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PRESENTATION

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

Well, good morning, everyone. Welcome. I'm Jason Fooks, Vice President of Investor Relations and Marketing for iStar. On behalf of our entire senior management team, I want to thank you for joining us today for our investor presentation.

We have a full house this morning, and we deeply appreciate your interest. We also thank those of you tuning in on our website. There'll be a replay of the event with slides made available on our website after the conclusion of the presentation.

Let me just take a moment to introduce some of the members of the team with us today. Jay Sugarman, over on the left, Chairman and Chief Executive Officer, Nina Matis, our Chief Investment Officer and Chief Legal Officer; Michelle MacKay, Executive Vice President of Investments and Head of Capital Markets, and David DiStaso, our Chief Financial Officer.

Before we begin, let me remind everyone that statements made during today's presentation, which are not historical facts, may be forward-looking statements. 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. In addition, as stated more fully on our SEC reports, iStar disclaims any intent or obligation to update these forward-looking statements except as expressively required by law.

Finally, one last housekeeping item, I ask you to just please turn off your cell phones or set them to vibrate.

And now, I'd like to turn it over to iStar's Chairman and CEO, Jay Sugarman, who will deliver the formal presentation. Jay?

Jay Sugarman *- iStar Inc. - Chairman, CEO*

Welcome. It's been a while. We're really happy you're here to hear about the next evolution of the iStar story. And today, we want to present a framework and a strategy to really define our position in the marketplace.

And the starting point, which we've asked ourselves in the past, is what's the next big thing? We've been pretty good at figuring that out over our 20 plus-year history. And it's what we're set out to do again in iStar 3.0. So let's start with a little bit of that history.

Let me take you back to the early '90s. And the next big thing in the early '90s was to build a new kind of finance company. The market didn't really have a sophisticated finance provider exclusively targeting the high-end of the market with real estate, capital market, and corporate finance expertise. So we set out to take that space.

And our philosophy was to tailor financing to our customers' business plans, not the other way around; not to try to take their business plans and fit them into some kind of financing box. And that was a novel idea back then and a pretty good idea. And it worked out great for our private fund investors, and we had an average annual return of 24% over a seven-year period from the beginning of those funds.

Our next strategic shift really took place at the end of 1999. And we started with a belief that markets were mispricing the net lease investment area. And it was really, from our standpoint, an opportunity to go big in that market. We ended up buying the largest publicly traded office in industrial REIT in existence then.

We built a strategy to create a powerful platform that used permanent capital, an unsecured investment grade strategy and a mix of short and long duration assets to make large contrarian investments throughout the periods of market volatility in the early 2000s.

By being bigger, faster, stronger, we could dominate parts of the market that we thought were misunderstood. And that worked out pretty well for our shareholders as well. So, our first six years in the public markets, iStar 2.0, we generated 22% average annual return for shareholders.

Unfortunately, all good things come to an end. In this case, really the beginning of the CDO market, where CDO finance was applied to real estate, to us, was the beginning of the end of that cycle.

And we came up with a very specific strategy to really play this inevitable correction we saw coming. And that was to focus on non-CDO eligible collateral and do a lot of short-term asset investing and finance it with long-term liabilities and equity.

And we got the first part right; we closed on a $10 billion transaction of short-term assets and commitments in the form of an acquisition of Fremont portfolio. And then we set up to begin placing the long-term liabilities and equity.

Unfortunately, the crash hit at a very inopportune moment for us. And so short-term assets actually became long-term assets because they didn't pay off as expected. And the short-term acquisition financing, we were unable to convert into long-term liabilities and equity. That was not a happy period for us or our shareholders. Our loss during the CDO crash here was a negative 8% annual return for a seven-year period.

But, we dug ourselves out. At the beginning of 2013, as we began to restart our investment engine, we wanted to carve out a new space, a space away from the crowd, where the specialized skill sets and expertise we brought to the table would keep commodity capital from impacting us.

We took a look at the market, the competitive landscape, our own position, and we began formulating a plan based on a number of advantages we saw we had. And we decided to call it iStar 3.0, really start at the beginning of 2013.

What are some of those strengths we brought to the table? Well, during that downturn, we developed some interesting capabilities, a design and development capability we really never had before that allows us to capture more of the opportunity set that we look at.

We brought a land infrastructure capability and those are businesses typically capital-starved in lots of different parts of the cycle, and we built a deep and strong infrastructure team that look at this long duration sector and play it when it's interesting.

And probably most importantly, we brought this deep team of battle-hardened professionals who have now been through many cycles together. But more importantly, we've got a deep team of junior professionals who have been in the field making the hard calls. That deeply experienced team is really going to carry us forward here in the next five or six years.

What else do we bring? We brought some new partnerships to bear. We got a lot of capital strength in our net lease business by teaming up with the Sovereign Wealth Fund. Some of you know about that. It's a $500 million net lease joint venture.

But more importantly, it gave us an unlimited capital source for great ideas. Standing next to us, building a solid relationship allows us to have the opportunity whenever and wherever we go to have that solid capital partner if we need them.

We brought additional local market expertise through a bunch of JV partners who bring us not only local market expertise that do development when it's appropriate, but also to bring us deal flow, proprietary deal flow, deals we probably would never see otherwise. So we're excited about that.

We've got a new capital structure that's got some interesting features. One, we brought a flexible unencumbered asset strategy to bear, which really allows us to avoid the repo financing world. And two, we brought a shelter on a $750 million of tax shelter that's going to allow us to increase our capital and avoid constantly raising equity. That's a big differentiating factor we'll talk about in a little bit.

And lastly, we brought a new pipeline investment dynamic. So I think this is quite interesting. When you look at those companies right now, they're fighting at a pretty competitive world.

We're fortunate we've got a steady flow of proprietary investment opportunities coming out of our existing portfolio. And what that allows us to do is be very selective as we look for new and interesting opportunities elsewhere. And we've got a growing number of areas to try to cherry-pick from, so it's a stronger investment pipeline dynamic than some others we see in the marketplace.

So, we really think we're defining a new space. And I want to give you some elements that we thought about as we thought -- okay, what are those combinations of competitive advantages? Who else has got those?

So we asked -- who's got multiple investing capabilities? Who can go with the best investments without running into internal silos? Who's got an unencumbered asset strategy and unsecured debt strategy in the public markets? Who's got this tax advantage structure with hundreds of millions of dollars of tax shelter available if we choose to constantly increase our growth equity capital without going to the market?

Who's developed large portfolios of both short-term and long-term assets to give them the stability through cycles, but also the opportunity to move quickly when needed? And again, who's got a team that's been through multiple cycles together, seen the best and the worst of multiple industries in the real estate cycles? And lastly, and I think this is one of the most interesting things -- who else has the potential to materially grow their earnings without materially growing assets? Certainly an advantage we think in a competitive marketplace.

And the answer is we really couldn't think of anybody who's got that combination of competitive advantages. And so the challenge for us is really defining a new sector.

If you're not like somebody else, you've got a little bit of a harder job. We know it's good to be different when you're investing. And we think our company's different in a lot of important ways, but obviously, different means the investment community has to work a little harder to figure out how to value us, how to think about us.

So we're going to give you a little help about how to think about us. I'll start by saying we're not a mortgage REIT, but as you can see, we're able to execute high-end tailored financing, something we've been doing over 20 years in the industry.

And we're not an equity REIT, but we've certainly been able to execute these high return equity investments and develop and construct across multiple property types. So, when the opportunities are there, we can go deep into the capital structure.

We're not a net lease REIT, but as you know, we've historically been able to create these long-duration, very attractive risk-adjusted return opportunities using a lot of the internal skill sets that we built up early in our lifetime.

And we not a homebuilder, but you'll see later, we've been able to conceptualize, execute, really think about the entire spectrum in the residential world, from single-family, multi-family and condo. We're seeing some of the best opportunities really creating these quantum value creation opportunities in our land book.

So, let me suggest what 3.0 is. It's a new category. It's what we're calling the adaptive investment REIT, an A REIT. As characterized by its ability to find gaps and exploit opportunities wherever they can be found in the marketplace. As you can see on the screen, it's innovative, risk-reward driven with core, value-add and high value-add capabilities.

And we're off to a good start. Since we started reinvesting in the marketplace at the beginning of '13, we've averaged a high 20% return for shareholders in that time period. Now, we think this adaptive investment REIT is what's right for today's market.

Okay, that's a little bit of background. Now, if we're going to define a new sector, if we're going to go forward in a new space, we think it's time to look at our name, it's time to look at our look and come up with something that reflects that. You're all familiar with historical logo.

We took a look around in the competitive marketplace, and we noticed something. We've never been too keen on boxes in our business, and we're not too keen on boxes in our logo, so we're going to stick with the 'i' as symbolic of what really does separate us from a lot of folks out there. But, we also want to point back to our history. So we want to keep that dynamic.

And here it is. Here's our new logo and our new name. And I like this name because it really shows we're not just in the financial part of the business; we're in the value creation business. And now, we're just iStar. And that really recognizes our expanded investment capabilities.

And that symbolic circle, we've added a notch. And that's really just a reminder that we're out every day looking for gaps in the market. Investment holes, we can fill profitably. So you'll see that little notch in a lot of our materials, constantly reminding us and you that that's what we do. We find holes we fill in profitably.

That's a competitive world out there. I don't think you need to be unique, but you need to be uncommon. And that's not a tagline; it's just at the heart of everything we do.

And you'll see a lot of the different parts of the puzzle, each one, we're trying to create an uncommon little twist, something that's different, something that's not like anything else we see out there. And we think it gives us tremendous strength as an organization.

Now, we're not going to give guidance or estimates at this point, but we have set out some internal earnings goals that we want to share with you, that we want to measure ourselves by. One caveat, the timing on some of these earnings is coming through the variable, but we really want to create a framework of growth target over the next several years that's unusual.

And assuming the markets remain stable and interest rates don't veer off the forward curve, we feel like we can show a lot of strength going forward and then deliver unusual growth and earnings over time.

And so, our goals internally run from the 2015 goal of about $0.75 of adjusted income per share, up to 2016 at about $1.75 per share and beyond. And we're certainly not in a position to think about exactly where our earnings will trade relative to the market, but we certainly see a market place today anywhere from 10 times to 20 times where some of our development JV partners are trading. So we'll let you guys figure out where in that spectrum we fall.

So how have we been going about it? As I said, we really started this thought process as we dug ourselves out of the downturn. We've been doing it for over two years now, and there's two themes that feel like they're going on in our book that have been successful and that are really guiding us.

One is this idea of value extraction. We now have the capabilities to pull the fullest margin possible out of opportunities. So when we look at our opportunity set, we're trying to make sure we're getting retail value, full value out of those and not having to sell wholesale. And we now have a team internally that can do that. And I'll walk you through some very specific examples of that.

And then a big financing theme we're focused on, really we want to be in the best markets with the best real estate right now. This is a tricky market. You've got very low cap rates. You've got a lot of secondary and tertiary markets trading at pretty sizable premiums to where they've historically traded.

I think our view as the safest place to be right now is go for the best assets, go where the capital flows are going to support you long term. And surprisingly, we've been able to find some holes that are actually very attractively priced. And I'll talk about that theme in a second.

And we're sitting here every day looking for those holes that we've been able to find in the past and we expect to find in the future. We do think there's going to be some volatility here as rates rise and we do think the bank regulations are starting to squeeze parts of the market place. And we've got some examples that I can talk about in a minute.

Now here's the real power of the platform, existing assets in multiple different areas feeding proprietary deal flow into all parts of our business. So these are not model line businesses. They're all stitched together. There're common themes flowing out through all of them. And that flow of information is helping our decision making across all the businesses.

We've always thought this combination of corporate credit, real estate, capital markets, the multiple information flows we get really has set us apart in the past. I think it'll do it again.

And when I talk about the opportunity to drive earnings without growing assets it's really driven by this slide. So we've got what we call noncontributing assets. It doesn't mean they're not creating value, it just means they can't show up in the P&L for accounting purposes until we actually execute the final stages.

This was a substantial portion of the portfolio coming out of the downturn, over $2.2 billion literally earning us nothing. We're going to keep driving that number down as we put cash to work, as we put our land book to work, as some of the operating portfolio turns into cash flowing and profit making.

We can drive significant earnings. If you think about that almost $2 billion we have not contributing today, turning into contributing assets is a big jump step for us. It's one of the things we're going to be focused on over the next two years.

Okay, so let's talk about some examples. A lot of you have asked this in that past -- why don't you guys talk about your assets? We wanted to give you a framework, again, something that actually gave you a robust enough sample size that you can understand how we go about it. Not that any individual deal is that important, but how we think about creating value is.

And we want to show you a couple examples in each of our key areas. Talk a little bit about how we're attacking the market. And I think you'll start to see these themes develop on their own.

So, let's start with some stuff in the finance world. Our primary lending focus right now, as I mentioned, is on big, high quality, exceptional locations. And I like to point to what's going on in the oil and gas world. There's a concept called high grading. High grading is narrowing your focus to the best opportunities in your investment set.

That's kind of what we've been doing in finance. We're spending most of our time on large transactions with the best collateral quality in the best locations. We think the hole in the market in that area, where obviously there's quite a bit of competition, is what we call TRAC transactions.

So TRAC is transition, repositioning, acquisition and construction. And these are the assets we've lined up for you today, 20 Times Square in New York; large LEED Platinum building in Washington DC; 181 Fremont in San Francisco; 9 West Walton in Chicago; 212 5th Avenue in New York; 100 Barclay in New York. These are all what we'll describe as AA assets in top tier locations.

And what I think will surprise you is some of the portfolio stats. So these six transactions represents about a $1.5 billion of commitments by iStar. Now the average investment size is large; it's over $200 million.

The air gets pretty thin up there. Right now the banks have pulled back pretty dramatically from this market. Basel III is clearly impacting them.

Now there aren't many players of our size and scale with our internal construction development capabilities. We're willing to underwrite these pipes of transactions. And so the spreads you see up here are really unusual, over 700 over LIBOR. For a position in the capital structure that's typically 60% or less.

Now that is really unusual. In my 22-years history, we don't see that very often. There is an anomaly. There is a gap there right now.

We love the idea that there's a big equity commitment beneath us, some sponsors putting up a lot of money. And as we saw in the last downturn, great real estate, good markets, strong sponsorship, usually works out pretty well for the lenders. So we think for this quality of asset, for this quality of location, with this quality sponsorship, this is a hole. And it's a hole we've been filling obviously pretty strongly over the last two years.

That was finance. Let's talk about net lease.

Net lease is really competitive, you guys all know that. So without an angle, you're just paying the most. And that's not interesting to us. So we've been taking a very specific tact of trying to find off-market net lease opportunities. Never an easy thing, but we've got a history and an experience that allows us to do it. And I'll just touch on one or two deals that I think really highlight how we go about that.

So, remember we talked about the best deals happen where real estate is kind of wrapped up in corporate credit and some capital market opportunities? The ability to underwrite and understand those, the ability to tailor exactly what the customer needs to execute their vision. Well, we did a transaction recently with Bowlmor AMF, and they're looking to roll up and consolidate their position industry. They were by far number one.

The number two player came up for sale. They wanted to buy them. They needed a capital structure that would comport to what they were planning to do. They needed about a $200 million sale-leaseback done quickly, efficiently and with lots of sophistication. There are a lot of moving pieces in this short window.

Just happens to turn out that we had the largest sale-leaseback in the industry with them 10 years ago. And we spent 10 years watching this industry, understanding it in a way almost nobody else could have. And by virtue of that, we got two things. Actually, I'll say three things.

We got a very attractive $200 million sale-leaseback opportunity that we put in our Sovereign Wealth JV at very attractive spread, 600 over treasuries and with a 20-year term. Those are unusual metrics in that world right now, lots of rent bumps, lots of good things embedded in that. But we also got to go back on one of our largest sale-leasebacks and tweak it, and make it better; better term, better structure. And ultimately, with a little bit of flexibility, we gave the bar or created a better tenant, a stronger tenant.

So now we've got by far the largest player, the consolidator, the strongest player. There's about $400 million of capital market debt that's effectively subordinate to our position. So we've got a great position. Very long term cash flows, inflation-tied bumps, these don't come along very often. So we're quite excited to continue that relationship with an even stronger customer tenant.

So, one other idea we've had, and we've actually been able to execute a couple of times, and this is a very recent deal, is if you can't buy good net leases, you manufacture them yourself. Now we have a big -- I showed that screen where we stitched together all our business lines. Well, this was an operating property that's been in our portfolio for a while.

We've been leasing it up. It's the nicest asset in Detroit. That doesn't sound great, but it's actually a beautiful asset. It's a Heinz built asset. We had Comerica as our lead tenant for a decade. When they left we began leasing it up.

Now, as most of you know, Dan Gilbert, Bedrock, has been buying up everything in downtown Detroit. And there's only one thing missing, he doesn't have the trophy asset. So we knew he was going to come calling. We also knew he has a lot of leasing power. So whenever we were going up for a lease, we kind of knew who our competition was and stuff to beat him.

So we knew where the game was going to end. The game was going to end as we were going to sell this building to them. And whether it's today, tomorrow or 10 years from now, they're the natural owner. But we hate selling wholesale and we know he was never going to pay us full value on a one on one negotiation because he had a lot of cards to play. So we kind of thought -- how do we get full price for this?

And one of the ways we came up with is, let's create a more level playing field. Let's shrink the size of the transaction. And more importantly, let's create our own net lease. Let's own the ground underneath the building and the parking garages.

And let's market this as a lease hold interest in the best building at a smaller total all-in capital cost because we're going to hold the ground in a long-term ground lease structure.

That did two things. One, it brought a lot of competition to the table. So we actually got a pretty fair price for the lease hold. But we also knew that when Bedrock was able to lease this building up, we would now be the beneficiary. Our credit would get stronger, the ability to finance our position would get better.

And it happened almost too well. The minute we signed the deal they filled the building with a 350,000 foot tenant, which we applauded. We're happy. We now have a ground lease payment of about $2.5 million a year for the next 98 years.

That bumps on a fixed basis and has an inflation look back. And our coverage is about five times now. So you think about the real estate market, if you have fixed income obligation covered five to one by an underlying cash flow stream, again, key to the rating agencies will tell you that is a very strong piece of paper. Certainly the metrics would qualify as AAA.

So we love positions like this. We love manufacturing something off market at above market returns that allows us to extract the full value out of an opportunity and then own it forever. Then ride that duration. And ride it in a way that really, unusually has bumps, has inflation protection.

In a market like today is where I think everybody's a little nervous about interest rates going up. This is a great way to protect yourselves, so we like that. You have a proprietary position in a net lease world or manufacture them, that's how we're playing net lease right now.

Let's talk about value creation, value extraction. We see it every day now in our portfolio. After many, many years of hard work, we're starting to come to a conclusion of some of our hard work. And I'll just touch on a couple of these for you.

As I mentioned earlier, we used JVs to bring expertise to us. And sometimes it's our vision we just can't execute it as well as we think somebody else can. And I'll take you down to Miami for one of those cases where we had vision but we needed a partner to help us execute it and extract that value.

And this was frankly not a very attractive piece of land. You can see from the picture, it's kind of boarded up. The previous owner was not going to pursue the development they had originally intended. We certainly had a sell versus develop decision. And selling here meant selling wholesale, no question. Nobody was going to pay us full value.

There were entitlement issues. There was a neighboring property owner who was filing lawsuits, trying to stop us from developing. As most of you remember, the Miami condo market was deeply over supplied. So there were a lot of reasons just to wash our hands of it.

But, this is an actually pretty interesting piece of dirt. You've got an embedded marina which is almost impossible to duplicate in Florida. You've got an ability to phase this project. It's on two little peninsulas that poke out. And so, you could test the waters with the first phase without committing to the second phase.

And we did pursue this with a local partner. So far the results were quite interesting. You can see that rendering, we're now topped out on the building on the right. We're under construction on the building on the left.

The first building is 95% sold out, a fairly sizeable spread to our basis. We are now beginning to capture those earnings from an accounting stand point because the building is so well sold and because the deposit structure down there is about 40%, so the likelihood of closing is very high. We are selling the second tower. It's about 65% sold. Prices are up pretty materially.

So I'll just give you some metrics. We're about a million square feet in those towers, and we expect to begin delivering the north tower at the end of this year. Ultimately, we'll end up owning about 40% of the profits in this deal. So I'm not going to do the math for you but you can figure out what that is. It's a really extra ordinary return on a relatively small investment, but an enormous amount of time, effort and expertise that went into that execution.

Now I'm going to take you to Chicago and contrast this because this was not our vision. This is a small piece of land. This is frankly a piece of land we were very close to selling. It didn't really have a strong viewpoint on it. The brokers were telling us, this is a parking lot. It will be a parking lot as far as the eye can see.

It couldn't really get financing. Markets were just kind of seized up, so it was easy to move on. But we searched around for a local partner before we gave up. We said, give us your idea, and tell us what you see.

And we came across somebody who had a really interesting vision for a very distinctive multifamily project, an apartment building unlike really anything else around it, with entry courtyard that you drive into, with amenities unlike anything the market had seen.

There's a lot of strong surrounding retail here. There's a target next door. There's a high-end collection of retail. So that kind of customer we thought would bring the right project. We can actually capture that customer and make them part of the ecosystem that already exists in this area.

We're now on the 22nd floor of construction on this building. It will be one of the first projects to deliver in the South Loop of Chicago. We're seeing strong rent growth in that market. Chicago's absorption in the multifamily space is reaching record level, so I think we've got the timing right.

We're building to about a seven cap. Again, no certainty around exactly where that will shake. Rents are moving in our favor. We have a total cost in that project about $120 million.

I mentioned financing source is very limited. We got a nice proprietary financing opportunity here to put in a GAAP piece of capital and a nice attractive return. And we retain a 50% ownership at a minimum. There's a promote structure for our partner, so we'll never own less than 50%.

Again, we think on a relatively small investment, we're going to have really quantum size returns. So we're, again, always looking for the vision that unlocks the full value. And then either we'll execute it or if we can't execute it we'll find a partner who can help us do that.

Okay. Let's talk about land. The ultimate blank canvas, it's just dirt. So what you make of it really depends on your vision. And we've had a chance to re-imagine a lot of projects over the last five or six years.

We talked very little about them. These are long, slow-moving multiple levels of entitlement and government approval. And so we want to share a couple of those with you today and just say we have about five or six getting very ripe. Four of them are in very sensitive negotiations right now, so we're not going to talk about those. But we're going to share you two that I think really highlights what we do and really the opportunities that is available to us.

So take a look at this video. I have to click it.

This is a project down in Naples, about 650 acres. Actually, a market where this project was not distinguished in any particular way. But we have a view. We know people like to live on water. We believe in that. We've got a lot of waterfront locations around the country.

And if we're really going to build a project that's going to stand out, we thought it was not building another golf course community which is what this was originally titled for. It was to build a really differentiated water community.

And I'll tell you just one story here because I think it's symptomatic of the talent and quality of professionals we have in our organization. The typical waterfront community in Florida has about 17% of its surface areas water. This project has 37%. And the typical project's depth of their water is 12 feet to 15 feet usually mandated by storm control.

Those are not attractive bodies of water. They are shallow. They are full of photosynthesis which creates algae. They are not conducive to wildlife. Fish can't live in them, they're not oxygenated enough. They don't have surface area.

So we went and hired the single best developer we could find in Florida. The guy who actually built Weston Communities down there and said, let's build something special. Let's build something that's not going to be like everything else.

He said, well, we got to go deeper. We got to build great waterfront-active areas. That lake in the middle there is about 55 acres to 60 acres, great for kayaking, paddle boarding, fishing.

It's really a usable water body, so we got to go down to 20 feet. That stops photosynthesis. It creates a highly oxygenated environment for fish and for birds. It's going to create a massive difference.

Well, okay. Well, how much is that going to cost?

It's going to cost $4 million, $5 million more.

So now we know why most people don't do it because it's expensive. We have excavated 3.7 million cubic yards of dirt here.

Well, this shows the quality in the thought process that our guys go through. Rather than just say, hey, it's $4 million more we've got to spend, the person on the ground here figured out that the state was building a new road in front of our project; definitely going to help the entry window to our road.

I went to the state and said, I will sell you the fill from my lakes. I'm going to go down 20 feet. We timed it, so that we were delivering fill just as they needed it for the roads and just as we needed to get it out of our lakes. So we ended up paying for that delta by some really clever thought processes as opposed to just coming to us and saying I need another $4 million.

So, right now, we feel pretty good about this project. We think it is fundamentally uncommon in terms of its water amenities. We've got a very strong builder taking down lots in the first phase at somewhere around on average $2,000 per front foot. We've kept the profit participation in case the geese really fly. We still have an opportunity to participate in that.

And then the whole project, really three phases is about 70,000 feet of front feet. So certainly if values continue to move as they have in Naples recently, we think this is going to be a profitable execution for us. And that's what it will look like when it's all set and done.

Let me take you across the country now. This is another JV. For those who know, Northern California hottest housing market for a long time. The supply-demand there is still very much in favor of the suppliers.

We're going to redevelop a piece of land that we've controlled for quite a while. It was industrial zoned. That is not the highest and best use of this land. So we really looked for a way to convert it to part-residential and part-commercial.

We needed a partner to help us with the local politics. This is not so much the entitlement, imagination. We had all that done. But we realized this is a very difficult community to build credibility in, and we could streamline the process by bringing in a partner.

We've done that. We succeeded in getting the entitlements forward. Very excited about the transit-oriented master plan community, which is really what California needs and wants.

It's a big project, 720 units plus these two commercial parcels. We have a 50% ownership interest once we get our basis back and the partner gets the money they've invested back.

Officially, about this, this is actually in the market this summer. So this is real time. This will be a project we're going to get, hopefully catch this little wave of demand that is very strong in Northern California with a project that's really unusual.

This is a big 75-acre project. There aren't many like it. So pretty excited about that.

I'm not going to talk about value until we get these bids in because I don't want to let anybody see what we think it's worth but we should have some good news on that hopefully this summer.

So a lot of these projects are in process. A lot of things that you see, we're at the end game on. There're a few we have -- so that's what it's going to look like at the end. There're a few things we haven't gotten to the end game on. So I'll just talk about them quickly.

Caught up in litigation typically, not yet resolved. Clearly, I think you see from the prior case studies, we're pretty good at extracting value when we're in control. But we still have these three sizable projects we're working on where litigation is ongoing. And I'll just tell you, candidly, one we think is headed in not such a good direction and two are headed in a pretty good direction. So we'll just share those with you here.

And the one that's not going so well is the Hotel Credit Line. It's a tough one because it's a two-part loan. And we've got guarantee and pledges backing one, the majority of the loan.

But another portion is backed by separate collateral. We have litigation on the first part related to some network covenants we have in our documents and there's non-iStar litigation on the other part. And we can't talk much about it because based on recent events, we're going to have to take a hard look at this one.

But sometimes we win; sometimes we don't. And we're working hard to try to protect value, but we are certainly -- we want to make sure you understand there could be adverse impact on this one.

On the flip side, we've got a couple that we think are quite positive for us. One was the former Chicago Mandarin Oriental site.

You can see it's between the river and Millennium Park, actually quite a good location. It's got about 900,000 FAR. A lien was filed against the asset. The title company is defending it. They've been defending it for years.

The good news is while we've been waiting, we think the property has gone up in value pretty significantly. The location is only getting better, so we're not in any rush. But when this does come to conclusion, when the title company and the lien holder settle out finally, and we have no exposure to that, we're going to have a very valuable asset. So this one was actually on our books for a pretty small amount. We think there's a pretty big opportunity there.

And lastly, Bevard Land. Some of you may have read about it. It's a court case we actually won after seven years. It's a pretty sizable judgment in our favor but it is likely to be appealed, so just stay tuned.

These are the facts, court ruled in our favor. These is the judgment calls for, repayment, a purchase at a full price, a 12% interest rate since basically the lawsuit started in 2008, and all our legal fees and all property taxes so that's -- that's good. But as we say, stay tuned. This is still in the courts.

Okay. So that's a number of asset profiles. Again, we want to stay away from trying to really focus on individual assets and really talk about some themes. But you'll see those themes playing out through a lot of our portfolio.

And I thought it would be helpful to finish up just with a couple of views on the marketplace. Why we think the opportunity set is still out there in a sizable way for a company like ours, because there are still some interesting factors working in our favor.

So what do we see in real estate finance? All of you have seen the stats. We've certainly seen them.

There's almost a trillion dollars of commercial real estate loans coming due over the next three years. That's in and of itself not that interesting. There's plenty of capital for the commodity type loans out there. We don't play in that space.

What is interesting to us is the banks are being pushed and pulled around pretty hard by Basel III, and you can see that dynamic in a lot of the big capital providers pulling back, redlining, not being aggressive, not being particularly nimble, their credit communities are getting tougher. So there's space being created by that trillion dollars of loans that we plan to fill a very small piece of but a very particular and attractive piece of.

And I'll just point to that, that same dynamic we saw on the TRAC loan portfolio we put together earlier. We look at the spreads from peak to trough and then back to where they are today. You can see really the levered loan world, and they're up for about 200 over to 300 over, 100 basis points back up, really a function I think of why we're just being so depressed that spreads have had widen little bit.

The TRAC loan business, about 300, 400 basis points. That is an anomaly. That is telling you something about where supply is not meeting demand. Those are places we like to look. So interesting macro backdrop but more interesting [it tells us] these little micro pockets that some of the volatility, some of the regulatory impact, is starting to open up for us.

So net lease, I talked about it being very competitive. I talked about our strategy looking for proprietary self-manufactured opportunities. I will tell you, the backdrop is still pretty good, only because spreads are really at historic highs relative to treasuries.

So cap rates have come in. Although for a wide range of products, they're back to where they were, really at the peak of the last cycle. But treasuries are cut in half, so talking about spreads that have doubled the treasuries.

If you can borrow money, lock in that spread, make it inflation-protected, earn it for 10, 15, 20 years, it's still good business. In fact, a business we love. And we like long duration. When you get it right, you want to ride it for a long time. And net lease is still a good place to do that.

We certainly got the capital available, but we are still trying to find those off market opportunities.

There's a similar kind of duration dynamic in the operating property book. All of you know cap rates falling higher prices, that's all good for real-estate. We've got a lot of things in our portfolio that will benefit from those dynamics. But what's interesting to us is, how do you extract that full value? You only get these opportunities for several years at a cycle and then obviously things start to go the other way. So how do you really pull out that value creation?

We've been showing over the last couple of years what we've done in the residential side, that was primarily some condominium stuff that we've been working very hard on.

Over the last 13 quarters, you can see very high margin business for us and not any -- it's not one of thing, it's a repeatable part of our book that we've been able to extract high value out of by putting in the effort, by spending a lot of money frankly and a lot of time, repositioning, reimagining really putting real state in a place where it can extract its highest and best value.

So we like businesses like that. We're moving, you'll see in the commercial operating side of our book, to try to start doing this on a couple of projects. So we think the residential will start tailing off and the commercial side of our operating property portfolio will start stepping into that breach.

And land, we've got a lot of land. We've got a billion dollars of land. The reason we're fighting so hard, the reason we've hired 20 professionals, the reason we built an East Coast team and a West Coast team with capabilities is we keep looking at this chart, and particularly that chart on the left. Where are all the people going? In the chart going back 50 years, we are only back to the trough levels of the last five downturns.

So there's something strange going on. You see then the Case-Shiller index, the prices are starting to move. We think this is kind of an inevitability. There has to be some sort of increase, housing stock created.

You're seeing it creep up, but again it's only back to the level which was the bottom. But most of those downturns, when we had a hundred million less people living in this country. So we're spending a lot of time with demographers going, where are they? Where are all these people who now don't live in a house?

We think there's some statistical flaws, but ultimately this is a good story for land. This is why we're playing so hard in this space. And we will be able to tell you throughout, I think, the next couple of years some really interesting stories on some of our land development projects.

We try not to highlight any one thing because we don't think any of those are the next big thing. But we'd like to conclude with this idea -- what is the next big thing? It's really the platform that's built to go adapt and find and create and fill those gaps. And the simplest way we can say is that the next big thing is a public platform built to find the next big thing. And that's what we think iStar is.

So, we're going to start laying the story out. As you know, we have not been particularly out there in terms of telling our story. This is really the beginning.

We'll be more transparent. We have lots of projects coming through the pipeline and reaching the end of this really sensitive negotiations. Hopefully we'll be able to talk about some really, really special projects in the portfolio.

Next week, you're going to see a new website under our new URL, www.iStar.com, shorter, sweeter, and more impactful. We're also going to put up a land and development site.

That's as much for the municipalities, the customers, the people who are going to buy in our communities to show them the strength of iStar, to show them the creativity of iStar, to show them the design and care with which we go into each of those communities. But you may find it interesting as well.

We think it is the beginning of a long process in which our skill set, our expertise, will become a real advantage when we're sitting in front of those municipalities, when we're trying to recreate, re-imagine some of these projects we're involved in.

And that is the end of iStar 3.0.

We're going to take some Q&A. How much time do we have, Jason? As much as we want?

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

About 15 or 20 minutes.

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Great.

QUESTIONS AND ANSWERS

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

So we're webcasting, so if you could just talk on the mic, that'd be great. You want to? Yes.

Unidentified Audience Member

Hi. Thank you. I'm just curious. I'm a little rusty in my REIT accounting. Do you want to pay a dividend? Do you need to pay a dividend as your earnings ramp up for the next couple of years?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

So the good news is we have the flexibility to decide that. We have tax shelter that allows us to retain capital. So we make - not saying we will -- if we made $750 million next year, we would not have to pay that out the 90% that typically most REITs would have to pay out.

I love the idea that we can retain capital, growth capital, without going to the market and having to do constant equity raises. On the other hand, to the extent we have excess capital, there's certainly an opportunity to think about repatriating that user share buybacks or through dividend.

Unidentified Audience Member

Hi Jay. Could you talk a little more about how you're going to fund all this in addition to the point about retained earnings? Right side of the balance sheet, please.

Jay Sugarman - *iStar Inc. - Chairman, CEO*

So we've been pretty consistent saying we want to lever ourselves about 2-2.5x. We bounced around at the lower end of that range, or it's going to bounce around between that range. We think there's a lot of repatriation going on in the book.

Obviously, some of these land projects are finally going to become liquidity contributors as opposed to liquidity takers. So right now we see, as I said, not a real need to expand the balance sheet, it's just turning it over from non-contributing to contributing, continuing to make smart investments.

Our model right now doesn't require any incremental asset growth for the next three to four years to drive pretty interesting earnings growth. But obviously, if the opportunities are there, if the hold in the market require it, we'll probably try to stay in that 2-2.5x range, retain some of the capital from some of the earnings coming through and stay on a nice steady course.

We don't see anything in the horizon right now that requires us to get on the treadmill of -- let's raise more money, let's add more assets. Let's raise more money, let's have more assets. We need to do that. It will only happen if we find really exceptional opportunities.

Unidentified Audience Member

You described the enhanced track opportunity as a function of the bank capital standards. I'm curious what thoughts you have about GE Capital pulling out of the real estate finance market and if there you see any opportunities, any holes that GE's withdrawal might create for iStar. Thank you.

Jay Sugarman - *iStar Inc. - Chairman, CEO*

It's a great point. There's no question. The regulatory stranglehold kind of drove them out of this business. And it's not surprising to me that the non-bank lending community is buying those assets.

What we can do, what a Blackstone can do, banks can't do. And so, in that regulatory environment, as I say, we think there's been about $400 billion of this intermediation. There hasn't been $400 billion of new non-bank lending supply created, but there're lots of smart people looking to the space, there're lots capital trying to find its way into the best assets.

We don't even look beneath the covers of some of the smaller assets. I can't really talk about what's going on there. But GE was somebody we competed with once in a while and they were looking big assets in big markets with big sponsors. And without them in the game, that's a good thing for us.

Unidentified Audience Member

Yes. It seems like last year you were forced into the home building business since you took these assets back. When these billion of land is fully realized in five years, do you think you're still in the home building business?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

It's a good question. We look long and hard in this business, we don't love it. We think it's very cyclical. We think there are moments in time where it's really unfair.

The land developer spent seven years doing all the work and the homebuilder steps in, in the last year, and extracts way too much of the profit. So we have decided we have to have the ability to go through the full cycle and extract more of those profits either in the form of JVs or in the form of proper participations. That sort of makes it a more interesting business to us.

The question really is -- if the capital star sector, there are people -- it's red-lined, 90% of the banks just red-lined, not going to do it, don't have the expertise, don't have the in-house capabilities.

And candidly, you need an infrastructure capability. I mean, we didn't just hire one land person and say -- that's a land business. We've hired structural engineers, land engineers, survey -- it's a full suite of people you need to actually re-conceptualize.

That tells me it's an inefficient market, that there are outsized returns available. But you got to pick the cycles right. And when you miss them, it's a long, long road back. So I don't think it's going to be a huge part of our book in terms of new incremental stuff. But if there's the right opportunity, we build an expertise that we should exploit.

We built it in the high rise residential market. We're building it now in the horizontal master plan community in urban in-fill market. That's a precious PhD. We're going to be able to use that, but we just don't see the flow of opportunities making a repeatable business that we're going to be on all the time.

Unidentified Audience Member

(off-mic) iStar employees to like or is that...

Jay Sugarman - *iStar Inc. - Chairman, CEO*

They are fully engaged for a long time. Some of these projects, these more core-like projects where the returns are not [just quantum late], they're just this. They just are long, core return type projects. We're going to need those guys on the ground for a decade or more.

Unidentified Audience Member

So I understand that you are very focused on the non-contributing assets. When we look at the balance sheet there seems to be a fairly large cash balance over $600 million.

You said you don't really need that much more capital to enact your plan, and I know you guys put s revolver in place that you announced in your earnings call. And so how should we think about that capital and then contrast it to say you've some expensive preferreds that are out there that are [callable]?

You also have all these opportunities you're talking about. You know, is it $600 million that's going to be invested over time? Or are there some capital structuring opportunities for your own balance sheet that you can take advantage of?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Sure. Also a good question. We're only looking at where the highest impact of the dollar we can spend. And we kept a lot of cash from the balance sheet really, candidly, as a credibility thing.

When we go into these large deals and say, we can close quickly, we can close efficiently. You'd be surprised how the borrowers like the idea that you have $600 million, $700 million, $800 million of cash on your balance sheet. That's not an efficient way to run our balance sheet, that will not be how we do it long term. But right now that's been actually a good competitive advantage.

The preferreds have intrigued us only because, obviously, in a 2% treasury world, a security that we think is dead safe, the pay is current 7.5%, 8%, we would buy. We like that. But when you look at the overall balance sheet and you look at the long-term nature of some of our assets, we need some permanent capital, not just equity which, candidly, if we're not earning 8%, we're going to be really disappointed.

So there's a place for preferred on our balance sheet. And whether it's the exact amount we have today, we have some converts in there, so the number may actually come down if those convert. We feel like the capital structure is about right, but that isn't to say we don't think it's a really attractive security and in the right circumstances might be something that is the highest invest use for the capital we have.

Unidentified Audience Member

Given the amount of robust we're seeing for CRE at this point in the cycle, how do you view any opportunities for a bulk portfolio sales, whether it be in net lease or in the commercial operating properties portfolio or in any other asset types there?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

We are not afraid to sell. We've shown that in the past. If the price gets right, we're a seller. As you saw it in Detroit, we knew that sale was coming. We just had to figure how to get it right, to get the full value.

The constant [calling] of a portfolio, some of that is reverse increase, some of it is very directed by us. But selling all big chunks of the business, you don't want to take the legs from under those cross-hatched business plans. It's really what makes us different.

We are in so many tentacles of the market, the corporate credit sides for net lease, the development side for the land book and the operating property book, the finance side. We see a very wide spectrum of deals, and we can really feel the nuances, where capital is flowing and where it's getting scarce.

And so I don't like the idea of just cleaving off big parts of the business and unless the returns are really exceptional. We have been laying off individual assets, repositioning parts of the portfolio.

But I think the idea that we're going to cleave off $1 billion or $2 billion of assets and really shrink the balance sheet down, given our cost structure, given our business strategy, I don't think that's in the cards.

Unidentified Audience Member

(Off-mic).

Jay Sugarman - *iStar Inc. - Chairman, CEO*

So the question on our land portfolio is, does it make sense to team up with somebody else? I'm not sure what they will bring to us, candidly. I mean, most of the projects we have underway, we feel really good how they're progressing. And I can't really see why we'd give any of the upside away. We did talk to a number of the home builders.

The problem is, in many cases, our portfolio is East Coast, West Coast. There wasn't one natural provider who fit the price points we were shooting at. You're tying your hands up a little bit when you go partner with a home builder. If they've got a better project down the road, they're not going to be spending time with your project.

So we think we've pushed these to a place where they're in pretty good shape, but now, we are those individual, more local and regionalized conversations about, okay, we've gotten it to here, the value jump has happened. How do we get that last piece? And if it requires us to do a JV, we're clearly going to do it.

Building high rises, we're not going to take on, we need a JV partner. Entitling redesign and reimaging land, not so much. You'll see us on that value creation curve, try to bring in that expertise if we don't have it or find the vision maybe that's better than ours. In most cases, I'd tell you a global solution, where you go, okay, I can just turn over the keys. I don't have to worry about it.

Unidentified Audience Member

We're sort of in a nirvana world, in a sense that interest rates are at historic low levels. The economy is reasonably strong, especially where you operate. How do you see that reconciling over a number of years and how does that -- this equilibrium in a sense, historically, anyway, entering to your thinking, in terms of where you go, how you go, how aggressively and so forth?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

I mean this is a grand experiment. It's never been done on a worldwide scale like it is now, so we're probably not in a position to be any smarter than anybody else in this room.

I will say, we felt pretty strong in the last two or three years, that as long as the Fed peg short-term rates and as long as Europe pegged their rates, our long-term rates couldn't go anywhere. And we've been playing that. We've got a floating rate book.

If the rates rise, on the finance side, we're actually going to make more money in our finance book. We've got inflation protection, and bumps in a lot of our net lease deals, so we think we're reasonably protected there.

I think in the operating portfolio side, as you saw, we worked through most of the residential book very successfully. The commercial book, yes, cap rates move. It won't be great for us, but I wonder if we're going to see more of a flattening curve than a stair step where short rates go up, long rates go up, short rates go up, long rates go up. I don't know if that's the move.

And then we're going to see some flattening, but overall rates are going to move probably in that direction. So as long as the world doesn't go crazy, the world will adjust, we will adjust. We will make more money on some parts of our business, maybe not as much on others.

But right now, interest rates aren't driving our business as much as you might think. I think the overall real estate market has a huge tailwind from low interest rates, no question. But when we look at the way our book is set up, [2,500, 1,500] basis point move in rates, I'm not losing sleep over that. Two hundred basis point move, I'd start to lose sleep.

Unidentified Audience Member

What was the ultimate impact of the $2.5 million ground lease on the sale price of One Detroit?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

So we had a number in mind that we thought was fair value, based on an NOI projection we had going out many years. We couldn't get anybody to bid to that price. We then created this net lease structure, a ground lease structure and a leasehold structure.

If you discount that ground lease, which I'm going to argue as AAA, at a 5% discount rate and add that to the price we got for the leasehold, we got full price. We got the price we wanted.

So, those one plus one equal three, yes, in this case it did. When we tried to sell them combined, we didn't get a price anywhere close to what we think the ground lease plus the cash we received was worth.

Now, you guys can argue with us, you can say, "Well, 5% discount rate on that cash flow stream is too low." Okay. I think it's a turn, 50 basis point premium with bumps and inflation protection in a AAA security. I'll trade my security for yours any day of the week. Mine is more valuable, more financeable at higher levels than what I think the alternatives are.

So that's how we think how value creation. I can't put her on the books, couldn't book a gain on it. It's just an income stream, but if we ever go to sell that, I think you'll see the final piece of the value creation come in a big way.

Unidentified Audience Member

Can you just talk about where you see opportunities on the net lease side? You did mention the JV, but I haven't seen a lot of activity in that part of the book. And then just the second question was, in the last earnings call, you've made some allusion to technological change having impact on real estate, if you could amplify your thoughts there?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Sure. Yes, net lease right now, as I showed, attractively priced relative to treasuries. So you go, "Why can't you do the average deal and feel good about it?" Because the residual basis in those assets, in those markets, for those tenants is not good.

So while your cash on cash is going to look good, the residual bet doesn't look good to us, at least historically relative to where we play. So we have to create something special. We can't just buy at the market. We don't like that business right now.

But, if we can manufacture one or use our proprietary base to create another one, or do a build pursuit off market with a one-on-one dialogue with a tenant, well now I have not only a cash on cash return I like, but I have a residual basis in real estate I like.

And that's really the thing we're trying hardest to do. It's awful hard when somebody just comes in and says, "I'll just pay more." CFOs or -- CFOs are going to take -- "I'll take the cheapest money I can get." We have to find tenants that go, "No, I don't need the cheapest money. I need someone who's going to be with me 10, 15, 20 years, moving, shaking, adapting to what my needs are because, I can tell you, most corporations don't sit in the same real estate footprint 10, 15, 20 years from now."

But if you can work with them every year, "What do you need? What can we do for you? Can we expand this? Can we buy the lot next door? Can we build the second parking garage? What can we do to keep you satisfied and happy?"

That's the deal we want to do, so we're looking for that edge, we're looking for that angle. We're not just looking for, let's take the index deal because right now, I tell you, the index deal is trading at a residual price that does not make sense to us. Technological changes, we have been playing this theme for a while.

We were early into the data center business after Tech Telecom busy. We had a view that things were changing faster than we had seen through the 90s. I would tell you in 2010, it's accelerating further.

Early on, I think most of you know, we did a deal in the cold storage space, a company called Preferred Freezer. They were building a fundamentally different real-estate footprint because the technology allowed them to do throughput in a 60-foot high building where everybody else was in a 40-foot high building.

But the margin of error when you have a pick and pack system 60 feet high, requires technology that is really sophisticated. And we're starting to see that kind of mentality flow through all kinds of businesses, where what's possible is changing.

My favorite example from a conference I went to a couple of months ago was the dialysis centers, which were always in strip centers on a particularly good real-estate but the theory was, unfortunately, once somebody's hooked up to that, you have a lifelong customer.

Well, in the labs, there was a dialysis machine that's going to sit next to your bed at home. And a lot of those dialysis centers are going away.

So if you don't see that technology stream coming at you, if you don't have tentacles in those places listening not what's available today, but what's being worked on, the real estate use of properties is going to change.

And that technological change is happening faster. We love lots of glass, high ceilings, different formations of homes, that's not technologically driven. It's just changing. Things are changing and people are adapting faster.

We as a Company are set up now to adapt really fast. We've always been good at it. We set ourselves up now to really to think about that future wave and adapt our real-estate investing to it.

I can't give you exact answers of what coming next. I can just tell you it's happening faster than it's ever happened. And if you're not watching, if you don't have your eyes out ahead of where you are today, you're going to get hit by it somewhere.

We've been right a lot in the past, we've been wrong in the past, but it's not because we're not looking, it's not because we just got blindsided. So I can give you lots of specific examples in our book, but generally speaking, technological change is also a buzzword. Things are just changing. You have to be nimble. You have to be adaptive.

Unidentified Audience Member

So it's not hard for us to see value in projects like Maples Reserve or Marina Palms, that doesn't take a lot of imagination. But how do you want to us to think about really, really long-tailed projects in the land book? Something like Grand Vista, that's really not going to be developed for a very, very long time. How should we get comfortable with valuation and carrying value on those types of projects?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

That's a good question. I think of them as asymmetric outside opportunities. I don't think where they're marked, there's a lot of downside, but I can't really give you nice business plan that says, "Here's what's going to be worth."

We just know populations are increasing, scarcity in some of these markets will increase over time. I'll tell you with respect to some of these sunbelt markets. They continue to grow. They're not growing as fast as they used to.

They're not growing at 50,000 permits a year. They're growing at 13,000 permits. And I don't know where the people are going. I don't know if they're doubling up. I don't know if there's some other dynamic that's skewing the data. But the data tells us there's a building need for housing stock that will show up somewhere in the next decade.

And Phoenix is a market that should benefit from that. Certainly, all the urban markets we're in should benefit from that.

So we'll just tell you, "Think of it as an asymmetric upside. Think of it as, our book feels pretty good." I don't think you could buy that land today and assemble that portfolio at our price. But in some cases, we're not going sit there and give you metrics and say, "Multiply A times B plus C, and you're going to get D." No one knows.

But I like having them in the book. I mean, we're a $5-billion, $6-billion, $7-billion Company. To have a couple hundred million of asymmetric, potentially quantum return deals, not today, but 5 or 7 or 10 years from now, it's okay.

If we need that capital and there's a better place to put it, okay, we may have to make a tougher decision in the near term. But as mark out, we don't see an enormous need for incremental capital, so it's not competing for capital right now, not keeping us out of another investment that we'd otherwise do.

So it's not a big part of the book, maybe a couple of hundred million dollars where we go, just put that in a drawer. I think it's asymmetric. I think there's upside. I can't really credibly sit in front of you and say, "Well, it's going to 40,000 [a log. We've got 15,000 logs] to do the math," because it's years away.

We're trying to retain the water. We're trying to create a -- entry way from multiple points surrounding those properties so that when that time comes, people go, "That's the next big one." But we're not there yet. I don't want to mislead you. We're not there yet.

Unidentified Audience Member

Can you talk about the process in redefining yourself as this alternative REIT, I guess for lack of a better word? A REIT hedge fund. I mean, I think they used to be called diversified REITs.

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Something like that.

Unidentified Audience Member

And I guess in the context of the fact, there was -- Michael Asher's REIT, Winthrop, saw themselves similarly and then last year threw in the towel and said, "We're under priced," and I think it was up 100% last year. I mean, the market didn't like what they were doing and liked that they were liquidating. Do you think that's a problem for this redefinition?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

So here's the thing, you have to create a competitive position where each of these ideas fits and hangs on that framework.

[The only criticism I think to Michael], there was no framework. It was just, "Trust me, I'll make smart deals. Look, I'm doing smart deals." There was no framework of, "This is a macro opportunity and this is how we're attacking it. This is how we're special and different in attacking these different parts of these businesses."

If you don't have a framework, you literally don't have a business strategy that you can hang smart investments on. I don't know what to do with that either. We certainly thought there was value in his platform, above and beyond where it was trading.

But Michael didn't want to be in the public market. He's a good private investor and he wasn't creating the framework for investors to really understand. "When I see the next deal, which framework do I hang it on, Michael? Where do I put it?" It's just a smart deal, and I like investing in smart deals, but if I stand here today and say, "I'll walk you through 56 smart deals. Let's do it." I could sit here all day with you and you go, "Okay."

But we're trying to give a framework for how the markets have changed since we started in this business in 1993, how it's evolved since the early 2000s, where we come from in terms of thinking about differentiating factors, where you can put $5 billion or $6 billion or $7 billion portfolio to work profitably and create future opportunities, future lines of attack.

That's a business. That's a, "Hey, we have a differentiating thing." We look at corporate finance, capital markets, real estate, in an evolving market. We see technological change. We see adaptive change. We see bank regulatory pull back, and we have lines of attack into each of these places.

And we've been doing it for 22 years. I'm going to argue to you that that's a framework and a strategy that you can actually go -- okay, I get that. It may not be like anybody else, but I actually understand that line of attack. I understand how you're trying to build a business that can continue to grow earnings. I see how this is not a bunch of little one-off deals and, okay, then you'll never do one again.

These are billion dollar businesses. Each one of them is $1 billion of economic opportunity. We have the resources and we have a lot of people. We spend a lot of money on overhead, we're spending a lot of money creating intellectual property. This is not a deal shop that just does one-off deals. If we're doing that, yes, -- [it's going to be for private]. So I started, this is a business.

Unidentified Audience Member

Jay, if I heard you correctly, you suggested $1.75 adjusted income per share next year. Can you discuss kind of the process internally that you went through to get to that and kind of your level of feasibility going from $0.75 to $1.75?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Yes. A lot of this is that non-contributing asset page we showed you. I mean, I think what's going on right now as 40% of our book was taken money off the P&L. I mean that's just a staggering statistic to me.

And we really looked at it as the opportunity instead of a problem. That's the opportunity. We don't have to grow assets. We just have to convert non-performing or non-contributing assets. We've done -- almost all the non-performers are gone.

We'll have a couple of things bounce in and out, but that's not what's driving the book right now. It's the cash, it's the land, it's the commercial operating property portfolio that's not contributing to earnings. If you just start shaving those numbers down, I think you can do the math and see we make 7%, 8%, 9% ROAs on a lot of that non-contributing stuff. And it'll come -- [land book will be a quantum].

So it's not going to be like we're going to turn it slowly. You're going to see some stair steps. It's why we can show that kind of earnings growth without growing assets. How long that'll [last] -- two-, three-year process, and then you'll see a more steady state in our growth rate. But right now, we're in this really interesting, and I'll say, really uncommon part of our curve which is we can grow earnings by just taking assets that are not yet contributing.

And we're not out competing in a market going -- man, I got to do $1 billion this quarter. I wouldn't want to do that in this market. I don't know how to win that battle. We're probably doing a couple of hundred million dollars a quarter. And if we don't see anything we like, we don't have to because our existing book is plenty of good investments we're just making there.

So I love the fact that we don't have anything pushing on us saying -- you got to invest, you got to invest. We don't need to. Our earnings will grow without that. Now, if we hit a part of the curve where we can do both, we can move non-contributing and do some asset growth, well, that could be really special.

Unidentified Audience Member

[For those of as at one half a year, I mean, is 175] something feel comfortable, therefore, in a couple of years, is that greater or is there a possibility $0.75, $1.75 [impact in the markets]?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

I will get fired if that happens. That is not part of the plan.

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

We probably have time for one or two questions.

Unidentified Audience Member

You guys [really think you can do $1.75] next year and [there is complicated series?] (Off-mic)

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Is it? It's good.

Unidentified Audience Member

You think you can get [15 times before]? Better than a [9% level], isn't it?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Yes, that's why we're not doing a ton of loans. We're doing the ones that we think extract the marketplace. Every time we step into the market, we get 44,000 shares and then the market moves to another level.

One of the things you got to understand that you probably know, stock is scarce. It's not like we can go in and buy a lot. We are trying to find ways to extract some value and you'll probably see us announce some ways to think about that. But I think about that every day. Weakness is an opportunity, but we look at all the alternatives whether it's the preferred, whether it's the equity.

But buying $1 million of stock, or $10 million of stock, or $15 million stock, we did $1.5 billion of loans. Can I buy $1 billion of stock? No. Can I buy $500 million? No. Can I buy $200 million? No. Can I buy $100 million? No. We've got 44,000 shares and stock [at $0.50.]

So I haven't seen it as an opportunity to take this big pool of capital and go -- let's go. Now, if we want to pay a sizable premium, I think there's probably shares available. But look at the return profiles in some of these deals. I think -- I got that in my control and I know I can execute it tomorrow morning.

So there will be a time and there have been moments in the market where we have been aggressive buyers of stock. You've seen that in our history. Right now, I think you're seeing we're deploying a lot of that capital into assets that we think are really smart in size and really reworking the book. But trust me, if buying the stock is the best choice, it will be on the radar.

We haven't even been able to spend the $28 million authorization we have. And we're in blackout much more than you guys probably suspect. Because when we know something's coming, we can't buy the stock. And there's a lot of stuff coming.

Unidentified Audience Member

So just further along that since we were talking about [Michael Ashford], even if you paid -- and I'm using it as a hypothetical -- if you pay up $1, I'm assuming that you think, given everything that is in the backlog and everything that's out there that the companies were substantially more than where it's currently trading.

Jay Sugarman - *iStar Inc. - Chairman, CEO*

That's our goal.

Unidentified Audience Member

And that at the day, if you had to pay up for it, isn't it still a better return on the [asset]? I mean, again, you're sort of in a tough area because you're not a REIT, but you are a REIT. And the business is run almost like a private company, and the bond holders are happy, and the equity holders are sort of sitting there saying -- okay, well, I'm hoping that he extracts this value, but I'm not sure that I understand.

This is certainly a great step forward, people see what it is. But I'm just kind of curious because the Ashford example is a perfect example and it was worth a lot more. Now, he's a smart guy, he does great deals. You're a smart guy, you do great deals. But is the market ever really going to value you based upon what you can actually turn out? And that's really the --

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Jay Sugarman - *iStar Inc. - Chairman, CEO*

Look, maybe I'm chained to the past, we've traded large multiples of book when we had a business that was better than anybody else's business in our sector. That's what we want to do again. So we love the idea that it's possible because we've lived it.

We did it privately first, we did it publicly second. That opportunity exists. If we're going to trade it 15 times, excellent. We've done our job.

But right now is our first presentation. It's really our first time to come before you and say we have earned some earnings visibility internally that we're starting to target ourselves to. We're showing you some of the ups and downs that we go through to get here.

It's not a straight line. Litigation for years and years, projects that we've been through, municipalities for years and years, it's not that easy to sit here today and say -- 16 times, that's the right -- I don't know.

What I do know is when you build a great business and you repeat it again, and again, and again so you can show the market that you put $1 into iStar, you should get a very nice return out. And you don't do it on a $500 million or a $1 billion base; you do it on a $5 billion, or $6 billion, or $10 billion base. Markets like those.

Now, you're starting to build some liquidity. Now, you're starting to build some institutional following. Now, you start to have access to the capital markets that give you competitive advantages from the right side of the balance sheet.

We don't have a right side of the balance sheet advantage like we did in iStar 2.0. We have a disadvantage today. We're going to fix that. It's going to take time. But those are things that, unfortunately, Winthrop didn't have. They didn't have big capital market capability. They didn't have a broadly diversified business strategy. They didn't have 20 years of people working together, thinking through top of the cycle, bottom of the cycle dynamics.

We can make a bunch of really smart investments and we will trade a book. That's all it'll be. We're trying to tell you this is a business that we think about in the context of today's competitive landscape. We don't want to be -- what's your dividend yield? We don't want to be -- what's your NAV?

That's not who we are. That's not how we think about the business. We want to be a company that moves, and adapts, and fills the holes in the market faster, quicker, and bigger than anybody else. And if we do that, the returns should be really special. And if that's true, then you're right. We should've bought every share we could. But we bought in 30%, 40% of the stock already.

Now, we got to go do the business. We got to build a business that you guys respect, and trust, and believe in. And we've got work to do. I'm not telling you this is easy. We've got some fights out there we still got to go through.

But you can see what we're doing now. You can see and I feel it, which is these lines of attack and these multiple businesses and feeding each other. So we're not just going -- okay, that's what we did yesterday. Let's do more of that tomorrow. And by the way, we got to double it next year, and by the way, we're going to double it again.

Honestly, I don't want to run that business. We'll take that business private and just forget it. That's not what we're doing right now. We don't have any pressure to do doubling and tripling of our asset base. We just have to do a really good job re-conceptualizing where the market is and where we are.

And then you guys will tell us where the trade's at. And if you think it's 10 times, I'm not too happy. If you think it's 15 times, 20 times, very, very happy. But let's get our foundation underneath this first, let's make sure we're delivering the earnings. Let's give you a story that now you can start to listen to deals we're doing.

I hang that, I see what -- that's that value creation, value extraction idea. Yes, yes, the financing theme idea. Yes, yes, that's how those guys go after their net lease business.

And if you do that and you say -- okay, who else can do this? And you go -- it doesn't seem like many people. Then you have a good business. Then you trade at a multiple. Then you're not constrained by -- here's 10 other guys doing the same thing. We'll have to double our assets. Okay.

Believe me, we were in that cycle once. It's not fun. I don't want to be back there anytime soon. Now, when the markets change and big holes open up, we have the capital strength, we have the infrastructure to go attack them, not for one deal, but for dozens of deals, that repeated advantage.

And so that's what we're looking for. I can't tell you we've got big seams opening up in the market, but we feel cracks opening.

Unidentified Audience Member

Just one housekeeping question and a follow-up. When you put up the track loans, you comped it to a 4B index?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Yes.

Unidentified Audience Member

Do you consider the track loans to be 4B credit quality?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Look, if you look at the CMBS market and you go -- what's a 0% to 60% CMBS loan look like, I'm not sure I would trade a single one of those loans for any of ours. They don't have the sponsorship quality, they don't have the real estate locational or attribute quality.

But they're stabilized, that's the good news. And so they trade at a, what I think is an unusually tight spread relative to what we're doing. But 2Bs, yes, I'd take one of our loans over a 2B, 4B investment. I think this is an exceptional real estate.

Unidentified Audience Member

Sure. That's why I'm asking you. You comped to double B credit. Internally, do you view that as double B credit risk in the balance sheet?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Yes.

Unidentified Audience Member

Okay. And as far as your guidance, what have agencies, what have [SROs] said about your guidance? What kind of happens to your metrics and what do they think about it?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

It's been a process. Obviously, we came from the investment grade world. We stumbled. It takes a while to build your credibility back. We've done a good job of that. Frankly, we kind of laid out here's what we're going to do, here's what we're going to make in these different categories. And then we went and did it.

So that was the first step, is to rebuild the -- we know our business. We're telling you where it's going. Now, we will go do it, and we've done that.

I think the next step -- and I think they're comfortable, frankly, with our leverage range, feels about right. Now, they want to see sustainability of earnings. They want to see that same dynamic of -- okay, profitable, profitable, profitable, profitable

And candidly, we look at the land extraction as a big part of our business. We need to convince them that it's a repeatable earning stream that's going to keep coming and keep giving and is a business. It's not a one-off deal. It's a series of re-imaginings, redesign, re-entitlements that are very hard for many people to do. We can do. We're not going to do it once; we're going to do it multiple times.

If those earnings are where we'd like them to be, then I think we're ready for the next conversation.

Unidentified Audience Member

Just to be clear, [the work down at the NPAs is probably the next catalyst you're working on]?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

We're not calling them NPAs, we're calling them non-contributing assets.

Unidentified Audience Member

NCA?

Jay Sugarman - *iStar Inc. - Chairman, CEO*

NCA, exactly.

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

Jay, unfortunately, we do have to wrap up.

Jay Sugarman - *iStar Inc. - Chairman, CEO*

Okay. Look, I really appreciate you guys coming. As I said, we will have a new Web site up next week.

Feel free to call Jason with any follow-up questions. But thanks for being part of the beginning, and we hope to stay in touch.
