iStarInc

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Ross Smotrich: So good morning everybody. Thank you of joining us, I'm Ross Smotrich for the fifth and final time to tell you that I'm the real estate analyst here at Barclay's, commercial real estate. Thank you very much for joining us for your interest. Pleased to introduce Jay Sugarman who's the Chairman and Chief Executive Officer of two entities; iStar and SAFE and you'll see in his slide presentation and you're going to talk a little bit about both, I believe. So Jay formed iStar in 1996, I guess, or the predecessor in the 1996, took it public in 1997, serves as the chairman and CEO until today and of course has been a director since inception.

Prior to forming iStar, Jay managed private investment funds for some high net worth families here in New York; graduate of Princeton and Harvard, Jay, thank you very, very much for joining us. Look forward to hearing the story. And so Jay is going to walk through some quick slides and we'll do some Q&A and ask you to ask some questions as well. So, thank you.

Jay Sugarman: Thanks Ross, thanks everybody for joining us. I promised Ross I would give him ten slides that would change his world so we're going to go through those really quickly and then we can answer some questions for you.

I'm going to talk a lot about both who we are, what we do --

Ross Smotrich: You have it in front of you too.

Jay Sugarman: Perfect. Where we've been and where we're going and we do it relatively quickly for you. So iStar's long history actually goes back 25 years, 20 in the public markets and if I had to distill into one thing it's that we try to find a way to differentiate our capital. We're trying to solve problems, capital needs in the marketplace and do it in a unique way so that we can earn returns that are above the commodity returns that we see in most undifferentiated capital opportunities and we've got a long history of doing this. When we found these opportunities we've been able to scale them into very large businesses; $5 billion, $10 billion businesses. So, it's worth putting the time and effort in to find these ways to really differentiate our capital that's really in our DNA.

And as Ross knows what historically we've done is tried to look really in this Venn diagram, real estate, corporate credit and capital markets and look for places they intersect and look for places where the lines get a little blurry and those tend to be areas that we can change the way people see value, see opportunities and really uncover lots of hidden opportunity to create value for our shareholders.

We've been doing that for 20 plus years in the public markets, over $40 billion in transactions looking for this whitespace. Where can we do something differentiated that allows us to be special?

One of the difficult things for us is over the last couple of years is we've had to deal with a lot of legacy assets from the downturn. I'm going to show you a slide on how much progress we've made there. This is really important. It's allowing us to really take all of the distractions and all of the things that have pulled us away from doing what our DNA is and we're getting to a point where we can go back to doing what we really do well and that's really the third thing which is three years ago at a NARE conference we said we're going to find the next big thing. That's what we do for a living, that's what has allowed us to scale these very large businesses in the past and we're going to refocus our efforts now to find the next big thing in our history and so two years ago we think we found it. One year ago we took it public and today I'm here to start really educating the market about why this is such a big opportunity, why we're going to scale it and what a tremendous value opportunity we see before us.

So those are the three things that I'm going to touch on very briefly. We talked about differentiated capital; this idea of finding things that are looked perhaps at the wrong way or not even looked at, at all, it's part of our DNA. We have really not been able to express that over the last couple of years because we've been dragged down by a lot of very difficult assets to manage and these are large assets, we've put our best people on them. They worked really hard, they've actually been really successful. We've generated almost $740 million of gains out of this legacy portfolio but it is an incredibly time-swallowing management, attention swallowing, exercise and has really prevented us from coming back to the marketplace with our next big idea.

And you can see the progress we've made. We've gone from $3 billion of this stuff to about a $2.5 billion now. We've told the market we're going to be down below 15% by the end of next year and by that point it will really be irrelevant. It will really be off the table in terms of things that we're focused on and we hope that will be true for the public markets as well. So this progress has generated substantial economic gains but hasn't really allowed us to tell the story of the future and I want to spend most of the time now talking about that future and where we're going and why the opportunity is so big.

So, as I started, we try to find problems and then we try to solve them and sometimes you can't even see the problem unless you take your self outside of the real estate kind of lens that we all look through our businesses at. And the problem in this case is something that we've done over the past 20 years which is look at the components of things and make sure they're being done the best they can be done, the most efficiently. And the problem in the real estate world is we ask real estate investors who buy properties to make two fundamentally different investments when they buy that property and we're going to argue that those two investments do not belong together. In fact, there's no other part of the investment world which would allow you to be that inefficient with your capital and get away with it.

So let's turn our attention to the real estate world and say, why do property owners own these two different investments? So on the left-hand side a typical investor buys a building and the land underneath in a combined basis. They have a five to ten-year hold. They're really good at managing, designing, marketing, leasing, selling and they're trying to deliver to their investors a 14% ROE. And I'm going to fundamentally tell you that is a crazy proposition to be telling your investors because you're not making a 14 ROE with all of your skillsets of managing, marketing, leasing, designing, constructing and selling, you're actually making a 20% ROE. But you've diluted it down because you've taken a 30-year capital and you've bought a 99-year bond that makes 5% ROE's. And that makes no sense. The person who's got that skillset, who's competing for capital cannot afford to drag down their return profile by 600 basis points because they don't have a way to disengage the building from the land. Fundamentally there's no other investment market in the world that would force an investor to buy a highly active managed five to ten-year hold, 20% asset and then raise 50% more capital and buy a 99-year passive 5% bond; never happen.

So, we look at the real estate market and say we can do better than this. And we asked the question, why has this been allowed to exist or why hasn't somebody come up with a better mousetrap? Well, we don't have to look very far, we can see what has happened in this marketplace, over the last 30, 40 years, the real estate finance and capital markets have gotten very efficient, very sophisticated. All of you in the room have watched that evolution of mortgages and equity have turned into tranches and layers of capital stack and very sophisticated property REIT's. The ground lease business has not changed in 40 years. Nobody has looked at this business and said, actually a5 30,000 feet we have a problem, we're asking our capital providers to invest in two widely different businesses every time we buy an asset.

We need to make that better but nobody has really built a customer-facing ground-lace business. Nobody has been the land partner for all of the smart entrepreneurial real estate owners in the country, frankly in 40 years we haven't seen anybody develop that expertise.

iStar is an owner of real estate, as a lender to real estate for the last 20, 40 years, we have all of the skills in-house to know how to make this a customer friendly business. A lease-hold lender friendly business, a cap rate friendly business. To be value enhancing and not value destroying. But that's not what the ground lease business has been or is today. It's people who have owned land, universities, churches, hospitals, monarchies who don't care whether they are creating a value-enhancing business for the building owner. They don't care. They own the land, you want to be on their land you play by their rules.

We're going to turn that on its head and say, no, we are going to build a business that allows the sufficiency that should have happened a long time ago to start happening. And if you think about the opportunity set, this is not a $5 billion, $10 billion market opportunity, it's a $500 billion market opportunity that nobody plays in.

So we think we uncovered two years ago the next big thing. We think we know why it hasn't existed. We think we know we can fix it. We think iStar's skillset is uniquely perfectly positioned to fix this problem, solve this problem and in the process earn extraordinary returns.

So at 30,000 feet it makes sense that this should have happened. At 300 feet it makes sense that we can fix it but this thing that hasn't changed in 40 years, we can change. But really the reality is on the ground at three feet, will customers, will owners of real estate want to split the land from the building and make those higher IRR's, make those higher cash on cash returns? So, we wanted to show a very specific example here, a deal we closed not too long ago, with somebody who was trying to buy a $100 million Class A multifamily in Washington DC and they were competing against one of the largest publically traded REIT's obviously with scale and capital of the likes of which this private investor could never match.

And if they were going to go up against that investor, they were looking on the left side of the page at putting up $25 million of equity, borrowing $75 million from Fannie or Freddie and you can see the metrics down below; 6% cash on cash return on their pro forma, a 12.6% IRR and they knew they were going to lose this deal. They were not going to win this deal. They didn’t think they could raise the money against that return profile.

We approached them and said, well here's a better way to own it. You've said you can create these pro forma cash flows, let us show you how you can take those cash flows and make a fundamentally higher return with lower risk. And so we gave them a $35 million ground lease at approximately 4% which is about a 5% ROE over time. They put up $17 million of equity, they got an agency loan for $48 million and these are the generic metrics that they received at the end. I'm not giving you precise metrics because I don’t want to give away what our investor actually did here but these are all very close. 8.6% cash on cash, 260 basis points better. Nothing changed at the properties, they're exactly the same cash flows at the property level. It's just using a ground lease and not using a ground lease.

So raise their cash flows almost 30% and on their IRR calculations on their pro forma, raise their IRR's by 500 basis points and then it made it very easy for them to raise the capital and they actually won this deal. Now, that's the 30,000 feet being brought down to 300 feet being brought down to three feet where you can actually see on the ground why this makes sense, why investors will use this to be more competitive with their capital to raise capital more efficiently and we're arguing to them, they're actually lowering the risk. So on that $35 million that we gave them, which has a 99-year ground lease attached to it, they have no maturity risk on $35 million of their capital stack. On the left side of the page, that's all coming due at one day; one point in time that ten-year loan is coming due.

In real estate, that's the risk that point, having your maturity dates fall on a bad day for the real estate fundamentals is your worst nightmare. We've just taken half of that risk off the table. You don’t have to think about maturity risk on a big chunk of your capital stack.

So fundamentally, better capital, higher returns, higher IRR's, less risk. This is a compelling proposition and what I would tell you is four of the first five customers who worked with us have come back and done another deal. So, we're seeing that once they get through the historical antagonism to ground leases the way they were done in the past, people are seeing how powerful this is. They're saying, yeah, here's my other three deals, let's work on those together too.

So we feel like iStar and safety increment growth are at this cusp point where we're starting to convince the market not only of the theoretical reason we're going to build a big business, not only the practical reason that iStar is perfectly positioned to build this business but we're actually seeing the reality on the ground. Okay, two more slides Ross. These are the ones that are going to change your world.

Ross Smotrich: It's rockin.

Jay Sugarman: So, we think this is going to be a big business. We think we can scale it enormously. It's a small business right now, we went public last year with $344 million of assets and nobody cared. They cared even less in the public markets because we own half of it and we went out and got a sovereign wealth fund who we knew could scale with us and we said we don’t really care what the public markets think or where it trades, we just want to be in the markets when we can tell this story about scale and we want partners and capital sources who are going to scale with us. Clearly iStar can scale enormously; we own 40% of the stock, we continue to be a very large purchaser of the stock, we are planning to be the largest owner of this company for a long, long time.

Clearly the government of Singapore can grow exponentially with us as well. So we haven't really spent a lot of time talking about valuation and public market and where it's trading, and now we need to do that. So, we spent the last year making sure we thought this business could scale; making sure all of the logic and theory could be applied on the ground to make sure those customers would come back and be repeat customers and tell us we love this, we want to do more and more with you. That's all proven true.

So now we get to the interesting part which is how do you value this business at scale, not where it is today. Today we've doubled the size of the portfolio, we've gone from $344 million to $700 million. We've told the market we'd like to get a billion by year-end. iStar is the manager, is the largest shareholder, has a billion dollars of liquidity and cash so there's no question we were going to be able to scale this business with the capital resources between iStar and GIC but now we need to bring the public shareholders into the mix. We want you to start to understand what we're doing, why we're doing it, why we're so excited by it and when it reaches scale, what's it worth? And this is the most powerful idea I want to leave you with, which is just like we think the real estate business is two separate investments that have to be looked at separately, it's the building and the land, they're not the same, don’t jam them together, don’t try to value them together because you're valuing two fundamentally different things.

Ground leases are the same thing; they're two fundamentally different investments embedded in a ground lease. There is the cash flow stream, the rents we receive that typically go up every year over a long period of time; that's one source of value. And then there's the residual at the end of the 99-year lease. Some of our leases are shorter than that but most of the new ones are 99 years. That's a completely separate investment, very different investment.

So I'm going to show you now how we think about valuing those and at scale how we think the market will value those and why at scale we think this is not a question of whether the stock should be 20 or 21 or 19 -- the stock is a $100 stock. Because when you reach scale you have fundamentally changed the way people will look at these two very interesting investment streams. And we will argue to you as we've done in our past, that if you just look through the real estate lenses, I don't know, has anybody seen National Treasure with Nicolas Cage? Anybody, raise your hand. I knew it. He's got that scene where he's looking through the glasses from Ben Franklin to look at the back of the Declaration of Independence to see the treasure map and if you look through the Yellow Lenses you don't see anything. If you look through the blue lenses you don't see anything. If you look through the green lenses you don't see anything, but if you put them in a proper combination the treasure map appears.

Well, what we've been doing for 20 years Ross, and you remember this, is showing people this Venn diagram and saying the way the world looks at things through the real estate lens is different than the way it looks in the capital markets, it's different than the way it looks in the corporate credit market and when you get those lined up, you can see something that didn't appear before. And we're going to argue to you as we build scale in this business, that we can bring investors not just from the real estate world but from the broader market who already have valuation concepts and ideas, that are very applicable to what we're doing.

So let's talk about the first component which is the cash flow streams. So if you build a big diversified portfolio with lots of different property types, lots of different cities and build really strong cash flows in what is effectively a Triple A position in the capital structure, our ground leases represent about 35% of the cap stack on average. Well, if you look in the CMBS world, if you're 35% of the value of the building, that's Triple A bonds. If you look at it even on an unsecured basis in the REIT world, if you're at 35% you're a Single A, Double A rated unsecured borrower. So having a secured cash flow stream coming off a property at 30% to 35% of the cap stack, is like a Double A, Triple A bond. That's quality now. There's idiosyncratic risk around individual buildings, but if you build a big diversified scaled portfolio in multiple markets, multiple property types, it acts like a super high grade bond. Those cash flows feel the same.

And we know how those cash flows get valued in the corporate credit markets and how they get valued in the capital markets more broadly and one of the things that's used is something the government publishes every month called the HQM index. The High Quality Market curve index which says whatever cash flow you see in the future, I will tell you what the appropriate discount rate is. So if you tell me it's a piece of cash flow coming in two years, here's my discount rate. Eight years, here's the discount rate, 19 years, here's the discount rate and it's an aggregation of 1300 Single A to Triple A bonds from around all different industries, very diversified portfolio. This is published every month. And if you take those discount rates that are the appropriate discount rates for high grade cash flows in insurance companies and pension funds, that's what it's really used for, and you apply it to the high grade cash flows we are creating out of our ground lease portfolio, once it reaches scale, highly diversified, high quality Triple A, Double A credit quality, you're going to find that while we paid $630 million for the ground leases in our portfolio as of June 30, that their actual value is about 30% to 35% higher. The NAV of the cash flow stream is not $631 million, it's $862 million. Now that's just math but to get to that math, you have to look through the lens of what do high quality cash flow streams trade for in the capital markets, in the corporate credit markets because they can't trade at a different value than the real estate market.

You can't say real estate cash flow streams that are identical to diversified pools of high grade bonds are different, they're not, and they don't trade differently and yet here we are sitting here telling you today this is how at scale we should be valued and I don't think the market has paid attention to this, again, because we're not at scale yet, we don't have that diversity, but this is where we're headed.

So that's about $12.00 a share. So, right now we're trading at $17.00, our cost basis is $20.00, we would tell you the cash flow streams alone at scale are going to be worth in the $30.00's, but that's only half the story. So I told you there were two investments embedded in every ground lease; there's the cash flow stream, which as we build a large diversified high quality portfolio should trade like the HQM index, and then we have the residuals. And nobody really wants to pay attention to residuals. They're way out in the future, I don't know how to value them, they're not relevant. Fantastic, I want you to think that way because I'm going to buy everyone of them. I'm going to own as many as we can because when you reach scale and now when you have the future ownership position in a widely diversified portfolio of high quality real estate in major metropolitan markets, in all property types, you have something extraordinary. You have something that cannot be replicated anywhere else in the investment world. You cannot replicate this and it's that special and it's that unique and when we reach scale, people are going to understand how valuable that is.

So, today we call this thing value bank. It's $69.00 a share. So I just told you we have about $32.00 a share on HQM cash flow streams and I think we have $69.00 of residual value and that's $100.00 a share and we're trading at $17.00 and we raised money at $20.00. And this is why there's such an extraordinary opportunity if we can scale the business to actually get people in the real estate world, capital markets world, corporate credit world to understand that these cash flows look very similar to cash flows they value everyday in these other parts of the market.

When they look through a cap rate lens, you're going to completely miss the story. You cannot slap a cap rate on these two different businesses and think you've captured the value. You must look at them independently. You must credit, adjust and discount them appropriately so we do that with HQM on the cash flow streams, we get a number, very powerful number, 30%, 35% higher than today's value. And then we have the residual. And what we're going to tell you is the easiest metric to show you what it's worth at any point in time is to look at the spot price of the underlying real estate and to subtract our basis in the land. And that's what we're going to inherit, that is our trust fund, that is our 401-K, that is our bank vault that somebody everyday is out there working really hard to make worth more and more and more but relative to their five to ten-year MPV IRR's, it doesn't matter. They can ignore them, they're so far out they don't care. But if you aggregate enough of them, if you reach scale, if you put them together in the way we are about to do and you take those into the capital markets and the corporate credit markets, they're worth a fortune.

So we're going to help you over the next 12 months see this business scale and then show you the analogy values that we see in other parts of the marketplace. Bring them to the real estate marketplace and say we've created in the real estate world what exists in the capital markets world and the corporate credit world in other forms, but it's exactly the same. It's the same quality of cash flows. It's the same idea of store of value and if you have both those things, you have something extraordinary.

Now, we haven't scaled the business so when I look at the share price it's somewhat an indication of the probability we will be able to scale to realize these values, to realize these extraordinary opportunities and until we scale, there's' nothing really to talk about. But I'm telling you after 12 months in the marketplace working very hard we feel like we've seen customers, owners of real estate start to adopt what we believe, we see them agreeing with us that yeah, this is a way more efficient way to do business. We see them going, yeah, you guys are customer-friendly, customer focused, lease hold friendly, cap rate friendly, this is a better way for me to own real estate. I can own more of it, more efficiently and generate higher returns with less risk. Let's do more together. We're not there yet and I think all of The Street and Ross and others said, look, you guys are too small for people to care, come back when you're bigger, come back when you prove the scaling hypothesis and then it's going to get really interesting because then we're going to do what we did 25 years ago and say, don't look at it through the real estate lens, look at it exactly the way somebody in the corporate market, capital markets, real estate is not a different asset class; same quality cash flows will trade at the same price and that's how we're going to unlock all of this value that nobody can see right now.

Ross Smotrich: I'm buckled in. Please have a seat. So you did rock my world a little bit, I'll admit, as the moderator I'm not sure which way to go now. But, perhaps -- so I have a lot of different directions but honestly, I want to see if there are questions from our guests first. Are there any initial questions? Yeah, I can't see very well because of the lights, please --

Unidentified Audience Member: Can you just touch on how taxes play into this from an investors perspective, the ground lease versus the underlying property from a depreciation perspective and then also property taxes? How that impacts IRR's? Yeah, and to be clear, this is on the ground lease structure.

Jay Sugarman: Yes, so ground leases, the lease hold owner pays all taxes, all operating costs, it's a triple net lease. You get a check, so it's a very quite, passive investment. Interestingly, it is one of the most tax efficient compounding vehicles ever created. As I said, you cannot create this anywhere else in the world. Somebody said to me, well, you can buy tips, they are inflation protected and a large diversified pool of commercial real estate is pretty well inflation protected. Tips you pay taxes every year on the implied inflation growth. You don’t pay any taxes on your residual here. And in fact, 99 years from now when the property actually passes to you, it's not a tax event. So it is the most tax efficient way to put away a store of value in real estate, let it grow compounding powerfully over time and end up with the most, you know, I would argue one of the best investments you could ever imagine for inflation protection, hard asset value growth. I mean, these are the things that we will talk about extensively when we reach scale because if you're investing in gold or anything that has the kind of time horizon and compounding capability, I'm going to prove to you this is way better. There's nothing better.

But there are not a lot of ground leases out there. You cannot buy ground leases, they don’t exist. You have to convince owners of real estate that this is better capital with less risk. And it take as massive enterprise to do that. iStar has spent over $50 million already building this business. That's like a venture investment. We think we can change this entire industry and we're putting our money behind it because we think it's not a small opportunity, it's a massive opportunity. But you need the scale and resources of a

$5 billion company with offices in all of these major markets talking everyday to customers to say, this is why it's better. Forget the old ground leases, they're broken, they're bad, they're terrible, they're value destroying. We have created a value enhancing piece of capital that is going to make you better at what you do well. And there a lot of people who are listening to that, going, this makes a ton of sense, my peers and my competitors are starting to do it, I need to get on board too and so what we hope you'll see over the next 12 months is more and more people doing it. We've done one in Miami, we've done one in Atlanta, we've done one in DC. We're trying to get one done in New York and Boston. We're working on two in Chicago, we've done one in Phoenix, we've done one in L.A., we've done one in San Jose, we're working on San Francisco, Portland and Seattle. When we cover that map and we have peers, colleagues and competitors looking at somebody who won deals using a ground lease, we're not going to have to make phone calls anymore, the calls are going to come to us.

So the tax efficiency is a nice thing, it actually makes this story even better but we don’t even talk about taxes at this point, the benefits are so extreme even without talking about it. But for smart people who really dig in, you're going to see it's an incredibly tax efficient compounding vehicle as well.

Ross Smotrich: I thought there was another question. Yes sir?

Unidentified Audience Member: So SAFE went public, what a year and a half ago, $20.00, it's below $17.00 now, we think the land bank is worth $69.00, the cash flow is worth $30.00, it's like a $100.00 stock. I guess why would you -- why would STAR not look to buy in SAFE? You'd have a bigger entity, it seems like STAR is probably getting no credit for the management fee stream for SAFE, it just seems like everything lines up. It would make sense, why would you not do that?

Jay Sugarman: Effectively we are, we now own 40%-plus of it. We originally took it outside of STAR because it needs a different liability structure than iStar. iStar has covenants that don’t work for what we're trying to do in the ground lease business. So we couldn't, we can't, consolidate it at this point. Now that may change over time, but right now I would tell you it needs to be a separate entity. We went and found Government of Singapore to co-invest with us so it would be an off-balance sheet entity. I think the more interesting question is, you know, we believe in this value, we believe it's going to scale. We have continued to commit our own capital only because we think there's a major payoff somewhere down the road. If we don’t see that payoff, and when we did the road show a year ago, I told people, I said look, I don’t really -- I can tell you for the first year it's going to be trying to convince skeptics because we're trying to change theories that nobody wants to recognize, it's going to take us a lot of time. So we didn't really worry about where the stock was going to trade but I said, if the market doesn’t understand what we're doing, we're going to split the cash flow streams from the residual streams and I'm going to figure out a way to get the market to see the value in both of them separately. We're just going to tell them for the first four or five quarters what they are. We're not going to really get into detail because we don’t have a scaled portfolio. It's not going to argue theory. I want to argue reality.

Next year we're going to have reality. We've said we're going to try to reach a billion dollar portfolio by year-end. Next year we'd like to double that again. You get to $2 billion and all of the sudden these aren't theories anymore, they're reality and we will be able to monetize pieces of this story and if not in the real estate market, some other market. And once you do that, whether we own 50%, 40% -- I'm happy to share with smart partners who scale with us. But right now we've bought almost up to the limit we're allowed to buy.

Ross Smotrich: Yes, question back there? So, I'm going -- if I may, moderators prerogative, you've mentioned scale a number of times. Is that the number, $2 billion? I mean, and what's your timeframe? Like when do you get to scale in your mind?

Jay Sugarman: I'm going to turn that around on you I think because my prediction is Ross is going to write 24 months from now that the NAV is $100.00 a share, but you're not going to write that till you go, I see it, I believe that there's no going back. Do I think in a billion you'll write that? I do not. Do I think at $2 billion with assets in New York and Boston and San Francisco and Seattle and Atlanta and L.A. and Miami, yeah, I think you'll write it.

So we haven't proven to you yet enough of the -- we can do this everywhere in every property type with every type of investor and when we do, you're going to say, let me extrapolate from this? You guys basically didn't have any opportunity to really tell your story till last year. You tell the story, you've gone from $300 million to $2 billion in the space of two years. Let me extrapolate from that.

You still have no competitors, you're still the best structured in terms of the way you guys have set this up. How big could this be and as soon as you make that leap, as soon as you go I'm no longer worried about can you get there, I'm now just worried about how big this thing can be. You are going to start looking at those last two pages and going, that's going to happen.

Ross Smotrich: Right.

Jay Sugarman: And whether we monetize it directly, whether we monetize it indirectly, we will be sitting here a year from now hopefully and you'll be going, okay, now I believe you've scaled, now I see the kind of customers you're attracting, now let's talk about how do you get this value realized in the public markets?

Ross Smotrich: So you just heard something very, very unique which is scale is in the eye of the sale-side analyst. I never hear that before, that's great. That sounded like a bet though, so if anybody wants the over/under we'll set outside. I interrupted you, I'm sorry.

Unidentified Audience Member: So to get to the scale, are you -- I mean, I guess talk about building the business day-by-day, week-by-week, you're looking for new investment transactions like the stack you're talking about before or are you buying land or is iStar taking its land and marketing it? I mean --

Ross Smotrich: Yeah, and if I can make a suggestion for the uninitiated in the group, maybe just give a very, very quick snapshot of what iStar is.

Jay Sugarman: So iStar, 20 years in the public markets, differentiated capital primarily in the finance business and the triple net lease business but after the downturn took back a lot of assets and build capabilities in owning assets, repositioning assets, reimagining assets, we've extracted about $750 million of gains out of that exercise but it is not our core business.

Our core business is finding gaps in the market and figuring out how to scale giant businesses inside of them and we did that in finance, we did that in triple net lease so what we're trying to do now is basically take all of that expertise that we've developed and take it into a new place; about $5 billion of assets, a $1.5 billion of equity, $3.5 billion of debt, a billion dollars of liquidity right now between cash and availability. So, when we think about how do you prove out a business that doesn't exist, that nobody has thought about and has never been seen before, we start with testing on our own assets.

So we took a bunch of assets that iStar owned and went to market and said, we're going to sell like this together and we're going to split it apart and sell it separately between a ground lease and a lease hold; which one is better? And it turned out again and again that we were making more money by splitting it and selling it and holding the ground then we were selling it together and that's sort of led us down this path of this is just a wildly inefficient way to own real estate, owning both, because we're a natural holder at SAFE at 5% ROE, 99-year bonds. If you're good at managing, marketing, leasing, designing, constructing and selling, you shouldn't own 99 of your 5% bonds, you should be trying to make 15 to 20 ROE's on your skillsets and that all happens in the building envelop. So we did it, tested ourselves, proved it worked.

We then took a couple of people in our firm and said go try to do this in a couple of core markets and they came back and said, it's tough, it takes four or five meetings to get people to see what we're talking about to believe that you can get a lender to do it and so we spent a year getting a life company, government agency, a conduit, a money center bank, a regional bank. We've tried every kind of banking relationship, now we know how all of the lease hold lenders will play and the answer is there's no issue. If you size a ground lease properly there's no issue in the lease hold lender market.

Then we had to say well what about the cap rate market? A lot of people said to us, hey, I can't do a ground lease. When I go to sell this, it's going to trade at 6.5 cap instead of a 5 cap. And we said, well that's not the experience that we've had in our portfolio. But let's go walk through what -- and almost every time the experience that was bugging them was one of these old ground leases that destroy value. It had all sorts of bad provisions, it was not lease-hold lender friendly, it was not cap rate friendly, and we said we took all of those out. There are 27 provisions in a ground lease that matter. We got rid of all of the bad ones. So all you have to do is run your business, make your pro forma's and this will work. And here's our experience, we've sold assets, we've financed assets. Now we have a customer base that has sold assets and financed assets so it's all good now but it still takes five meetings to get people to believe that they can have the benefit of this without any downside, that the risk is actually lower, not higher, that the cap rate is not going to be that different in the backend, that you're going to make 500 or 600 basis points difference and there is no database you guys are going to go and be able to call out that says tell me about the ground lease business, it is a hidden away, nobody knows about business. It took us a year to create a database of what's out there. And we very quickly realized, we can build a business so much better than what exists and help people do their businesses more efficiently with better capital and now it's just a question of getting in front of people.

So we started with -- iStar did it on it's own book, then we tried it in a few markets with a few people in our firm, now we have almost the entire firm going guys, this opens the door to an entire new real estate world, a new way of thinking about capital provision and real estate. That’s' good for iStar and SAFE because iStar can walk in and say, we'll give you the lease hold loan, we'll give you the ground lease, one stop shopping, fantastic, fast, smart, sophisticated capital solution. By the way, we're going to charge you a little more. And people will go sure, if you can give me everything and make me 400 to 500 basis points more in IRR's, happy to pay you a little extra. So that’s the opportunity set that ties the two firms together but it's been a continuum of tests, trial, figure it out, make it better, now move onto the next step. We're two or three steps along that process. We're still not a full scale, we're not sitting at our desks and people are just pouring in, but in some of the markets we've done deals in, the requests are coming.

We're --

Unidentified Audience Member: (Inaudible) -- are you looking, I mean are people coming to you are --

Jay Sugarman: Yeah. So four of the first five people who did a deal with us have come back and done a second deal. So we don’t have to reach out to them anymore, they got it, they're like oh my God, this works, we want a deal, we beat somebody else, we're winning more deals with your capital. Can you look at these three more deals with us? We do have some capacity constrains, we're still a $5 billion enterprise working on a bunch of legacy assets and a bunch of finance and net lease assets, but I can tell you the lever to get into a conversation in a proprietary way where you actually can price and structure appropriately happens much better in a ground lease situation than it does if we're competing with the ten other finance companies than are trying to commit capital. So this is a lever that has allowed us to go back to our strength, our differentiated capital strength and tell this story of we're here to make you more money.

Ross Smotrich: So I apologize but unfortunately we're out of time. So you rocked their world too, that's great. There is a breakout session, we're in the Madison room, thank you very much. Yeah, I think we're out of time. So, if you have continued questions for Jay, please come and join us in the Madison room, it's right down the hallway. Meanwhile, please join me in thanking him.