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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to iStar Financial's third-quarter 2012 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 Mr. Jason Fooks, Vice President of Investor Relations and Marketing. Please go ahead, sir.

Jason Fooks - *iStar Financial Inc - VP of IR and Marketing*

Thank you, John, and good morning, everyone. Thank you for joining us today to review iStar Financial's third-quarter 2012 earnings report. With me today are Jay Sugarman, Chairman and Chief Executive Officer, and David DiStaso, our Chief Financial Officer. This morning's call is being webcast on our website at istarfinancial.com in the investor relations section. There will be a replay beginning at 12.30 PM Eastern Time today. The dial-in for the replay is 1-800-475-6701, with a confirmation code of 268531.

Before I turn the call over to Jay, I'd like to remind everyone that statements in this earnings call which are not historical will be forward-looking. iStar Financial's actual results may different 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 in our SEC reports, iStar disclaims any intent or obligation to update these forward-looking statements, except as expressly required by law. Now I would like to turn the call over to iStar's Chairman and CEO, Jay Sugarman. Jay?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

Thanks, Jason, and thank you for joining us on the call this morning. Since our last call, we have made progress on a number of fronts, as we continue to move iStar into position for increased investment activity. During the third quarter, we again paid down significant amounts of debt, and shortly after quarter-end, executed a longer-term refinancing for a sizable portion of the asset base. Together with improved access to longer-term unsecured capital, the successful execution of this new five-year secured facility gives us the opportunity to begin focusing the Company on deploying capital in 2013 for new investments, as well as for continued debt reduction and refinancing activity.

Our portfolio is now falling into several distinct business lines, and as we move forward, we will begin highlighting how these different areas are contributing to overall corporate results. Broadly speaking, we define these lines of business as real estate finance, net lease, the operating portfolio, the managed land portfolio, and strategic investments. In each category, there are assets that are performing well and contributing to earnings and other assets that remain in transition and are negatively impacting earnings. As we've mentioned before, unlocking value in these assets will require additional investment and significant management time, but we're building a growing pool of profitable examples that gives us confidence we will be able to make that happen.

Let me go through a quick overview of the business line. Our real estate finance book is currently over $2.1 billion, and we break the business down into the performing loan book and the nonperforming loan book. Returns on the performing loans totaling just over $1.5 billion are quite healthy, with yields in the LIBOR plus 600 region for floating and 8.5% for fixed. With the NPL book of approximately $650 million, it's still a material drag on earnings, with ongoing litigation costs and extended foreclosure proceedings increasing the load.

For our approximately $1.5 billion net lease book, we break the business down into occupied and vacant assets. Occupied assets make up more than 90% of this portfolio on a book basis, and occupied effective yields in the 9.5% range suggest significant value in the occupied portfolio. Obviously, the vacant assets will require future leasing to maximize their value. The operating portfolio is approximately $1 billion in size, and we break it down into condo/ residential on one hand, and commercial properties on the other. Currently, condos make up just under $400 million of this portfolio, and operating commercial properties make up approximately $600 million. The condos are relatively seasoned and have been generating gains over the last several quarters, while the commercial portfolio is more transitional, with improved leasing result in several markets offset by slower improvement in others.

The managed land portfolio is approximately $900 million, which can be broken down a few different ways, but one simple way is to group them according to when they will begin production. Our current portfolio has 10% of assets by book value already in production, and we anticipate having approximately 60% by book value to be in production by the end of 2014. The remainder are expected to begin production between 2015 and 2017. This portfolio should be a strong contributor to future earnings, though not until a majority of the projects are in full selling mode, and will remain both a cash flow and earnings negative until then.

Lastly, in our roughly $400 million strategic portfolio, we group investments into active investments, primarily LNR, and passive [LP] positions in certain Oak Hill and other funds that will wind down over time. These have been good investments on the whole for the Company and should continue to be until we harvest them. Taken as a whole, the portfolio has a large proportion of strongly performing investments, offset by some $2 billion of assets that do not yet contribute to earnings. As a result, our net for the third quarter, excluding non-cash charges and gains and losses on debt retirement, was a $26 million loss. Turning that number around is dependent on unlocking the earnings potential and those assets that are now negatively impacting our P&L, and our efforts remain focused on turning them around or monetizing them as appropriate. And with that background, let me turn it over to Dave for more of the details. Dave?

David DiStaso - *iStar Financial Inc - CFO*

Thanks, Jay, and good morning, everyone. I'll begin by discussing our financial results for the third quarter 2012 and recent capital markets activities before moving on to discuss our portfolio and then an update on liquidity. For the quarter, we reported a net loss of $72 million, or a loss of $0.86 per diluted common share, compared to a net loss of $62 million, or $0.71 per diluted common share, for the third quarter 2011. Adjusted income for the quarter was a loss of $26 million, compared to a loss of $19 million for the same quarter last year. Results in the prior-year period included a $22 million one-time gain from discontinued operations associated with a previous net lease asset portfolio sale.

Excluding this item, the year-over-year improvement was due to the income we're now generating from our condo sales, increased earnings from equity-method investments, as well as a reduction in G&A costs. This was partially offset by decreasing interest income from an overall smaller real estate finance portfolio. Adjusted EBITDA for the third quarter was $77 million, compared to $83 million for the same period last year. Our press release contains the calculations of adjusted income and adjusted EBITDA, as well as reconciliations to GAAP net income.

We have continued to reduce our overall debt levels. During the third quarter, we repaid $148 million on the A-1 tranche of our 2011 secured credit facility and $66 million on the A-1 tranche of our 2012 secured credit facility. As we previously announced, subsequent to the end of the quarter, we refinanced the balance of our 2011 secured credit a facility with a new $1.82 billion senior secured credit facility due October 2017, marking our third capital raise this year. The transaction has a number of important benefits for iStar, including a lower cost of capital than in the 2011 facility and a longer term that significantly improves our debt maturity profile. In addition, we were able to release certain assets from the collateral pool, which will be available to us in addressing our 2013 unsecured debt maturities.

We were also pleased to receive an upgrade from Moody's in connection with the refinancing, bringing our corporate rating to B2 and our senior unsecured rating to B3. In addition, Moody's assigned a B1 rating to our new secured credit facility and upgraded the A-1 and A-2 tranches of our March 2012 senior secured facilities to Ba3 and B1, respectively. Further, S&P affirmed both our long-term issuer credit rating and our senior unsecured rating at B+ and also assigned a BB- rating on our new facility. Our leverage remained 2.5x, and our weighted average effective cost of debt for the quarter was 6.5%.

At the end of the quarter, we had $739 million of cash, including cash reserved for repayment of debt. We subsequently used part of this cash to repay the remaining $461 million balance on our senior unsecured convertible notes, due October 1, 2012, at maturity.

During the third quarter, we generated a total of $318 million of proceeds from our portfolio, comprised of $158 million of principal repayments, $80 million of residential unit sales, $67 million from sales of owned real estate, and $13 million from other investments. In addition, we funded approximately $28 million of investments in capital expenditures during the quarter.

Let me now turn to the portfolio. At the end of the third quarter, our total portfolio had a carrying value of $6 billion, gross of general reserves. This was comprised of approximately $2.2 billion of loans in our real estate finance portfolio, $1.5 billion of net lease assets, $1.9 billion of owned real estate, and $420 million of strategic investments. At the end of the quarter, our real estate finance business included $1.5 billion of performing loans, with a weighted average LTV of 71% and a maturity of approximately 3 years. The performing loans consisted of 46% floating rate loans that generated a weighted average effective yield for the quarter of 6.4%, and 54% fixed rate loans that generated a weighted average effective yield of 8.5% for the quarter. The weighted average risk rating of our performing loans was 3.08 at the end of the quarter, an improvement from 3.16 at the end of the prior quarter. Included in our performing loans were $19 million of watchlist loans, a decrease from $75 million last quarter.

Our non-performing loans, or NPLs, had a carrying value of $640 million, net of $491 million of specific reserves, which is comparable to the balances at the end of the prior quarter. Our NPLs consist primarily of 34% land, 21% retail assets, 15% hotel assets, 12% apartment residential, and 11% entertainment leisure. During the quarter, we recorded a $17 million provision for loan losses, versus $27 million last quarter. At the end of the quarter, our reserves totaled $544 million, consisting of $506 million of asset-specific reserves and $38 million of general reserves. Our reserves represent 20.4% of the total gross carrying value of the loans. This compares to loan loss reserves of $564 million, or 19.8%, at the end of the prior quarter.

Next, I'll discuss our net lease portfolio. At the end of the quarter, our $1.5 billion of net lease assets, which are recorded net of $353 million of accumulated depreciation, were 91% leased, with a weighted average remaining lease term of over 12 years. They had a weighted average risk rating of 2.70, unchanged from the prior quarter. For the quarter, our occupied net lease assets generated a weighted average effective yield of 9.6%. Our total net lease portfolio generated a weighted average effective yield of 8.6%.

Now, let me turn to our owned real estate portfolio. Our $1.9 billion owned real estate portfolio is comprised of operating real estate assets and land assets. Our operating portfolio is $986 million, including $389 million of condominium assets, with commercial real estate assets representing the balance. These are assets we own and are working to reposition and redevelop through the infusion of capital and intensive asset management in order to maximize their values. As a result of those investments and repositioning efforts, we have continued to recognize gains in this part of the portfolio.

During the third quarter, we recorded $20 million of income from unit sales, some of which is reflected in earnings from equity-method investments. Our residential assets are generally luxury and super-luxury properties located in major metropolitan markets. At the end of the quarter, our remaining inventory was approximately 1,150 units. The balance of the operating portfolio consisted of more traditional commercial real estate collateral types, including retail, office, industrial, hotel, and multifamily. Many of these assets generate revenue, but are still transitional and will require time, effort, and capital to re-tenant and stabilize the properties.

Okay, let me discuss our land business. Our $896 million land portfolio consists of high-quality land parcels, half of which are slated for master-planned communities, and the remainder represent waterfront resort or urban land, along with some land entitled for retail and commercial. While these assets will continue to involve long lead times and capital investment, we believe that our discounted basis in the land portfolio, together with improving fundamentals, create the potential for attractive future returns. For the quarter, our owned real estate portfolio generated $30 million of combined revenue in gains from condo sales, offset by $25 million of expenses.

Finally, let me conclude with a discussion on our liquidity. As of September 30, we had approximately $285 million of unrestricted cash after repaying the convertible notes in early October. Expected uses of cash for the fourth quarter include approximately $70 million of investments, comprised of investment funding and capital expenditures on our net lease, operating, and land portfolios. We have just over $1 billion of unsecured debt maturing in 2013. Consistent with how we have managed debt maturities in recent years, we expect to address these maturities with a combination of unrestricted cash, repayments received on shorter-term assets, including those that were unencumbered in the recent refinancing, asset sales, and opportunistic capital-markets transactions. Our annual debt maturities decline after 2013, giving us a window to focus on creating value in our existing platforms. With that, let me turn it back to Jay. Jay?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

Thanks, Dave. There's really not much more to add other than we'll keep pushing forward and look to make further progress on our plans as we head into 2013. Let's go ahead and open it up for question, operator.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Josh Barber, Stifel Nicholas.

Josh Barber - *Stifel Nicolaus - Analyst*

Hi, good morning. I'm wondering if you could talk a bit about the reserves. Maybe this is more of an accounting-based question, but you guys have close to $40 million of general reserves. At what point do you start dipping into that rather than taking quarterly and asset-specific reserves?

David DiStaso - *iStar Financial Inc - CFO*

Josh, from that perspective, we continue to look at asset-specific reserves as we go ahead and evaluate the loans each quarter. From an accounting perspective, if assets require specific reserves, we would continue to provision for them. The general reserves are just for the remainder of the portfolio, subject to conditions we're not yet aware of.

Josh Barber - *Stifel Nicolaus - Analyst*

Okay, but you're adding it back when it comes to calculating your book leverage and stuff. Do you expect to use that at some point? Do you think that that just may be excess reserves at this point?

David DiStaso - *iStar Financial Inc - CFO*

At this point, they're just general reserves that are not identified for the specific assets.

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

But, Josh, the simple answer is yes. We would expect to use them. They are done based algorithmically against performing loans, but I think it's fair to say I think there are $40 million will get used over the next two years.

Josh Barber - *Stifel Nicolaus - Analyst*

Okay. When we're looking at your land portfolio, especially with homebuilding and land being on everybody's mind today, are you seeing better interest in just buying parcels or at least partnering with you guys on land parcels for some of your assets? And how that has that changed over the last six months?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

Yes, we have seen a material upturn, as you probably read in the press. The public homebuilders are active and engaged now. There are markets where shortages of lots have become acute. So it's not only what can I buy for today's needs, but people are actually starting to engage in productive dialogue around what they need for future needs. But there's still work to be done to really position properties for the right market that we see down the road. So a lot of those conversations are about particular portions of a project. I think we still think there's value to be added on our own ownership before we want to think about seriously engaging those conversations.

Josh Barber - *Stifel Nicolaus - Analyst*

That makes sense. Dave, I may have missed it, but do you have a 2013 capital spending or CapEx target for that, speaking of the land portfolio?

David DiStaso - *iStar Financial Inc - CFO*

On the land side, CapEx, we are projecting somewhere in the range of $75 million to $100 million for land-related expenditures.

Josh Barber - *Stifel Nicolaus - Analyst*

Okay, great. One last question. AMF always seems to pop up in the news at some point. Can you just remind us what the total amount of cash rents that you're getting from AMF today?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

AMF is about a $27 million GAAP number, and obviously, we see what's in the press. All I would say is our conversations have focused on improving the quality of our lease and improving the credit of our tenant. We're pleased if that outcome can help both parties, so we think that's a safe and secure piece of paper for us

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Josh Barber - *Stifel Nicolaus - Analyst*

Great. Thanks very much.

Operator

Michael Kim, CRT Capital Group.

Michael Kim - *CRT Capital Group - Analyst*

Good morning, everyone. Just had a question on LNR. Where was that marked on the balance sheet at quarter-end under other investments?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

I'm not sure whether you can see it there, but it's somewhere in the $180 million range, Mike.

Michael Kim - *CRT Capital Group - Analyst*

Okay. Understood. Of the $23 million of earnings from equity-method investments during the quarter, how much of that was related to LNR?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

About two-thirds.

Michael Kim - *CRT Capital Group - Analyst*

Two-thirds? Okay, great. Appreciate that. To follow up on the question on AMF. It's our understanding that AMF Bowling is currently working under a short-term forebearance agreement to allow for a balance sheet restructuring plan. As part of this forbearance, is AMF looking to negotiate a new master lease agreement with iStar? And if so, is this going to address lease rejections, concessions, or closures?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

As I said, Mike, I think our goal is just to improve the quality of our lease, and I know the tenant here would like to improve the overall credit of the company. And those are both good things for us, so I think rather than go into specific details, I would just tell you again we think we're in a nice, safe position and certainly hope the outcome of this is a stronger tenant.

Michael Kim - *CRT Capital Group - Analyst*

Okay, great. On the land side, I really appreciate all the color that you just provided on the call. Of that 60% targeted for production by 2014, now how much in CapEx is required over the next two years? And of that amount, how much do you think will be master-planned communities versus the other category for waterfront resort and other land?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

Let me see if our guys can break it down for you, but on the land side, we are investing in all of those properties. Some are dollar investments that are just capital-intensive. We're making infrastructure improvements. Others are much more, I would say, sweat equity, where we're re-positioning, re-entitling, and re-envisioning where some of these properties need to go. We like the markets. We like the potential in those, but we really don't want to spend money unless we see some long-term return on it. So Dave gave you a number of $75 million to $100 million. That doesn't go away, unfortunately. These are big projects. They continue to have multiple phases. So we think that run rate number is probably a pretty good number for awhile.

Michael Kim - *CRT Capital Group - Analyst*

Okay.

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

The mix between the more urban waterfront stuff and the big master-planned community stuff, I can't probably give you a dollar number, but I can tell you that the larger projects right now are out in production, moving forward. But we do think some of those urban projects are going to get kicked off here pretty soon in a more meaningful way. So there will be money spent on both, and I just don't have a breakdown I can give you off the top of my head.

Michael Kim - *CRT Capital Group - Analyst*

Okay. No, I appreciate that. Thank you very much.

Operator

Mark Palmer, BTIG.

Mark Palmer - *BTIG - Analyst*

Yes, thank you. Could you provide some timing with regard to addressing the 2013 maturities? And in particular, can you talk about the balance between the cost of taking out, in particular, the June 13 maturity, versus waiting, particularly given the uncertainty that we may see in the not-too-distant future with regard to the US election, the fiscal cliff, and Europe?

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

Absolutely. Very topical question. We did the longer-term refinancing on the secured piece, really, to give us as many options as possible as we started to think about '13. One of the positive benefits of that exercise is we got a lot of reverse inquiry on other parts of the capital stack. I think there are some good ideas in there that obviously have a trade-off between do you do them now or do you do them later and at what size. Obviously, we're not going to wait until the last minute. We do think there are things we should do sooner rather than later, but there is a cost to all those decisions. And at 8.625%, every time we wait, we will save a little bit of money, but don't think it's prudent to postpone all of our 2013 thinking for a long time.

Mark Palmer - *BTIG - Analyst*

Okay. Thank you.

Operator

Jonathan Feldman, Nomura Securities.

Jonathan Feldman - *Nomura Securities Intl - Analyst*

Good morning. Had three questions. One is if you guys were prepared to give any sort of informal guidance, if you will, on cash burn for next year? Second question is where you're seeing the best investment opportunities in the portfolio? And should we expect the capital that you're committing to existing portfolio investments or new investments to grow as your balance sheet continues to improve? Third, was wondering if you could amplify your thoughts on whether you think it makes sense and/or is feasible to raise capital in a context other than repaying debt? And where do you think the cost of capital would need to be for that to be attractive to you? Thanks so much.

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

As we think about deploying capital, Jonathan, obviously the decisions we're making on the ground all need to be net-present-value-positive to us. So we are trying to pick among the best alternatives in the portfolio. We could obviously spend even well beyond the numbers Dave threw out, if we had lower cost of capital or we were more indiscriminate in how we thought about this stuff. But right now, there's a pretty high bar, and obviously, the money we do spend, we think we're generating returns. The stuff that goes into new leasing or to building an add-on building for a tenant, that's going to come into production right away. You're going to see returns right away. We built some additional multifamily. We built some things that you can see the results of immediately.

Other investments, particularly in the land, you're not going to see those show up in earnings any time soon. There are a lot of up-front costs, a lot of up-front soft costs associated with those projects. And that's why we keep cautioning that while we think they're going to be big contributors long term, those are not the kind of instantaneous satisfaction you get from fixing a condominium or putting a new tenant in place or building a multifamily project. Those returns are tangible and we can point you to that pool of examples where we see the profitability of, and it gives us great confidence that as we continue to work away at the non-income generating assets, we're going to be able to show a pretty compelling case that with time and money and effort, we have been making that a pool start to perform. But I don't think we can give you specific numbers on how we're going to go about allocating money between that or new investments. Really, it is literally almost a week-to-week exercise of where are the best returns, where is that incremental dollar better deployed. And that's the same process we go through when we think about selling assets. We will take a loss on one asset if we think we can deploy those dollars on a marginal basis into something else in the portfolio and generate an even better return overall. So that dynamic is ongoing and regularly part of our thinking.

When we think about new capital for the business, there's lots of ways to access capital. As I said, we can sell existing assets and redeploy that. We can do JVs with people. We can bring in third-party capital. We can raise it ourselves. We still think at 2.5x, more debt reduction is probably prudent right now, not a ton more. We think we've set our target at 2 to 2.5, so we're at the high end of that range. We wouldn't want to go above that. But as we work towards the lower end of the range, we start thinking about different alternatives, obviously within the constraints of our covenants and liquidity profile. But we're getting to a point where new business is on the radar for 2013 for us. We are actively talking about some new investments that seem quite interesting us to and certainly meet our bogey. So I think that's going to be part of the story in '13.

Operator

(Operator Instructions)

Amanda Lyman, Goldman Sachs.

Amanda Lyman - *Goldman Sachs - Analyst*

Great. Thanks for the question. My initial question was on timing for addressing the 2013 maturities, but since we've already covered that, could you talk a little bit about whether there are parts of the capital structure you might consider? Would you add or convert back to the balance sheet, specifically? Secondly, is your goal still to ultimately return to investment-grade debt ratings? And do you view that as necessary to really get back into the full swing of writing new business, or do think you can write some attractive new business opportunities without regaining those investment-grade debt ratings? Thanks.

Jay Sugarman - *iStar Financial Inc - Chairman and CEO*

It would be fantastic if I thought we could get investment-grade ratings in the near term. I just don't see that as a possibility. But I do think upgrades from where we are today is certainly feasible, and we run this business at a BBBB level many times and for many years in our past. And it will be a very profitable business at those levels, so that's a good interim target for us and probably a more realistic target in any sort of relevant time frame. We were pleased that Moody's was part of the upgrade story this year. Certainly next year we think we will have more good news to share with both S&P and Moody's, and we would look forward to an opportunity to continue to make progress with both of them. When we think about our capital stack, you have seen us look at all parts of the equation. We bought stock. We certainly have been thoughtful about where the best places are to either raise capital or deploy capital. So we don't ever exclude anything, but I guess I would say the reverse inquiry guy gave us some ideas about where attractive capital could be priced, and we will consider all those factors when we think about the best way to move forward.

Amanda Lyman - *Goldman Sachs - Analyst*

Great, thanks.

Operator

And Mr. Fooks, we have no further questions.

Jason Fooks - *iStar Financial Inc - VP of IR and Marketing*

Thank you. Thanks, John. Thanks everyone for joining us this morning. If you're you having additional questions on today's earnings release, please feel free to contact me directly. John, would you please give the conference call replay instructions once again? Thank you.

Operator

Certainly. And ladies and gentlemen, this conference starts at 12.30 PM Eastern Time, will last until November 8 at midnight. You may access the replay at any time by dialing 800-475-6701 and entering the access code 268531. That does conclude your conference for today. Thank you for your participation. You may now disconnect.
