital markets and kind of getting back to those bespoke capital structures that we've exhibited over the years, some of the stair-step structures, ones where we're able to reduce some of our cash costs from the liability side.

So, the more we can do that, the better, and we can continue to close the gap. When we look at kind of the run rate or go-forward, if you take all of those in combination, if all of those are working, that's certainly going to get us to a much better place and that is our goal to cover and be able to pay out all of the operating cash flow.

Q: Okay. Thank you, guys.

Operator

Thank you. We have a question from Harsh Hemnani with Green Street. Your line is live.

Q: Thanks. So, given the buyback program you've put in place, it sort of brings up the bigger picture question of how you're thinking of your cost of equity at this time. What do you think is the appropriate spread over treasuries that makes for an adequate discount rate for this company? And then, maybe a second part to that is, one of the reasons you outlined that your stock might be undervalued is the market not appreciating the value of Caret. But on the other side of that, you also mentioned that one of the ways you could keep all of your buybacks leverage neutral is to raise some proceeds from selling Caret. So, how would you -- help us think about how you're able to square selling Caret at these valuations and these prices to return capital to shareholders?

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Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Sure. So, two things, Harsh. Let's talk about, our core belief is if we can create higher returns than comparable maturity, comparable credit risk instruments in the market, that we're adding value and we're creating real alpha.

So, if you think about the 100-year bond complex that we track, it's in the mid-5s. That includes a fairly diverse group of bonds. We think that's the benchmark. We've got to beat that. And our historical goal is to beat that by 100 basis points on a yield to maturity basis or an IRR basis. And if you can beat a high-grade benchmark by 100 basis points and call protected for 99 years, we think you've added real value.

If you can then add inflation protection, which that complex of bonds does not have, you've added even more value. And if you can ensure a significant capital gain in a diversified portfolio, which history tells us we might be able to do, then you've added even more value.

So, when we think about our cost of capital, we really benchmark where else can you buy the same sort of cash flow streams. The market tells us what that benchmark is and then we try to create around that a leverage profile that helps us even enhance the value we're creating on the asset side. So, that's how we start the premise of how do we create incremental value and what is the benchmark? What is effectively an unlevered cost of capital that we need to beat when we deploy capital in the ground lease space?

And right now, again, we would say, the new deals we're doing are well north of 100 basis points wider just on a yield to maturity basis, also have inflation protection and have that upside potentially through the future reversion. So, it still strikes us that there's a pretty wide spread between what the effective asset value we're creating and our cost of capital.

Q: Okay.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

In terms of Caret. Do you want to follow on?

Q: No. Go ahead.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Okay. So, Caret, let's talk about, right now we don't think we're getting much value, obviously, given where the share price is. So, taking small steps to unlock value makes sense to us, even though internally, I tell you, we think, the valuation that we did our last round with was below what we truly believe the stabilized, scaled value of Caret will be.

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But it's not hard for us to sort of square the circle you talked about by saying, if we're not getting any credit for it in the public market valuation, how can we unlock something more than zero and potentially unlock a lot more than that? We think expanding the shareholder base, creating the kind of investor names that people will understand, have done a ton of work on Caret and come to the conclusion they want to own it.

We think that's maybe a quarter step backwards and five steps forward. So, we don't see any conflict between selling some Carets at a value that is substantially above where we think the public share price reflects. While it may be a little bit less than we would like and certainly a lot less than we think it will ultimately be worth, it's a major step forward for the company and a major step forward for shareholders to understand what they really own. So, no conflict there. In fact, you know, I think the opposite. I think the more people we can get involved and invested in Caret, the quicker the share price will start to reflect the true value.

Q: Okay. That's fair. And I agree with you. So, at this point, if you believe that you can still create 100 basis points of spread or over 100 basis points of spread over your cost of capital at these equity prices, then why not continue to focus on growing the portfolio even in the near-term? I know that's the long-term target, but even in the near-term rather than focusing on buybacks?

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. Look, this is not a giant buyback program. It is reflective of the choices we have with capital, and as I said earlier, we want to do both. Our goal is to scale. Our goal is to be leverage neutral in any sort of buyback scenario. But it's fair to say for shareholders in 2025, if the share price isn't going to move, that needs to be on the table and we were able to convince our Board that, we'll be judicious and prudent and thoughtful, but it is our job to figure out a way to take advantage of something we think is mispriced.

So, let's see where we go with this, but let's not be confused. We want to scale this business. We think our footprint growing in lots of different markets is value-enhancing long-term for shareholders, but we do need to make sure that our equity share price reflects that value and right now we don't think it does.

Q: Okay. Last one from me. On the affordable housing side where you're expanding investments, it seems like, going back maybe three years, four years, it felt like the Safehold target ground lease was almost under, definitely in the top 30 markets, but almost under trophy buildings, and it sounded like the philosophy behind that was trophy buildings in top markets, the sponsors will be incentivized to keep investing in those and that over the long-term will lead to sort of higher UCA, higher value for Caret and higher, I guess, value that will be captured by Safehold when the ground lease eventually matures. How are you thinking of that in the context of affordable housing where they might be in good markets, but they may not be in the center of those markets. They might not be as good sub-markets, but the building also

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doesn't necessarily incentivize ongoing equity investment in there. So, how are you thinking of the long-term UCA on these assets?

Tim Doherty - Chief Investment Officer, Safehold, Inc.

So, there was a bunch in there. I think the first thing is that we really focus on trophy locations, and Jay alluded to that earlier, right? This is all about where the asset, any asset class, whether it be affordable, conventional office, hospitality, anything, location is key.

So, in this infill location, good demographics, good growth, all the things that we look at as 99-year holders. So, I think that's the key part, just to answer the macro, where we've been investing. If you look at our assets and what we have, that's a consistent theme.

And then I think we brought up in the affordable space, it's probably more one that's a macro thought of where is affordable. It's actually next door. These assets are right next door to conventional assets in very high-quality markets and very high-quality locations and these are the ones that you've seen transacted here. All these have been brand new builds in core, you know, trophy location type areas and they're built just as they are for conventional.

So, if you're doing a, you know, a stick-on-podium multifamily deal, conventional, there's one next door that's an affordable transaction. So, both of the same specs, right? Because there's money coming from federal and state, they're not going to have an asset that's not high-quality. So, and then, I think the stability of this in terms of the need for it and cash being invested in it, because again, in order to get the capital, you have to show that you're keeping these assets up and running. You can't see this here in New York on anything that has affordability. You have to make sure that these assets are maintained appropriately for the clients inside of it.

So, I think those are all positives for us in terms of, again, location and then upkeep, because these are long-term holders. These are not merchant builders. These are people that hold these assets long-term with human capital investment to make their returns and their business work. So, it's very engaged sponsorship.

Jay Sugarman - Chairman and Chief Executive Officer, Safehold, Inc.

Yes. Look, we're not going to sit here and tell you that everything is a trophy location. Certainly, downtown CBDs, in great locations, on top of transit, would be a fantastic place to deploy all our capital. That's not possible. But as Tim said, there's a pretty thoughtful process around locations of anything we do, including affordable, where we're looking for those same dynamics.

There's a slightly different viewpoint in terms of what's the long-term prospects. These are built, again, in our basis, significant discounts to replacement costs. So, we don't think a newbuild affordable is going to be torn down and a bigger one is going

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to be built tomorrow. That's not really the dynamic. You do see that in cities. You do see that in urban locations. But most of the underwriting feels very similar. What's the location? What are the demographics? What are the economic drivers? What's the supply-demand constraints on the supply and drivers of demand? And I think our team is very thoughtful about locational attributes. Even if it isn't a downtown or urban location, there's still a lot of very positive real estate fundamentals that drive our decision-making.

Q: Got it. Thank you.

Operator

Thank you. Mr. Hoffmann, we have no further questions.

Pearse Hoffmann - Senior Vice President, Capital Markets and Investor Relations, Safehold, Inc.

If you should have other questions on today's release, please feel free to contact me directly. Ali, would you please give the instructions once again? Thank you.

Operator

Thank you. Ladies and gentlemen, there will be a replay of this conference today beginning at 2 p.m. Eastern Time. The dial-in for the replay is 877-481-4010, with the confirmation code of 51963. This will conclude today's conference. You may disconnect your lines at this time and have a wonderful day. And we thank you for your participation.

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