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PRESENTATION

Operator

Good morning and welcome to iStar's First Quarter 2019 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 Jason Fooks, Senior Vice President of Investor Relations and Marketing. Please go ahead, sir.

Jason Fooks ***iStar Inc. - SVP of IR & Marketing***

Thank you, and good morning, everyone. Thank you for joining us today to review iStar's first quarter 2019 earnings. With me today are Jay Sugarman, Chairman and Chief Executive Officer; Andy Richardson, our Chief Financial Officer and President of Land and Development; Marcus Alvarado, our President and Chief Investment Officer.

This morning we published an earnings presentation highlighting our first quarter results, and our call will refer to these slides, which can be found on our website at istar.com in the Investors section. There'll be a replay of the call, beginning at 12:00 PM Eastern Time today. Replay is accessible on our website or by dialing 1-800-475-6701 with the confirmation code of 466493.

Before I turn the call over to Jay, I'd like to remind everyone that statements in this earnings call which are not historical facts will be forward-looking. iStar's actual results may differ materially from these forward-looking statements. And the risk factors that could cause these differences are detailed in our SEC reports. iStar disclaims any intent or obligation to update these forward-looking statements except as expressly required by law.

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

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

Thanks, Jason. This is the first quarterly earnings call since we announced our strategic shift towards building a comprehensive platform to reinvent the ground lease sector. We've been moving decisively since then and made good progress on a number of fronts.

Let's start with our earnings and adjusted book value. While the first quarter was relatively quiet on the earnings front, we set in motion several transactions that will be important to earnings and value drivers this year, and should lead to higher earnings and more visibility into the embedded value of our portfolio. The first of these was our previously announced sale of our Preferred Freezer net lease portfolio. The sale came about as part of the acquisition of Preferred Freezer's operating business by the leading player in the cold storage industry Lineage Logistics. That acquisition is scheduled to close in the second quarter, at which time our portfolio sale will also close, generating approximately $215 million of GAAP earnings gains or over $3 per share.

The second important transaction was our $250 million investment in Safehold share or Safehold during the first quarter. This investment gives us the opportunity to participate in our proportionate share of the ongoing earnings generated by Safehold, as well as any embedded gain or loss on our SAFE capital investment. With over 20 million shares and share equivalents, every dollar of share price increase at SAFE over our basis creates a substantial unrealized gain for iStar.

Other transactions set in motion are not yet far along -- far enough along to be able to talk about, but if completed, should help further demonstrate the sizable value built up in certain of the investments on our balance sheet. With approximately 65 million basic shares outstanding, getting these values recognized will add significantly to per share earnings and book value per share, and we will continue to work to highlight this value to the market. We hope to have more to say on these in our second quarter earnings call.

Let's move on to the balance sheet. We began putting our ample cash balances and liquidity to work in the first quarter, with our 2 biggest deployments consisting of the $250 million investment in the Safehold and the early repayment of $375 million of debt maturing later in the year. With the Preferred Freezer sale, we expect to have additional proceeds to deploy towards our ground lease initiatives.

Legacy asset progress was also solid this quarter with approximately $100 million of assets sold, generating a small gain overall. Regarding the 3 longer term hold assets, the opening of our iconic new property, the Asbury Ocean Club this summer, should bring renewed attention to this unique city and the mile of ocean front that we are developing. With over half of our holding's in an opportunity zone, we believe there may be new ways to monetize portions of these holdings at the appropriate time.

Also, as part of our change in strategy and de-emphasis of our land development business, our President of Land and Development and CFO, Andy Richardson, will be leaving this quarter. Andy was brought in to take on the sizable task of running our $1 billion land development portfolio and he and his team have helped put the portfolio in a much stronger position. But our plans have now materially changed and with a much smaller development portfolio going forward, it was clear we could not make full use of Andy's talents. We are grateful for his efforts and begun a search for the right candidate for the CFO role in our new go-forward strategy and we're fortunate to have excellent teams in place to continue managing the remaining land portfolio. The de-emphasis on the land portfolio was driven by our desire to be primarily focused on scaling a new and innovative ground lease business. There too we saw a good progress this quarter.

Working together with Safehold, we had an active first quarter, including two closed SAFE/STAR deals, multiple proposals presented together and of course the incremental $250 million investment directly into SAFE. We see the combined SAFE/STAR capabilities as a significant competitive advantage, and we'll continue to seek to create off-market investment opportunities for iStar in conjunction with Safehold delivering better, more efficient capital solutions for real estate across the top markets in the country.

Lastly, in conjunction with the overall strengthening of the balance sheet and the attractive price of the Company's shares, we took the opportunity to continue our share buyback program. We've now utilized approximately $40 million of our original $50 million authorization. We also approved an 11% increase in the dividend, beginning in the second quarter, raising the quarterly dividend to $0.10 per share.

And with that high-level overview, let me turn it over to Andy to walk through the earnings deck, and then we can open it up for questions. Andy?

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

Thanks, Jay; and good morning, everyone. To follow Jay's comments, I've enjoyed being back at iSart during the past year, leading seasoned Finance and Development teams, helping transition the legacy assets and seeing the ground lease business build momentum. As Jay mentioned, the role has significantly changed in scope from when I had originally joined. I plan to help with the search process and to work with other members of the senior management team to transition my responsibilities.

With that, let me walk through the details of this quarter's results. My remarks today will refer to the slide from the earnings presentation posted on our website earlier this morning. Turning to Slide 3, we will review some of the highlights. To echo Jay's earlier comments, 2019 marks a new era for iStar as the Company moves forward with the strategy we laid out on our call in February, focused on scaling our ground lease business. We plan to accomplish this through a 3-pronged approach. It begins with our investment in and management of Safehold Inc., the public vehicle we formed to provide modernized, better structured ground lease capital to the commercial real estate market. Second, by leveraging iStar skill set to establish ourselves as the market leaders in the ground lease space, specifically re-cultivate the ground lease ecosystem through our SAFE/STAR program whereby iStar invests in complementary leasehold finance and equity opportunities. And finally, by accelerating the pace of monetizations of our legacy assets in order to reduce distractions, free up financial resources, reallocate human capital and dedicate management to focus on growing and capturing the ground lease market opportunity. Throughout today's call, we will walk through how we executed on each of these fronts in greater detail.

iStar reported a net loss of $17.6 million or $0.26 per share; and on an adjusted basis, we were close to breakeven. The quarter was highlighted by the significant amount of capital put to work through investments in SAFE, origination of leasehold debt and equity investments and debt reduction, along with meaningful progress in legacy asset monetization. In addition, year-to-date, we repurchased 3.7 million shares of iStar common stock, which is more than 5% of shares outstanding and the Board has approved an 11% increase in the common stock dividend for the second quarter to $0.10 per share or $0.40 on an annualized basis.

With that context, let me turn to Slide 4 to take a look at how we deployed capital in greater detail. During the first quarter, iStar deployed $874 million of capital in a combination of strategic new investments and debt reduction. This was comprised in part by iStar's direct investment of $250 million in SAFE equity at the beginning of the year, and approximately $2 million of open market stock repurchases during the quarter, which increased our total economic ownership to 65.8% of SAFE's equity.

In addition, iStar funded $181 million through its loan and net lease businesses, including a $111 million of deal flow through our SAFE/STAR program. Separately, we had $47 million of capital expenditures in the first quarter, the majority of which were associated with our development in Asbury Park. As I mentioned before, we also repurchased 2.3 million shares of iStar's stock for $19 million in the first quarter and have continued our repurchase activity after the end of the quarter, purchasing an additional 1.4 million shares for $12 million. And lastly, we redeemed the remaining $375 million of our 5% notes due July 2019 with cash on hand, extending our weighted average maturity to over 4 years, and giving ourselves a comfortable runway with no remaining corporate debt maturities till September 2020.

On Slide 5 we highlight the progress of the SAFE/STAR Program over the quarter. This quarter we demonstrated the benefits of our SAFE/STAR One-Stop Capital program as iStar closed two new deals totaling $111 million alongside Safehold ground leases. By combining the offerings of both iStar and Safehold, we can create proprietary transactions and win-win-win outcomes for iStar, Safehold and our customers.

Moving to Slide 6, we report our progress on the monetization of legacy assets. In line with our strategy, iStar began the year by selling legacy assets for $100 million during the first quarter, and recorded a $5 million net gain from the legacy assets sold. We continue to reduce this portfolio, which currently stands at $938 million.

Turning to Slide 7, we break down this $938 million a step further. Recall that we have divided our legacy portfolio into 2 buckets: long-term and short-term. The long-term bucket is comprised of 3 assets in which we invested approximately $35 million, primarily in Asbury Park during the quarter. Most of the property's sales during the quarter were made up of legacy assets within our short-term bucket. And as a result of those sales, we reduced the balance from $485 million to $393 million. We continue to target reducing our overall legacy portfolio to represent approximately 15% of the total portfolio value by the end of the year.

Flipping to Slide 8, we lay out the attractive embedded value we see in the stock and the rationale behind our recent repurchases. As of March 31, iStar had a depreciated GAAP book value per share of $4.62. And exclusive of depreciation and general reserves, our adjusted book value per share was $10.43. Pro forma for the Preferred Freezer portfolio sale currently expected to close in the second quarter and the additional stock buybacks we have completed after the end of the first quarter, GAAP book value per share is approximately $7.88 and approximately $12.92 on an adjusted basis, and nearly 50% premium to our current market price.

Turning to Slide 9, let's recap and review our segment and corporate performance over the quarter. In the first quarter, Safehold closed $143 million of new investments, bringing the aggregate gross book value of the portfolio to $1.1 billion, up 76% year-over-year. SAFE's first quarter investments had a weighted average effective yield of 5.9%; and notably, subsequent to the end of the quarter SAFE raised 30-year financing with a 4.2% average rate as the company develops reliable long-term financing for its unique assets going forward. Excluding SAFE, iStar's net lease portfolio now sits at $2.1 billion with an 8.8% weighted average unlevered yield on its consolidated assets, while iStar's performing loan business at a book value of approximately $900 million, and generated a 9.1% weighted average unlevered yield. On the legacy side, commercial operating properties at a weighted average unlevered yield of 6.2%, and we are exploring opportunity zone capital interest for Asbury Park.

Lastly, following the repayment of our remaining 2019 debt maturity, we now have eliminated all corporate debt maturities for another year-and-a-half. So in summary, 2019 is off to a strong start and the Company is executing on its stated strategic plan.

With that, I'll turn it back to Jay.

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

Thanks, Andy. Operator, why don't we just go ahead and open it up for questions now.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question is going to come from the line of Stephen Laws who is with Raymond James. Please go ahead.

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

Hi. Good morning. Jay, can you maybe expand a little bit of detail -- provide a little detail on the legacy assets, kind of long-term, the Asbury Park? And I know you mentioned opportunity zone, but how much more investment do you think you need there to complete everything? I know that's a longer-term investment. And then on the short-term, how long do those sales discussions take, how much of, say, the $393 million of short-term legacy assets are you already in discussions with potential acquirers?

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

Yeah, thanks for the question. Just in terms of Asbury Park, obviously, the biggest piece of the puzzle in that longer term hold bucket be a lot of recycling of capital and actually we think the overall dollars committed will come down pretty sharply as we begin selling the units at Ocean Club. I think the big news there is this opportunity zone potential that may give us a chance to re-look at some of the go-forward business plan items and figure out if there's a way to do it more efficiently with less capital from iStar. So we think we'll probably hit peak Asbury Park probably not too much later in this year and then we see it declining from there as we take capital off the table and also just recycle some portion in the future projects. But things look pretty good down there and I think we're looking for a strong summer season to really set the tone and give us a chance to think about how we might accelerate some of the value creation down there.

On the other stuff, on the short-term hold stuff, my own view is, we've got a lot of activity in the book, but we certainly are not in the mode of counting chickens before they hatch; a lot of these deals we put under contract with folks, but it does have contingencies around whether it's rezoning or on entitlement question that they want to change or something else they want to do that takes not just our approval, but some third-party's approval. Those tend to be pretty extended. We've seen them run for 6 months, 12 months in some cases. So a lot of activity, a lot of things on the market with good interest, but I'd caution you it's not going to be a straight line from here to zero, and our teams are working really well to continue to move that number down.

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

Great. Appreciate the color on that. Kind of from a capital standpoint, it was a nice quarter seeing $143 million of new investments, and I'd love you to talk about the opportunities there, but also a stock buyback and a dividend increase, so kind of your 3 uses of capital there. Can you talk about how you compare and contrast especially stock buyback versus investments for new -- excuse me, opportunities for new investments and kind of the toggle point you look at between a discount to the book versus returns on new investments?

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

Yeah, look, obviously we came into the year with quite a bit of liquidity, quite a bit of cash that was really not earning anything for us. So we looked as soon as we have the strategic direction set pretty firmly we want to be more efficient with the capital on the balance sheet. We also want to have sufficient liquidity to really build the business that we think is going to launch us into a whole another new and profitable era. So we've measured our thinking across all those, but I think you saw this quarter we put quite a bit of money into SAFE. SAFE is deploying money at a pretty good pace. We're seeing some proprietary opportunities come out of the SAFE/STAR program that allows iStar to find some pretty good investments with less competition than we've seen in the past.

And then you have the opportunity to take advantage of what frankly we think is a underpriced stock and we've done that consistently. And again, I think, between end of the year and now we bought in almost another 5% of the basic share float. We continue to think that as a very attractive investment, but most important to us is building a business where we will be the best that will grow quickly and will trade at a material multiple. And I think those are the steps we're most excited by. Certainly, at this point the benefits of those moves will be over a much smaller denominator. So if we do our jobs, that should be some pretty material impact throughout this year.

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

Yeah, that's a good point. Thanks, Jay. Andy, any comments or thoughts around the impact of the current expected credit losses of Stifel standards that will go into effect at the end of the year as far as the loan portfolio over any of the other investments?

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

Yeah, we're still evaluating the impact of that standard, but we don't think it's going to have a material impact on our financials when it's adopted.

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

Yeah. And you guys already have a general reserve in place, correct?

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

Correct.

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

Yeah. So that's one thing added back, which I guess others may start doing. Great. Thanks very much for taking my questions.

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

Thanks.

Operator

(Operator Instruction) Next, we go to the line of Jade Rahmani with KBW. Please go ahead.

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

Thanks very much. To start off with, do you have an estimate of NAV or some kind of range? I was marking the market Safe's stock price and got to some kind of pro forma book value, adjusted book value of $14.50. And I think you just signaled that you're expecting some more gains. I guess if you look across the entire portfolio on a net basis, do you think that there are gains? Would those gains offset any potential impairments? And what's kind of a range of realizable NAV in your mind?

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

Hey, Jade. Yeah, look, again, we're not in the business of counting chickens before they hatch. But as we signaled, we think we have set in motion some things that will help highlight that value on the balance sheet that perhaps people weren't seeing. We think the Preferred Freezer trade does that. You've done the math on the Safehold share ownership position. We've always said we have some pretty attractive positions in our net lease book, and again, we felt like at the end of last year we took the medicine we needed to make this strategic shift. So we're not expecting large losses going forward. We have a couple of assets that we're still working through. But, again, on the whole, if that's your, the thrust of your question, yes, we think there is value in the balance sheet above where it is marked.

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

And what's the magnitude of CapEx you anticipate in investing in the long-term land positions?

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

Well, the good news is 2 out of the 3 are -- there's really no incremental capital needed, that's Magnolia and our Phoenix assets, so it's really Asbury Park. And as I say, we're getting to the tail end of investment in Asbury Ocean Club. You'll see that last chunk of capital that we have to invest coming through. And then, as units begin to close, you'll see that number start to come down pretty rapidly. So again, we think we're nearing peak Asbury Park in terms of capital and hopefully by the end of the summer -- end of the year, we'll be in a different direction, where we'll be repatriating capital. So we think we're getting even on those assets to a point where they will no longer take capital from our ground lease initiatives.

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

As I look at iStar today, it's trading at based on that adjusted book value number I mentioned, the lowest price to book multiple of any company I cover. And I have to tell you I cover some really interesting ones like Colony Capital, which has gone through multiple mergers and their balance sheet, includes tons of intangibles, carryover accounting from past mergers, internalizations, I cover another one single-family rental company that's under scrutiny from activist investors and yet iStar trades at the lowest price to book multiple. I mean, what do you think the missing pieces are in order for it to capture that value in terms of where the stock's valuation is?

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

Well, I think you've seen lay out some of the steps we are taking to try to highlight value that maybe people haven't recognized. Obviously, you have a strong buy on us Jade, so you recognized it. But I think our thought process is if Safehold continues to do what it's doing, if we get the value recognized there, folks will be able to see that very directly by multiplying the shares by that valuation. We're simplifying the balance sheet, we're simplifying the story, we are making good progress on the land book, really moving it down to a point where it should not be part of the story in any material way. We're going to highlight those values inside our net lease business. I think it's interesting we've seen a material shift in sort of the shareholder category that a lot of people see us in since we made the announcement in February about our new strategic direction. And I think part of the disconnect is just sort of rebuilding the shareholder base to understand the go-forward strategy.

We're not a commercial mortgage REIT, I know we still have legacy finance capabilities, but there has to be a rotation of shareholders who now understand where the value proposition is here. It's fundamentally should should be a different shareholder base, a wider shareholder base. We don't think it's REIT exclusive, we don't think it's real estate exclusive, we think we're developing a platform that's going to attract a lot of new types of investors and it's our job to go introduce this new story and build on the success we see coming at Safehold to translate into significant value.

At iStar, both through the earnings we get, through the implied capital gains as you point out, but also the fact that we are the manager and own the intellectual property of a very disruptive potentially very large business. And so I think that story is new, it's different, we're going to have to find shareholders to replace those who maybe thought they were investing in something slightly different last year. But we are very confident that that process has started. We're going to highlight that value disconnect. We're going to continue to take advantage of it ourselves if the market doesn't quickly reset, but long-term, our goal is simply to build a great business that people can't ignore and make it as easy for them to enter the story as possible and that's really our job, and we think it's going to be a successful one.

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

Looking at iStar's net lease portfolio, as well as potentially the operating property portfolio, the combination of the two total about $2.3 billion or so. Is there a strategy to unlock capital by selling ground leases to SAFE against any of those assets? Is there a meaningful component that that could be done on?

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

Yeah, that's not really the core of the business strategy. I can't say we never look at that. There are some assets in there that we think we could unlock value. I think, right now, the teams are focused on a lot of just education of the broader market. But if there was ever an opportunity, there certainly we are proving it every day that one plus one equals more than two. We're doing it on behalf of customers all around the country. We've looked for our own book and frankly that I think we've tested this out and have generated higher sales prices on assets by keeping a ground lease and selling a leasehold would we do adjust to unlock the value inside our own portfolio, have to be the right assets, Jade, have to be the right markets. Right now I wouldn't say that's a driver of the business.

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

Just looking at the finance portfolio since it's got very short duration, any loans in there that are on a watch list or that we should be thinking about as potential credit issues, starting to see some delinquencies in the commercial mortgage REIT portfolios?

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

Nothing material. Some markets are softer than others, but we feel pretty comfortable where we are.

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

And then finally just excluding gains relative to where assets are marked, what's the timeline in your mind from where iStar starts to really turn profitable on a recurring basis?

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

Yeah, look, that's an important piece of the puzzle. We came into this year probably with over $1 billion of assets not contributing any earnings. Hard to make the recurring earnings stream look as attractive as we think it will until we turn all those un-contributing assets into contributing assets you saw in the first quarter a pretty material step in that direction, putting $250 million to work in Safehold, taking out $375 million of debt with cash, which is an effectively investing it. So I think we're turning the corner on the inefficiency in the balance sheet, there's still some land assets obviously that we're going to need to move on from to really get efficient with our capital structure. But I think the underlying strength of the Company will start with people recognizing the value we have today and then understanding where we're going with Safehold and how powerful an earnings generator that can be and the value creation that we are going to see there. All those things will work together, and again, I wish we could snap our fingers and make it happen. But I think if you look at the first quarter, we're showing you all the steps we're taking, buying in shares, increasing the dividend, deploying capital, building up our position in Safehold, scaling that business, all are going to lead to a strong earnings story, strong value story, but most importantly a strong business story. We want to dominate a business, be the best at it and it's a business that we think is going to unlock a lot of value for a lot of building owners around the country.

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

And lastly, the Board increased the dividend. What was the thinking behind that? Is it premised on future gains or is it just a way to return capital to shareholders? What was the thinking there?

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

Yeah, we gave them a sense of where we think the earnings impacts could come out throughout the year and they felt it was appropriate to begin moving the dividend to be reflective of the strength of the balance sheet and some of that future positive work that we expect to come through. But, look, we're being thoughtful and again I said balancing using capital to build a business versus using capital to continue to show shareholders the proposition that we believe, which is -- these are very attractive share prices every day and we're just going to keep highlighting ways for people to understand that and see that.

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

Thanks for taking the questions.

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

Thanks, Jade.

Operator

Mr. Fooks, at this time we have no further questions.

Jason Fooks ***iStar Inc. - SVP of IR & Marketing***

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

Operator

Ladies and gentlemen, there will be a replay of the call beginning at 12:00 PM Eastern Time today. The replay is accessible on iStar's website or by dialing 1-800-475-6701 with the confirmation code of 466493. That will conclude our conference for today. Thank you for your participation and for using AT&T Teleconference. You may now disconnect.