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PRESENTATION

Andrew Samuel Molloy *- BofA Merrill Lynch, Research Division - Research Analyst*

Good afternoon, everyone. I'm Andrew Molloy, and I cover high-yield and high-grade REITs for the bank. Thanks for joining us for iStar's presentation this afternoon. iStar is a New York-based finance and investment REIT focused on the commercial real estate industry with over $6 billion of real estate assets. As we will hear in more detail shortly, iStar is executing on a multiyear business transformation to focus on its ground lease and triple net lease platform.

Participants on today's call have access to iStar's presentation and can submit questions to me directly for Q&A on the Veracast Conference platform or via email at andrew.molloy@bofa.com.

With us today, we have Jay Sugarman on the line, Chairman and CEO. We now welcome his team to share its presentation and a Q&A will follow. Thank you.

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

Thanks, Andrew, and thanks, everybody, for joining us today. As Andrew said, 2 years ago, we set out really with a new strategy for iStar that we thought would create significant value and materially increase the credit quality of our portfolio. You can see the elements of that strategy on Page 2 of our presentation. One of the goals at that time was to see if we could simplify our story and tell the entire story in less than 10 pages. So we think we've got it down to about 8.

And I'll just run through those today, but the punchline is there are really 3 pillars on which we are building in 2021 and 2022. The first was to scale Safehold, and we'll talk a lot about that. That's our new modernized ground lease business. We think it's got enormous potential. So far, it has been a very, very successful investment for iStar. Now has over $2 billion invested with almost $1 billion of embedded gain. Safehold has been the #1 performing REIT over the last 23 months. So that element of the platform has gone extremely well. We'll show you some slides on that business.

The second element was to really strengthen the balance sheet. Take away any question marks that folks might have around the significant equity base that we've built up, push out maturities on any debt and really give ourselves a chance to scale Safehold with very few questions about the financial strength of iStar. We've seen that -- those actions result in some good positive rating agency results. And we've now pushed out our maturities, so we have nothing coming due for the next approximately 24 months.

The third piece of the puzzle is just to make sure the spotlight is on Safehold and on the strength of other parts of our balance sheet. One of the ways we wanted to do that was to make legacy assets a smaller and smaller proportion, so that people could not have to spend much time on those. We've got them down to about 13% of the total portfolio. We've liquidated almost $400 million over the past 24 months. That's a process that continues even despite COVID. We're making that simple, more straightforward portfolio and balance sheet, an easy entry point for folks to understand the real value that's building up at iStar.

Let me spend a minute on Safehold. If you switch to Page 3, just a couple of quick highlights. You can see over the last 24 months, it's grown from a very small part of iStar to a very large part, almost a north of $2 billion increase, very sizable unrealized gain in that investment. The reason we like that and the reason we think the market likes it is an extremely high-quality principal safe business. Even during COVID, 100% of ground rent payments have been received. It's a fast-growing business.

We are the creators of the modern ground lease industry. We think we've unlocked value for all major property owners around the country with this new, more efficient capital solution. We've delivered an opportunity for shareholders to participate in an asset class that historically has made incredible fortunes for a few lucky landowners. We're now bringing a national institutionally scaled platform in the public markets so that more people can participate in the very significant value-creating that takes place in the ground lease world. We've seen some good take-up by the customers. We've grown almost tenfold since we went public. We're now at about $3 billion in our portfolio, have a nice pipeline, around $0.5 billion going forward. And obviously, the shareholder returns continue to be quite good.

On Page 4, you can see how the portfolio has grown, starting a little over $300 million in 2017 to a little bit over $3 billion today, pro forma. So exceptional growth rate. Really, that's a testament to this better mousetrap that we've created. Ground leases have been around for a long time but very much fell out of favor. They were poorly structured. They were really one-off situations. There was no gold standard. There was no real thought process about how to make them customer-friendly, value-enhancing for building owners. We flipped all that on its head and said, this is an idea that has been expressed in the corporate markets for decades. The idea of splitting and operating business around -- away from the fixed assets that it runs on, 2 different investments, 2 different risk-reward profiles, should be 2 different investors. And when you get that right and you create the right efficient investors in each, one plus one equals more than two.

In the real estate world, there's never again been a national institutional quality platform that delivered those benefits to property owners. We modernized the ground lease, we standardized it, we pressure tested it with lenders in our own portfolio and we realized that here, too, one plus one equal more than two. A lot of value to be unlocked. And that value came from improved capital efficiency, really separating two very different investments and letting the market price each of those individually created value, eliminating a lot of friction costs. You can see the cost efficiency. When you think about a ground lease, takes the land, puts it in a drawer for 100 years. No more transfer fees. No more mortgage recording taxes. No more survey, legal. All those frictional costs, at least on the land, go away. That unlocks value.

And then from a risk standpoint, you're basically taking short-term debt maturity risk and for that customer, extending a big chunk of that out 99 years. And if you think about what gets real estate folks in trouble, it's typically having debt maturity during a weak fundamental economy. We've just taken about half that risk and eliminated it. So we've seen good take-up from the customer side. We do think there's a $7 trillion pool of addressable commercial real estate in the top 30 markets that we target. So even at $3 billion, we're just scratching the surface. We think the future looks very bright in terms of the take-up we're seeing for customers right now.

And then for investors, if you look on Page 5, and this is important from a credit perspective at iStar, the capital we're deploying at SAFE is going into 1 of the safest real estate investments in the entire complex of real estate. You can see how we line it up against the typical strata of a CMBS deal, where the senior-most 0 to 35% looks to be AAA quality. Guess what, ground leases occupy that same place in the capital structure of a property. And so when you have a portfolio of what is essentially very, very high-grade bonds as your asset class, the bigger you get, you're creating what is essentially a triple-lease position with tremendous amount of money subordinated to you from leasehold mortgages and equity sponsors. So this idea that ground leases are one of the safest places to invest is, obviously, a nice place to be, given some of the choppiness in the world these days.

That is compounded by the return side of the story on Page 6. These are not only very, very safe investments, they're very long investments. They grow. Unlike most fixed income instruments, the coupon actually grows, on average, about 2% a year, contractually. That growth compounds over this long call protected period. And so what you get on Page 6 is the difference between the blue line, which is the income stream from what we think is our AAA equivalent, 100-year instrument versus where the market price is, AAA equivalent, 100-year fixed income instruments. In this case, represented by some long-term bonds issued by some of the larger educational institutions in our country: MIT, USC, Penn. There's several billion dollars of bonds trading in both this tenor. And you can see those trade at about a 3.2%, 3.3% yield to maturity. Whereas the yield to maturity on our portfolio is somewhere north of 5%. So we think the outperformance here, compounded by the idea that it lasts for a very, very long time, sets us up very nicely in terms of a very safe return, an above-market return and one that as we get larger and more diversified continues to feel more and more like a AAA above market bond.

For iStar, that has some important credit positives. You can start on Page 7 to see how we lay those out. If you think about it in its most basic form, we're taking money out of our -- the riskiest part of our portfolio, our legacy assets. We're redeploying it into the very safest part of our portfolio, the ground lease assets over at Safehold. And we're strengthening the balance sheet all along the way. So what you see on Page 7 is our unencumbered asset base improving materially. This is over the last, again, 24 months. Our UA/UD substantially increasing. As I mentioned, we pushed out maturities towards the end of 2022. Leverage has come down materially. And we have, for a long time, been a big believer in unsecured debt and continue to make it the primary form of financing we use, gives us a lot of flexibility, gives, obviously, investors a lot of collateral to look at with an unencumbered asset base of almost $4.8 billion.

So the credit story has certainly got better as the portfolio has gotten simpler, as Safehold has scaled. To make that even more clear, on Page 8, you can see the components of iStar today really Safehold driving the largest portion of our portfolio. That is the highest quality investments, we think, in the entire real estate world. Our net lease book, also a very stable long-term business, is the second largest component. We've talked on our calls about some of the industries that are impacted and how we've navigated through that in some of the largest ones. So that feels like quite a good book at this point. Our loan book has a weighted average lease maturity now about 2 years. So it's relatively short term. We have good visibility on that. That represents a relatively small piece of the portfolio today.

And then the legacy portfolio components have shrunk materially. The short term, we expect to be gone over the next 24 months. The long-term is really just 3 assets, and we do talk about those extensively on our calls. All of them actually have done quite well during the COVID period: 2 are housing sensitive, and 1 is a triple net lease to a long-term -- to a very high-grade credit that we're waiting to see if they extend that lease further.

So when you take all the asset components dominated by Safehold and net lease, you take out our debt, you can see our adjusted total equity value is almost $3 billion today. That's substantially up since 24 months ago. If you look on Page 9, we make that comparison quite easy. You can see it both on a equity basis before adding back depreciation and then after. We think, again, the right-hand side is the proper way to think about our business. So we've seen our overall equity cushion for our creditors grow from a little bit under $1.5 billion to just under $3 billion today. So almost double the equity subordination and support in terms of the balance sheet today.

So that's the story at iStar. We continue to execute on it. We think the last 2 years have gone nicely according to plan. We expect the next 2 years to really -- and start to reap the benefits of all the hard work that's been done at Safehold on the balance sheet. And in terms of selling off some of the less core legacy assets and redeploying into the highest quality assets in our book, both net lease and ground lease. And we think from a creditors' standpoint, all that good news continues to be reflected in the balance sheet metrics and certainly think there's more good news to come as we see COVID sort of move into the background and Safehold continue to build on its dominant position in the modern ground lease industry.

And Andrew, I think that's -- I think we did it in 8 pages this time. So happy to take some questions if people have them.

QUESTIONS AND ANSWERS

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes. That's very helpful. A good background. One of the pressing questions that I received from investors is, what will, ultimately, be the endgame with your investment in SAFE? And maybe what were the compelling circumstances for its spinoff in 2017 versus maintaining those assets at the time on a consolidated basis?

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

Sure. So we thought the architecture -- putting Safehold on its own as a pure play, what is effectively a AAA asset base would not work inside of iStar, given our cost of funds. We are not looking to complicate what is a very powerful, very simple story, very easy credit story. We get the benefit of the credit quality that's safe at iStar anyway as its largest owner and its investment manager. So this is kind of the best of both worlds SAFE becomes a pure play, ultra-high grade asset base that we can tell people the modern ground lease story very simply. They don't need to understand a lot of other components in the real estate world. In fact, they don't really even have to understand real estate. It's so safe in the capital structure that it looks a lot more like a high-grade bond portfolio than real estate.

For iStar, again, we got the benefits of the growth. We got the benefits of being its largest owner and manager. We think the architecture we set up was perfect for scaling the business, for introducing the modern ground lease business we've created. We don't necessarily think that architecture is set in stone. We've publicly said over some period of time once Safehold reaches a sizable scale, that architecture may not be the value-maximizing one. And because iStar is so intimately incentivized to help Safehold reach its maximum value, there could be a conversation where there is a better architecture, whether that means internalizing management over at Safehold or some other transaction. So we think the next 2 years will tell that story. We think Safehold is on a great path to reach a scale where it will have the opportunity to have that conversation with its largest shareholder, to figure out how to maximize value. We think that's going to give iStar a lot of choices. But in the meantime, we think continuing to grow its value, continuing to simplify and strengthen the balance sheet are going to happen, part and parcel with Safehold's growth.

So it's a good 2-year period to continue to test what is the best architecture long term, and we'll certainly have more to say about that probably towards the end of 2021.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

So sticking with Safehold here for a minute. You noted that ground lease business is a $7 trillion pool in top 30 markets that you look at and SAFE is only at $3 billion, just scratching the surface. What do you think is iStar's and SAFE's advantage here in this type of lease structure and asset type? And how hard is it for other players to enter into this as an institutional investment and thesis?

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

Yes. It's a great question. I mean, look, I've been interested in ground leases for 20 years and couldn't really figure out how to turn it into a business. Nobody else has ever figured it out. Really, the idea came sort of 3 or 4 years ago to me, that the missing piece here is most ground leases were idiosyncratic. They were structured for the benefit of the landowner. The building owner kind of held their nose and thought about, should I or shouldn't I because it was kind of a one-sided conversation. What was missing in that conversation was what was happening in the corporate world, in the net lease world. Every corporation out there was being forced to be more efficient with their capital, the operating businesses were being separated from the fixed assets. The communication companies were shedding cell towers, the logistics companies were shedding warehouses and cold storage. And you just go down the line and the capital markets had spoken long ago that you don't tie the operating business and the fixed assets together, it's two different investor bases, two different risk rewards.

And you get much more efficiency if you separate them and let investors choose which one they want to invest in and you let the most efficient owner focus on what they do best. Well, that's what we've been bringing, that mentality that we developed in the net lease corporate world for 20 years. And we said, wow, this is the same dynamic in real estate. There's an operating business. It's the building, you got to lease it, manage it, design it, market it, buy it, sell it, finance it. It's the operating business of the real estate world.

The land is a fixed asset, very passive, long term, low returns, low beta. Why are people raising capital to put a chunk into the operating business and a chunk into us, effectively, a very high-grade long term bond? That is completely inefficient and the capital markets got rid of that in almost every other industry long ago. Why hasn't it happened here? And so what you'd see is it actually requires the expertise that we developed over 30 years in terms of understanding the leasehold loan component, understanding the buyer, operators' perspective, future buyers' perspective, understanding the fixed income nature of the cash flow streams and how to maximize their value and finance them appropriately. We've got a -- north of a 30-year weighted average life financing structures in place at Safehold. We've completely neutralized interest rate risk on the assets we've invested in for 30-plus years. Some of those loans go out 50 years. So we really reinvented the ground lease concept for customers to make it value-enhancing to show them that this is a win-win. It's a one plus one equals more than two. Not, hey, we're a landowner, you want to be on my land? Here's the terms you have to take.

So we flipped the business to be a value creator. That was a big piece of it. We then went to the liability side and created completely new proprietary ways to finance it on an extremely long-term basis to really neutralize any risk there.

And then I guess last piece is, there's never been a national platform, institutional scale, institutional quality that isn't -- we're not out buying ground leases. We're actually building a ground lease industry by making the ground lease part of the mainstream capital solution that everybody thinks about. And when I say that there's a $7 trillion opportunity and we're only at $3 billion, it's really based on what we've already seen, which is customers have gone from, I would say, originally, I don't get it, how does this work, to I want to do more of this, to now they're calling us and saying, I get it, it works, it's better. I want to use it in more places. Can you continue to iterate with me and find even more ways to use this very simple tool, which is take these two very different investments, separate them for the benefit of both. And we think that dynamic is only growing in recognition and acceptance.

I don't -- it's not an easy journey. And anybody who wants to follow us can certainly copy our web pages, but they won't have the 4 or 5 years of research pressure tested in hundreds of deals, negotiations, documentations. They won't have the credibility with the dozens and dozens of leasehold lenders we've worked with, the hundreds of sponsors we've worked with. So certainly, there will be competition. It's going to be a big industry, and there will be others. But I would say we're way out ahead of everybody. We have proprietary information that we're not giving away, that we don't share with the marketplace. And unless somebody is going to put a real shoulder to it, they're going to find it a very hard lift to replicate what we've done.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

Thank you. Sticking still with ground leases and a question coming in from the investors listening. You talk about how lease -- how these ground leases have similar characteristics as bonds. Do you see ground leases trading on exchange or some other marketplace in the future, perhaps like MBS securities?

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

Yes. There's certainly a potential, as the industry scales and as the diversification grows, to use techniques from other parts of the capital market and the credit markets to really refine even further the pricing, both of the assets and the liabilities. I don't think we need to do that just yet. Certainly, the opportunity and the return profile is sufficient for us to keep going the way we're going. But we think both more refined secured ways to finance and/or unsecured ways are certainly in our future. It's been very gratifying to see the counterparties who do provide us debt continue to grow with us, continue to innovate with us. So we see continued accretive capital growth is going to be part of our future in lots of different ways. So we're creating very accretive assets, and we have a very accretive cost of capital. That's a recipe for a very good business.

And again, if the underlying assets are super safe, super secure, we can spend more of our time trying to refine our liability structure because we don't have any operating expense or capital expense. We don't have any operating responsibilities. These are very quiet, very high quality, very consistent, just income streams. And what we're trying to do is find a way to bring them to the parts of the market that really value that, and we already know that the fact that they grow and compound and are call protected for long periods of time, make them superior to the alternatives. So part of our job is just to get out there and show people how to think about it, give them a sense of how big this market is going to be and why they should spend a lot of time on it right now. We say that to the equity investors. We say that to the credit investors. And we still feel like we're just at the beginning. We've had some good success, but I think our success, hopefully, has just begun because all the logic and pillars and foundations of our idea are coming true. And if they are true, then I think this is a much, much bigger business.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

Quickly, one last question on iStar -- or on SAFE, the recently raised $115 million. Has that capital been deployed? And what is SAFE sort of looking -- looking at in the market?

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

Yes. So we've been using a strategy to kind of top-up our dry powder well ahead of when we needed it. We'd like to keep between $0.5 billion and $1 billion of dry powder given the way we see the pipeline growing. So that recent deal was just a top-up deal. We do those on a pretty much a quick hitting basis. I think our goal is, as we scale, to start doing larger transactions where we can really take the time to explain all the parts of the puzzle at Safehold, which I think equity investors are going to get very excited about.

We've really only talked about 1 of the 3 value generators in that business, and really this fixed income component, but there is a very powerful growth component, very accretive growth component. And we think there's a very powerful real estate story as well. So I think the goal is to have ample liquidity at all times to serve our customers wherever they need us, whenever they need us, and we'll keep doing that. But I think you'll see us be really focused not just on these little top-up raises, but some of the ones where we can really go out and tell our story more widely. We can't think of any investor, whether you are on the credit side, or the equity side, whether you're endowment, pension fund sovereign or you're a retail investor, 401(k) adviser, private wealth manager, this combination of principal security, fast growth and tremendous upside, I think, resonates with almost any kind of investor. And you really don't need any deep understanding of real estate. All you need to know is kind of location, location, location and highest and best use, and you'll understand our business.

So what we see today is, no, we have not spent all the money. And again, we try to top-up well in advance of spending the money, but we see all signs that the real estate transaction market is beginning to pick up the pace. We've seen that really since Labor Day. The teams -- our investment teams are very engaged across the board. About 2/3 of what we're working on right now is multifamily. The rest is mostly office. And we see both of those as opportunities to really breakthrough in a lot of key markets for us.

So happy to see our teams engaged, happy to see the quality of assets they're engaged on. Still doing a lot of educating, still helping people really understand the difference between old ground leases and new ground leases, sort of straight financing versus splitting the land and the building apart and coming up with what we think is a far more efficient financing. But again, the proof is a little bit in the pudding. You can see the customer adoption rates going up. You can see our repeat customer business is about 50%. So once we break through with a customer, we tend to get more business with them. Because once they're comfortable, then they see the benefits, they want to do more with us.

So all those signs point to good things ahead, and we will certainly spend the money we have and continue to refine how we access capital. So we get the biggest bang for the buck for our shareholders. And certainly, that will benefit iStar at the end of the day.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

A question from the field. Can you talk about the cash generation of the portfolio? And how that gets reinvested in your growth in dividends?

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

For Safehold or iStar?

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

For iStar.

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

Okay. So think about the components. Over at iStar, we have both the dividend and the management fee and reimbursements coming out of SAFE. Those are very, very safe, dependable, consistent, growing. We have our net lease cash flows. Other than, I think, the small part that's in the movie theater exposures, which is probably less than $200 million out of the $6 billion book, most of that book feels really good. We see lots of continued cash flow coming out of the net lease side, both in things we own directly and the things we own with our sovereign wealth partner.

The loan book, I mentioned, is we got about a 2-year weighted average life, which means that's self-liquidating. That's going to generate hundreds of millions of dollars of free cash flow over the next 2 years. We're selling legacy assets. That's going to generate significant amounts of free cash flow. We'll allocate that cash across our opportunity set. Again, we love the ground lease business. We think there's tangents to it that make a lot of sense for us. We'll look at other places to invest. But right now, obviously, our focus has been on ground lease because the return profile in that business definitely represents some of the best investing I've seen in 30 years of my career.

So money coming out of loans, money coming out of legacy will go mostly back into ground lease. And that's what you should expect to see, but there should be plenty of liquidity for continuing our dividend. It's a modest conservative dividend level, and we have no debt maturity for the next 2 years effectively. So not really too concerned about the dividend level or meeting our obligations because, candidly, we don't have much for the next 2 years.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

Quickly shifting to the balance sheet. Still regarding credit ratings, senior unsecured debt ratings are split between the agencies here. Can you share an update with us on the conversations you've had with agencies and maybe your insight as to why S&P and Fitch are one notch higher than Moody's? And where you see ratings trajectory going in the next few years?

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

Yes. It's interesting. I mean, each one has their own criteria. And they're all a little bit different. Some view preferred as debt, some view it as equity. Some don't give us any credit for the unrealized capital gain in the SAFE stock. That's reached almost $1 billion -- north of $1 billion. That, to us, is real value. We haven't entirely gotten the agencies to give us credit for that in terms of their leverage metrics. So our capital markets team and Brett did a good job of kind of walking them through our view of the world and trying to make sure they understand that this is not the same story it was 2 years ago. It's significantly stronger.

We've done a lot to simplify the balance sheet, a lot to strengthen the balance sheet. We are an unsecured -- primarily an unsecured borrower. That's different than a lot of other folks that sometimes we get compared to. So I can't tell you specifically. Each individual agency has rationale for why we are where we are. I think Brett's team works very hard to make sure all the success we're having is being reflected. But again, there's some fundamental things that I think drive a little bit of the difference. If you give us credit for the full value of SAFE, if you view preferred as a credit support to creditors, you get a very different, certainly a higher grade view than if you don't count those things.

So we know the path to try to continue to create value, ultimately, will lead to better credit metrics. Better credit metrics should lead to better ratings. So I think the path is, for us, is just to continue to succeed in the strategy we laid out, do what we told them we would do, meet those milestones and get some credit for some of the stuff that right now, we don't, candidly, think we get credit for.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

I want to be cognizant of your time. I'll pause briefly to see if there's any other questions from the field. Well, thank you very much. We appreciate you on our conference, Jay, and really appreciate your time today.

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

Thank you, Andrew. Thanks, everybody. Hopefully, we'll see everybody in person next year.

Andrew Samuel Molloy - *BofA Merrill Lynch, Research Division - Research Analyst*

Thank you. Good luck, and happy holidays.

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

Thanks. Take care.