



Safehold Ground Lease

NH&RA - Fall Developers Forum

November 14, 2024



About Safehold

- Safehold (NYSE: SAFE) is the creator and leader of the modern ground lease industry
- Low cost, 99-year ground lease capital for builders, buyers and owners of cash flowing CRE
- \$6.5 billion portfolio with national footprint – primarily top 30 MSAs across the US, all product types
- Growing focus on affordable multifamily housing, notably LIHTC

The Structure

- Safehold acquires land (at premium to cost/value)
 - 99-year ground lease
 - Proceeds above land cost funded as tenant improvement allowance
- Ground rent set based on total proceeds x lease rate of **~5.25–5.50%** today
 - Hard payment included in operating expenses
 - Rent increases at 2.0% per year
 - CPI resets every 10 years (capped at 3.50% per annum)
 - Permanent loan resized based on NOI net of ground rent

Key Takeaways & Benefits

Alternative, low-cost capital to help projects move forward

- **Remove cost of land**
 - Improve tie-breaker scores, 50% test
 - No impact to eligible basis, income to partnership
- **~10-20% increase in proceeds (ground lease + permanent loan)**
 - Reduce or eliminate gaps, need for additional subsidy
 - No additional regulatory restrictions
- **Attractive cost of capital, without additional amortization**
 - Significantly lower blended cost of capital

Illustrative Transaction

Proforma Net Operating Income	\$1.8
Less: Year 1 Ground Rent (3.3x rent coverage)	(0.5)
Adjusted Leasehold NOI	1.2
Safehold Proceeds (year 1 rent capped at 5.25%)	10.0
Less: Land at Sponsor Cost	(4.0)
Tenant Improvement Allowance	6.0

- Safehold funds \$10.0M ground lease
- Land cost removed from project budget
- Perm loan resized based on NOI net of ground rent
- 16% increase in total proceeds (\$3.4M gap filler)

CONVENTIONAL CAPITALIZATION				
	Construction	Perm		
Bonds	51.1	-	Land	4.0
Permanent Loan (1)	-	21.9	Hard & Soft	70.0
Tax Credit Equity	5.0	34.2		
Other	17.9	17.9		
Total Sources	74.0	74.0	Total Uses	74.0
CAPITALIZATION WITH SAFEHOLD GROUND LEASE				
	Construction	Perm		
Tenant Improvement Allowance (2)	6.0	6.0	Land	-
Bonds	45.0	0.0	Hard & Soft	70.0
Permanent Loan (3)	-	15.3		
Tax Credit Equity	5.0	34.7		
Other	14.0	14.0		
Total Sources	70.0	70.0	Total Uses	70.0

(1) Perm Loan based on \$1.75M NOI, 6.4% rate, 1.15x DSCR, 40 year amortization (6.9% debt constant)

(2) \$6.0M of low cost (5.25%), permanent capital via TI Allowance

(3) Resized based on \$1.2M NOI

Safehold capitalization offers \$3.4M incremental proceeds, at a 67 bps reduction in blended cost of capital (see below)

COMBINED PROCEEDS		
Ground Lease	10.0	5.3%
Perm Loan	15.3	6.9%
Total	25.3	6.3%



Case Study: 80 Saratoga

- **Ground-up development of a 200-unit multifamily project in Santa Clara, CA**
 - Developer: The Pacific Company
 - 4% LIHTC, 60% average AMI
 - Construction Loan: Bank of America + Citibank
 - Permanent Loan: Citibank
 - Tax Credit Investor: Bank of America
- **Safehold funded a \$21.5M ground lease**

