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SFI - Q1 2013 iStar Financial Earnings Conference Call

EVENT DATE/TIME: APRIL 30, 2013 / 2:00PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to iStar Financial's first quarter 2013 Earnings Conference Call. (Operator Instructions). At this time for openings 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.

Jason Fooks - *iStar Financial, Inc. - VP, IR*

Thank you, John. Good morning everyone. Thank you for joining us today to review iStar Financial's first quarter 2013 earnings report. With me today are Jay Sugarman, Chairman and Chief Executive Officer, 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 of the call beginning at 12.30 PM Eastern Time today. The dial in for the replay is 1-800-475-6701 with a confirmation code of 290986.

Before I turn the call over to Jay, I would 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. In addition, as stated more fully on 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, CEO*

Thanks, Jason. Thanks to all of you for joining us this morning. We started this year with a clear game plan - work to get our NPL balances down, increase the yield on our operating portfolio, and kick in gear our new investment activity. Our first quarter was a good start in achieving these goals.

We made progress on a good chunk of NPLs, got a little momentum going in some of our operating assets, and began getting a pipeline of new investments under letter of intent. We still have plenty of work to do, but we are pleased to see some of our efforts beginning to show results. Let me go through a quick review of the business line. Our Real Estate Finance book saw continued payoffs in a nice reduction in in NPL balances.

We are under LOI or letter of intent or in the process of working on several sizeable new investments and hope to have some of those closed by the end of the second quarter or very early in the third. Segment profit was $2.4 million, and we will need to make more progress on NPLs to get that number up. The net lease book has remained relatively stable and remains a solid performer.

We are beginning to target new investments in this area and may choose to access third-party capital to help ramp this business up. Build-to-suit opportunities as well as situations where expansion of existing assets is possible deem to offer the best returns right now, and our net lease team is engaged on a number of interesting situations. Segment profit was $8.6 million, and we will look to grow that through new investments throughout the year.

The operating portfolio continues to benefit from a very strong performance from the condominium assets that were our focus over the last several years. We have repositioned many of these assets and can now harvest attractive profit as we sell through to customers. Segment profit was $19 million for the quarter and was helped not only by strong condo sales but also by a pickup in leasing at some of the transitional assets. So that remains somewhat uneven across the commercial portfolio.

We also benefited from the sale of a stabilized retail assets. Our land portfolio remains a drag on earnings, but we expect progress throughout the year. While much of that progress will not show up in GAAP numbers until 2014 or 2015, we expect to be able to start giving markers of value for several projects before year-end.

Segment loss for the quarter was $18.7 million and there aren't many near-term levers that will change that number unless we change strategies and sell off prime parcels. I think you have heard us say our goal is to maximize the value of those assets rather than worry about the GAAP financials. So we will continue working with builders to find an optimal solution for the long-term iStar value and likely continue to forego short-term gain.

Lastly, you have probably read that we recently completed the sale of our LNR interest as part of a sale of the overall Company. Since our $120 million investment in July of 2010, our total LNR investment has returned approximately $285 million before management incentive and some $250 million net of those incentives. After two and a half years as Chairman of LNR, I am delighted with the success we have achieved, but happy that fellow board member Nina Matis and I can now refocus more directly on iStar's go forward business plan. And with that, let me turn it over to Dave to review the numbers for the quarter in more detail. Dave?

David DiStaso - *iStar Financial, Inc. - CFO*

Thanks, Jay, and good morning everyone. Let me begin by discussing our financial results for the first quarter 2013 as well as recent Capital Markets activities before moving on to discuss our real estate and loan portfolios. For the quarter, our net loss was $41 million or a loss of $0.49 per diluted common share, compared to a net loss of $55 million or $0.66 per diluted common share for the same quarter last year.

Our adjusted income for the quarter was a loss of $300,000 compared to a loss of $2.8 million for the first quarter of 2012. Results in the current quarter included $5 million of loss on early extinguishment of debt and $4 million of other expenses associated with the repricing of our $1.71 billion secured credit facility.

Excluding these charges, our net loss for the quarter would have been $33 million and our adjusted income would have been $3 million. Contributing to the year-over-year improvement was increased income from residential condominium sales, increased leased income as we continue to lease-up our operating properties, and a reduction in interest expense and provision for loan losses. This was partially offset by decreasing interest income from an overall smaller real estate finance portfolio as well as lower earnings from equity method investments.

During the first quarter, we issued $200 million of our 4.5% Series J cumulative convertible preferred stock. That stock has an initial conversion price of approximately $12.79 a share. We intend to use the net proceeds from this offering to fund new investment originations.

As we have previously announced this quarter, we repriced the $1.71 billion outstanding balance on our senior secured credit facility. The term loan now bears interest at an annual rate of LIBOR + 350 with a 1.00% LIBOR floor. This is a reduction from the prior rate of LIBOR plus 450 with a

1.25% LIBOR floor. Following this re-pricing, we repaid $34 million on this facility, bringing the remaining outstanding balance to $1.67 billion at quarter-end.

We also re-paid $109 million on the $410 million A-1 tranche of our $880 million secured credit facility, bringing the remaining outstanding balance of the A-1 tranche to $60 million at March 31st, 2013. The balance of the A-2 tranche remains $470 million. Based on the total amount repaid, we have already exceeded the minimum cumulative amortization required to be paid on the facility before maturity.

Our effort over the past couple of quarters to reduce interest costs has resulted in our weighted average costs of capital decreasing to 6.2% from 6.5% for the prior quarter. In addition, as a result of the reduction in overall indebtedness and preferred equity raised during the quarter, our leverage decreased to 2.1x from 2.5x at December 31st, 2012.

Let me now turn to investment activity in our real estate and loan portfolios. During the first quarter, we generated $355 million of proceeds from our portfolio, primarily comprised of $231 million from repayments and sales of loans in our real estate finance portfolio and $113 million from sales of operating properties. Subsequent to quarter-end, we sold our 24% interest in LNR property and received $220 million in net proceeds at closing. We intend to redeploy those proceeds primarily into new investment originations.

We invested a total of $40 million during the quarter. As Jay mentioned, we expect this number to increase throughout the year as investment activity ramps up. At March 31st, 2013 our total portfolio had a carrying value of $5.8 billion, gross of $406 million of accumulated depreciation and $31 million of general loan loss reserves.

Our real estate finance portfolio totaled $1.6 billion at the end of the quarter. This includes $1.3 billion of performing loans that had a weighted average LTV of 72% and a weighted average maturity of just under three years. They were comprised of $834 million of first mortgages or senior loans and $421 million of mezzanine or subordinated debt. These performing loans generated a weighted average effective yield for the quarter of 7.2%. The weighted average risk rating on the loans improved to 3.00 from 3.01 in the prior quarter. Included in the portfolio were $42 million of watch list loans.

At the end of the quarter, we had $359 million of non-performing loans, or NPLs, which are carried net of $466 million of specific reserves. This quarter, we made meaningful progress as we reduced the balance of NPLs by approximately 30% from the $503 million of NPLs we had at the end of the fourth quarter. The decrease is primarily due to pay downs received on existing NPLs and their corresponding transfer to performing status.

Our remaining NPLs were mainly comprised of 35% land, 22% hotel, 21% entertainment and 14% retail. For the quarter, we recorded a $10 million provision for loan losses, bringing our total reserves for loan losses to $522 million, consisting of $491 million of asset-specific reserves and $31 million of general reserves. While we saw the level of provision decrease this quarter, the rate at which it may continue to do so is uncertain, and we could see quarterly fluctuations.

Our reserves represent 25% of the total gross carrying value of loans versus 22% at the end of the fourth quarter. Next, I will discuss our net leasing portfolio. At the end of the quarter, we had $1.7 billion of net lease assets, gross of $319 million of accumulated depreciation. The portfolio is 95% leased with a weighted average remaining lease term of 12 years. The portfolio had a weighted average risk rating of 2.43, an improvement from 2.46 in the prior quarter.

For the quarter, our occupied net lease assets generated an unleveraged weighted average effective yield of 7.9% while our total net lease portfolio generated and unleveraged weighted average effective yield of 7.5%.

Let me now turn to our operating properties portfolio. Our operating properties totaled $1.2 billion, gross of $85 million of accumulated depreciation, and was comprised of commercial and residential real estate properties.

We invested $14 million into these operating properties during the quarter. The commercial properties totaled $841 million, gross of accumulated depreciation, and represented a diverse pool of real estate assets across a broad range of geographies and collateral types such as office, retail and hotel properties. They generated $36 million of revenue and gains offset by $20 million of expenses during the quarter.

Our strategy within this portfolio is to reposition or redevelop these assets with the objective of maximizing their values for the infusion of capital or intensive asset management efforts. At the end of the quarter, we had $193 million of stabilized commercial operating properties. The stabilized properties were 88% leased, resulting in a 9.8% unlevered weighted average effective yield for the quarter.

The remaining $648 million of commercial Operating Properties are transitional real estate properties that were 54% leased and generated at 2.9% unlevered weighted average effective yield for the quarter. We also sold one stabilized commercial operating property for $29 million in proceeds and recorded a $5 million gain. The residential operating properties totaled $359 million and were comprised of 923 condominium units remaining in inventory at the end of the quarter.

These units are generally located in projects characterized by luxury buildings in major cities throughout the United States. During the quarter, we sold 116 condos for $83 million in proceeds, resulting in a $26 million gain offset by $5 million of expenses. This brings me to our land portfolio. At the end of the quarter, our land portfolio totaled $977 million and included 11 master plan communities, seven infill land parcels and six waterfront land parcels.

At the end of the quarter four of these projects were in production with sales activity having begun, nine were in development where we are actively working on entitlement, and 11 were in the predevelopment phase. The projects in the portfolio are well diversified with our largest exposures in California, the New York Metro area, Florida and several markets in the mid-Atlantic and southwest regions. Master plan communities generally represent large scale residential projects that we plan to entitle, plan and develop. We currently have entitlements at these projects for more than 25,000 lots.

Our infill and water front parcels are currently entitled for 6,000 residential units and select projects include commercial, retail and office space. During the quarter, we invested $8 million into our land portfolio through capital expenditures. Let me conclude with some comments regarding our plans for the remainder of the year.

We expect to return to the capital markets to refinance the approximately $545 million of unsecured notes that are maturing this year. Following the sale of LNR subsequent to quarter end, our current cash position is in excess of $700 million, providing us with significant capital to ramp up our investment origination activity. In addition, we expect to invest approximately $187 million for the remainder of the year in capital expenditures on projects primarily in our net leasing, operating and land segments. With that, let me turn it back to Jay. Jay?

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

Thanks, Dave. Well, we look forward to coming back next quarter with details on the new investment pipeline and further progress on our overall business strategy, but for now let us go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question is from the line of Michael Kim with CRT Capital Group. Please go ahead.

Michael Kim - *CRT Capital Group - Analyst*

Thanks. Good morning, everyone. My first question is under the stabilized operating portfolio, the commercial operating portfolio. The weighted average effective yield at 9.8% was higher than our expectations and up from the prior quarter. I was just curious what drove the yield increase? Was it largely the $40 million of additional stabilized assets added during the quarter or any sort of one-time items that might effected that kind of yield profile? I guess how should we think about the effective yield going forward? Is the first quarter a good figure to use?

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Jason Fooks - *iStar Financial, Inc. - VP, IR*

Hey Michael. Yes. I think it is a strong number. Maybe a little stronger than we expected as well. It was impacted by some new assets with good stabilized deals, but also a little bit of progress on leasing and some other assets in a seasonality in a particular hotel asset in Waikiki. So it is probably a touch higher than we would project going forward, but certainly the trend looks good.

Michael Kim - *CRT Capital Group - Analyst*

Yes. No. Absolutely. Okay. That is helpful. And your comments about the new investments it sounds like you have got some letters of intent, could see some news in the second or third quarter. I guess what is the loan origination pipeline look like right now? I mean what sort of deals are you looking at? Specifically just looking for color on the size of these transactions and maybe your buy size if you are going to sell down a portion of the loan or types of collateral, general terms, duration or even yield profile.

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

There is a lot in there, but let me give you a general sense of what we are looking at. Again, as mentioned on last call, I think we think size is important to kind of move away from the pack. Certainly what we see in the condo world and the life company and commercial banking world is a very competitive environment. So we are trying to use our strength working with borrowers who need some flexibility and have a little bit more fluid situations where they are not sure exactly what they need, but they know they need a partner who does senior debt, junior debt; anything up and down the capital stack.

So we have seen some opportunities in larger deals where we can be sort of a one-stop-shop for whatever capital needs pop up. That is something we are pursuing in the multi-family sector, hospitality, mixed-use and office world. We are seeing a little bit on the net lease side pretty competitive, but as I mentioned in my comments, things that have both a strong income stream but also the potential for future development is a place that we think we have some fairly unique skills.

So we are trying to tie some deals down in that sector, but as I say, it takes a little bit of time to get that pipeline set up. As Dave said, we have got about $700 million plus of cash. So we need to get going, and we have got some good progress on a number of fronts, but got to get some things locked and loaded and closed before we can really tell you where the best opportunities are.

Michael Kim - *CRT Capital Group - Analyst*

Got you. Understood. And lastly, just a question on the NPL resolutions. You know, great to see that 30% decline. Do you think you can exceed the guidance provided just calling for a 40% reduction? I mean do you have more visibility on other resolutions for the rest of the year and also during the first quarter? What was the split between pay downs versus transfers to performing status assuming that there were no assets that were taken entitled to?

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

Okay. So just in terms of the first quarter, we had about 40% of that reduction from pay downs.

Michael Kim - *CRT Capital Group - Analyst*

Okay.

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

The other 60% was mostly comprised of an asset where we got a material pay down and reached resolution on the remainder. We did buy out a couple positions to get ourselves into ownership. We think that was a pretty smart trade, and we have had a couple borrowers do successful asset sales and reduce their balances to a point where they can go back to performing.

We had a mix of things that broke our way. That is probably the same dynamic we will see going forward. It is hard to predict when these things can get done. Many of them have been in NPL for a long time, but we are making progress, and we do think there are other situations that could possibly get resolved, and if so we could very well beat that target.

Michael Kim - *CRT Capital Group - Analyst*

Right.

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

But we are not going to go out on a limb just yet, Mike.

Michael Kim - *CRT Capital Group - Analyst*

Sure. Yes. I mean the pay downs that occurred during the first quarter were those anticipated? Did you have visibility that they were going to get paid down or was that kinds of unexpected?

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

No. The specific time was not easily pegged.

Michael Kim - *CRT Capital Group - Analyst*

Okay.

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

We do think things are getting to the end of the line in many cases, and so it is just a matter of which quarter they happen in, which is why we were comfortable saying last quarter we felt a sizeable reduction was in the works, but the fact that we got a number of these done in the first quarter was just good news.

Michael Kim - *CRT Capital Group - Analyst*

Great. All right. Excellent - nice quarter. Thank you.

David DiStaso - *iStar Financial, Inc. - CFO*

Thanks, Mike.

Operator

Your next question is from the line of Joshua Barber with Stifel. Please go ahead.

Joshua Barber - *Stifel Nicolaus - Analyst*

Hello. Good morning. I am wondering if you could talk about your available cash position today especially in reference to some of your comments about sizeable deals. What sort of cash balance are you comfortable running with for the rest of the year? And do you think there is a possibility to leverage some of your investing cash to sort of multiply the amount of liquidity that you have?

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

I guess a couple things, Josh. One, as Dave said, we have got over $700 million. So we have got plenty of money to pursue pretty much everything we want to right now. We do not feel constrained.

We can look out and see a number of repayments coming in throughout the rest of the year that provide more capital. So I think the game rate now is just to get embedded in a couple high-quality, high profile, high return deals and see where we go from there. We do not feel right now limited in any way.

So we are pursuing the deals we think are attractive. Further down the road, thinking about the capital structures as Dave said, we are looking to refinance the rest of this year's maturities, and we have a small maturity coming up in the first quarter of 2014, and then it's pretty much a free run way for a couple of years. So we are going to take a hard look once we get through this capital market execution cycle and decide where leverage should be for this Company long-term, but we continue to believe kind of the two and a half times -- two to two and a half times is where we are going to end up, and we will work to corporately make sure that is kind of the range we stay in.

Joshua Barber - *Stifel Nicolaus - Analyst*

Great. When we look at your net lease portfolio, I am just curious and this is more of a maintenance question, but it looks like the unlevered yields actually fell this quarter even though occupancy was mostly flat. Can you talk about what happened there? It looks like rents fell off while OpEx went up a bit also. Can you help us with what is going on there?

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

Well, let us make sure we are using the same terminology. We are showing this quarter and going forward the yields on the gross carrying value. Historically, we have also shown the yield on the net, but as you think about that business and certainly as we own more and more assets we are going to gravitate towards showing yields on gross carrying value before depreciation. I think it is a better metric for folks like you to follow. So one, let us just make sure we are using that terminology.

Joshua Barber - *Stifel Nicolaus - Analyst*

Okay. But it still did look like NOI did fall a bit this quarter. Is there anything going on there?

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

Let me take a look here. Yes. We will have to come back to you on that. There is nothing specific in the book that I can point to. There may have been one or two assets that rolled into a different lease status, but let us come back to you on that, Josh.

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Joshua Barber - *Stifel Nicolaus - Analyst*

Okay. Great. And one last question, Jay. When you mentioned the potential use of third party capital, was that specific for general forward investments or was that also potentially for part of your land bank?

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

It can be in any form, but really the comment was directed towards the net lease book.

Joshua Barber - *Stifel Nicolaus - Analyst*

Great. Thanks very much.

Operator

Your next question is from Jonathan Feldman with Nomura Securities. Please go ahead.

Jonathan Feldman - *Nomura Securities, Intl. - Analyst*

Good morning. Question was what you guys see as the opportunity to further optimize your costs of debt capital going forward or do you think you have reached the limit there?

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

I hope we have not reached the limit. We think what we have demonstrated to the market is that both the right side and the left side of the balance sheet is getting stronger and that there is room certainly to refashion some of the pricing on the right side of the balance sheet. The market and certainly the rating agencies are giving us indications that as we move to a stronger position on the asset side in terms of earnings that there might be some room to move those ratings up and that would certainly save us some costs on the interest side of new debt.

I think the secured piece of the portfolio continues to pay down. We continue to look at those assets, and what is the optimal way to have them financed. We think the repricing got us to a closer place, but we are constantly looking at that, Jonathan, and we have some flexibility now to kind of fine tune that. Nothing dramatic, but we certainly think there is a little more room to go.

Jonathan Feldman - *Nomura Securities, Intl. - Analyst*

Great, and then just one final question and that is you commented briefly on the capital available on the balance sheet, but I just wanted to follow up by asking if there were any sort of near medium term plans to raise any equity capital? Or do you feel like you have the ability to recycle investments to provide you with the liquidity that you would like to make those new investments?

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

I think we feel really good right now where we are in terms of liquidity and future liquidity needs. I think right now we are good where we are. The next thing in the capital markets will be a refinancing of the upcoming maturities. Once we get all that capital invested and all that capital market activity done certainly we would think about growth capital if the opportunities are there.

Operator

(Operator Instructions). We'll go to Amanda Lyman with Goldman Sachs. Please go ahead.

Amanda Lyman - *Goldman Sachs - Analyst*

Thank you very much. Congratulations on the quarter. Just some housekeeping items. So you had mentioned, Jay, in your prepared remarks that you might access third party capital for that net lease portfolio. Is that third-party capital for investors that you would like to invest alongside with or is that third-party capital where you might potentially upsize the amount that you might look to do in the unsecured debt market and maybe above that 545? Do you have room in your covenants to do that?

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

Yes. It is the former. We have had a lot of interest in that sector, and we think there are ways to not only expand our pool of capital available, but also bring in the types of investors who may be interested in other parts of our business. So it is a good relationship opportunity if it's there, but there is nothing certain, so I do not want to go too far here, but that is one sector that we think there is capital that would like our expertise.

Amanda Lyman - *Goldman Sachs - Analyst*

Great, okay. And then regarding the cash on hand of over $700 million is any of that restricted or is that all available for use in terms of new investments and general corporate purposes?

David DiStaso - *iStar Financial, Inc. - CFO*

Yes. Amanda, the majority of that cash is available and not restricted. We have a very small balance of restricted cash for deposits. So the majority of that $700 million plus is available for all corporate uses.

Amanda Lyman - *Goldman Sachs - Analyst*

Great. And then just one last question. The room in your covenants, the headroom. Do you have ability to upsize any potential market transaction above the $545 million that matures in 2013 or are you really looking just to replace that debt for debt?

David DiStaso - *iStar Financial, Inc. - CFO*

Yes. Right now based on our covenants, we are looking to replace the debt and raise the $545 million, extend the maturities of that and improve the rate structure.

Amanda Lyman - *Goldman Sachs - Analyst*

Great. Okay. Perfect. Thank you.

Operator

And, Mr. Fooks, we have no further questions.

Jason Fooks - *iStar Financial, Inc. - VP, IR*

Thanks, John, and thanks to everyone for joining us this morning. If you should have any additional questions on today's earnings release, please feel free to contacts me directly. John, would you please give the conference call replay instructions once again thank you.

Operator

Certainly, and ladies and gentlemen this replay starts today at 12.30 PM Eastern Time and will last until May 14th at midnight. You may access the replay at any time by dialing 800-475-6701 and entering the access code 290986. That does conclude your conference for today. Thank you for your participation. You may now disconnect.