ISTAR INC.
Form 10-Q
August 04, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

ý	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017
OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File No. 1-15371

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iStar Inc.
(Exact name of registrant as specified in its charter)

Maryland	95-6881527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1114 Avenue of the Americas, 39th Floor New York, NY	10036
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (212) 930-9400

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days.
Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

As of August 3, 2017, there were 72,190,312 shares, $0.001 par value per share, of iStar Inc. common stock outstanding.

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PART I. CONSOLIDATED FINANCIAL INFORMATION
Item 1. Financial Statements
iStar Inc.
Consolidated Balance Sheets
(In thousands, except per share data)

	As of June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate		
Real estate, at cost	$1,710,915	$1,740,893
Less: accumulated depreciation	(367,933)	(353,619)
Real estate, net	1,342,982	1,387,274
Real estate available and held for sale	68,045	237,531
Total real estate	1,411,027	1,624,805
Land and development, net	855,497	945,565
Loans receivable and other lending investments, net	1,170,565	1,450,439
Other investments	276,821	214,406
Cash and cash equivalents	954,279	328,744
Accrued interest and operating lease income receivable, net	10,501	11,254
Deferred operating lease income receivable, net	88,944	88,189
Deferred expenses and other assets, net	147,121	162,112
Total assets	$4,914,755	$4,825,514
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$230,259	$211,570
Loan participations payable, net	107,442	159,321
Debt obligations, net	3,368,113	3,389,908
Total liabilities	3,705,814	3,760,799
Commitments and contingencies (refer to Note 11)	—	—
Redeemable noncontrolling interests (refer to Note 5)	3,585	5,031
Equity:		
iStar Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference $25.00 per share (refer to Note 13)	22	22
Convertible Preferred Stock Series J, liquidation preference $50.00 per share (refer to Note 13)	4	4
Common Stock, $0.001 par value, 200,000 shares authorized, 72,190 and 72,042 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	72	72
Additional paid-in capital	3,603,981	3,602,172
Retained earnings (deficit)	(2,431,123)	(2,581,488)
Accumulated other comprehensive income (loss) (refer to Note 13)	(3,678)	(4,218)
Total iStar Inc. shareholders' equity	1,169,278	1,016,564
Noncontrolling interests	36,078	43,120
Total equity	1,205,356	1,059,684
Total liabilities and equity	$4,914,755	$4,825,514

The accompanying notes are an integral part of the consolidated financial statements.

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iStar Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Operating lease income	$47,002	$49,975	$94,349	$100,470
Interest income	28,645	34,400	57,703	67,620
Other income	139,510	10,096	151,374	21,636
Land development revenue	132,710	27,888	152,760	42,835
Total revenues	347,867	122,359	456,186	232,561
Costs and expenses:				
Interest expense	48,807	56,047	99,952	113,068
Real estate expense	34,684	35,328	70,274	69,572
Land development cost of sales	122,466	17,262	138,376	28,838
Depreciation and amortization	13,171	13,673	25,451	27,581
General and administrative	27,218	19,665	52,392	42,768
(Recovery of) provision for loan losses	(600)	700	(5,528)	2,206
Impairment of assets	10,284	3,012	14,696	3,012
Other expense	16,276	3,182	18,145	3,922
Total costs and expenses	272,306	148,869	413,758	290,967
Income (loss) before earnings from equity method investments and other items	75,561	(26,510)	42,428	(58,406)
Loss on early extinguishment of debt, net	(3,315)	(1,457)	(3,525)	(1,582)
Earnings from equity method investments	5,515	39,447	11,217	47,714
Income (loss) from continuing operations before income taxes	77,761	11,480	50,120	(12,274)
Income tax (expense) benefit	(1,644)	1,190	(2,251)	1,604
Income (loss) from continuing operations	76,117	12,670	47,869	(10,670)
Income from discontinued operations	173	3,633	4,939	7,214
Gain from discontinued operations	123,418	—	123,418	—
Income tax expense from discontinued operations	(4,545)	—	(4,545)	—
Income from sales of real estate[(1)]	844	43,484	8,954	53,943
Net income	196,007	59,787	180,635	50,487
Net (income) loss attributable to noncontrolling interests	(5,710)	(8,825)	(4,610)	(7,883)
Net income attributable to iStar Inc.	190,297	50,962	176,025	42,604
Preferred dividends	(12,830)	(12,830)	(25,660)	(25,660)
Net (income) loss allocable to Participating Security holders[(2)]	—	(20)	—	(11)
Net income allocable to common shareholders	$177,467	$38,112	$150,365	$16,933
Per common share data:				
Income attributable to iStar Inc. from continuing operations:				
Basic	$0.81	$0.47	$0.37	$0.13
Diluted	$0.69	$0.34	$0.35	$0.13
Net income attributable to iStar Inc.:				
Basic	$2.46	$0.52	$2.09	$0.22
Diluted	$2.04	$0.37	$1.76	$0.22
Weighted average number of common shares:				

Basic	72,142	73,984	72,104	75,522
Diluted	88,195	118,510	88,156	75,872

(1) Income from sales of real estate represents gains from sales of real estate that do not qualify as discontinued operations.

(2) Participating Security holders are non-employee directors who hold common stock equivalents ("CSEs") and restricted stock awards granted under the Company's Long Term Incentive Plans that are eligible to participate in dividends (refer to Note 14 and Note 15).

The accompanying notes are an integral part of the consolidated financial statements.

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iStar Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$196,007	$59,787	$180,635	$50,487
Other comprehensive income (loss):				
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization[(1)]	(313)	118	(191)	375
Unrealized gains/(losses) on available-for-sale securities	583	446	566	465
Unrealized gains/(losses) on cash flow hedges	(146)	(357)	394	(1,319)
Unrealized gains/(losses) on cumulative translation adjustment	172	30	(229)	(10)
Other comprehensive income (loss)	296	237	540	(489)
Comprehensive income	196,303	60,024	181,175	49,998
Comprehensive (income) loss attributable to noncontrolling interests	(5,710)	(8,825)	(4,610)	(7,883)
Comprehensive income attributable to iStar Inc.	$190,593	$51,199	$176,565	$42,115

(1) Reclassified to "Interest expense" in the Company's consolidated statements of operations are $30 and $60 for the three and six months ended June 30, 2017, respectively, and $23 and $183 for the three and six months ended June 30, 2016, respectively. Reclassified to "Earnings from equity method investments" in the Company's consolidated statements of operations are $70 and $164 for the three and six months ended June 30, 2017, respectively, and $95 and $192 for the three and six months ended June 30, 2016, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

iStar Inc.
Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2017 and 2016
(In thousands)
(unaudited)

	iStar Inc. Shareholders' Equity							
	Preferred Stock[1]	Preferred Stock Series J[1]	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of December 31, 2016	$22	$ 4	$ 72	$3,602,172	$(2,581,488)	$ (4,218)	$ 43,120	$1,059,684
Dividends declared—preferred	—	—	—	—	(25,660)	—	—	(25,660)
Issuance of stock/restricted stock unit amortization, net	—	—	—	1,699	—	—	—	1,699
Net income for the period[2]	—	—	—	—	176,025	—	5,946	181,971
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	540	—	540
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	110	—	—	—	110
Distributions to noncontrolling interest	—	—	—	—	—	—	(12,988)	(12,988)
Balance as of June 30, 2017	$22	$ 4	$ 72	$3,603,981	$(2,431,123)	$ (3,678)	$ 36,078	$1,205,356
Balance as of December 31, 2015	$22	$ 4	$ 81	$3,689,330	$(2,625,474)	$ (4,851)	$ 42,218	$1,101,330
Dividends declared—preferred	—	—	—	—	(25,660)	—	—	(25,660)
Issuance of stock/restricted stock unit amortization, net	—	—	—	1,371	—	—	—	1,371
Net income for the period[2]	—	—	—	—	42,604	—	10,520	53,124
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(489)	—	(489)
Repurchase of stock	—	—	(9)	(91,826)	—	—	—	(91,835)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	460	—	—	—	460
Contributions from noncontrolling interests	—	—	—	—	—	—	444	444
Change in noncontrolling interest[3]	—	—	—	—	—	—	(7,292)	(7,292)
Balance as of June 30, 2016	$22	$ 4	$ 72	$3,599,335	$(2,608,530)	$ (5,340)	$ 45,890	$1,031,453

(1) Refer to Note 13 for details on the Company's Preferred Stock.

(2) For the six months ended June 30, 2017 and 2016, net income (loss) shown above excludes $(1,336) and $(2,637) of net loss attributable to redeemable noncontrolling interests.

(3) Includes a payment to acquire a noncontrolling interest (refer to Note 5).

The accompanying notes are an integral part of the consolidated financial statements.

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iStar Inc.
Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$180,635	$50,487
Adjustments to reconcile net income to cash flows from operating activities:		
(Recovery of) provision for loan losses	(5,528)	2,206
Impairment of assets	14,696	3,012
Depreciation and amortization	26,352	29,182
Non-cash expense for stock-based compensation	9,796	6,211
Amortization of discounts/premiums and deferred financing costs on debt obligations, net	6,615	8,901
Amortization of discounts/premiums on loans, net	(6,978)	(7,237)
Deferred interest on loans, net	(1,290)	4,631
Gain from discontinued operations	(123,418)	—
Earnings from equity method investments	(11,217)	(47,714)
Distributions from operations of other investments	35,502	31,479
Deferred operating lease income	(3,204)	(4,993)
Income from sales of real estate	(9,462)	(53,943)
Land development revenue in excess of cost of sales	(14,384)	(13,997)
Loss on early extinguishment of debt, net	775	1,582
Debt discount on repayments of debt obligations	(5,745)	(5,369)
Other operating activities, net	9,770	2,651
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable, net	2,881	4,436
Changes in deferred expenses and other assets, net	(6,821)	1,677
Changes in accounts payable, accrued expenses and other liabilities	3,941	(13,052)
Cash flows provided by operating activities	102,916	150
Cash flows from investing activities:		
Originations and fundings of loans receivable, net	(130,701)	(158,262)
Capital expenditures on real estate assets	(16,346)	(35,674)
Capital expenditures on land and development assets	(53,894)	(58,961)
Acquisitions of real estate assets	—	(3,915)
Repayments of and principal collections on loans receivable and other lending investments, net	367,028	202,014
Net proceeds from sales of real estate	154,291	247,956
Net proceeds from sales of land and development assets	146,713	33,660
Net proceeds from sales of other investments	—	39,810
Distributions from other investments	11,275	8,632
Contributions to other investments	(139,139)	(8,283)
Changes in restricted cash held in connection with investing activities	1,757	3,220
Other investing activities, net	5,317	(5,677)
Cash flows provided by investing activities	346,301	264,520
Cash flows from financing activities:		
Borrowings from debt obligations	854,637	646,401
Repayments and repurchases of debt obligations	(626,492)	(991,184)

Proceeds from loan participations payable	—	22,844
Preferred dividends paid	(25,660)	(25,660)
Repurchase of stock	—	(90,481)
Payments for deferred financing costs	(12,243)	(8,003)
Payments for withholding taxes upon vesting of stock-based compensation	(511)	(1,203)
Other financing activities, net	(13,420)	(7,144)
Cash flows provided by (used in) financing activities	176,311	(454,430)
Effect of exchange rate changes on cash	7	22
Changes in cash and cash equivalents	625,535	(189,738)
Cash and cash equivalents at beginning of period	328,744	711,101
Cash and cash equivalents at end of period	$954,279	$521,363
Supplemental disclosure of non-cash investing and financing activity:		
Fundings and repayments of loan receivables and loan participations, net	$(52,406)	$12,267
Accounts payable for capital expenditures on land and development assets	2,984	5,575
Accounts payable for capital expenditures on real estate assets	1,488	—
Receivable from sales of real estate and land parcels	3,139	1,741
Developer fee payable	—	6,438
Accruals for repurchase of stock	—	2,260

The accompanying notes are an integral part of the consolidated financial statements.

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iStar Inc.
Notes to Consolidated Financial Statements
(unaudited)

Note 1—Business and Organization

Business—iStar Inc. (the "Company"), doing business as "iStar," finances, invests in and develops real estate and real estate related projects as part of its fully-integrated investment platform. The Company also provides management services for its ground lease and net lease equity method investments (refer to Note 7). The Company has invested more than $35 billion over the past two decades and is structured as a real estate investment trust ("REIT") with a diversified portfolio focused on larger assets located in major metropolitan markets. The Company's primary business segments are real estate finance, net lease, operating properties and land and development (refer to Note 17).

Organization—The Company began its business in 1993 through the management of private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new investments, as well as through corporate acquisitions.

Note 2—Basis of Presentation and Principles of Consolidation

Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These unaudited consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Annual Report").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim periods or the entire year. Certain prior year amounts have been reclassified in the Company's consolidated financial statements and the related notes to conform to the current period presentation.

Principles of Consolidation—The consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's involvement with VIEs affects its financial performance and cash flows primarily through amounts recorded in "Operating lease income," "Interest income," "Earnings from equity method investments," "Real estate expense" and "Interest expense" in the Company's consolidated statements of operations. The Company has not provided financial support to those VIEs that it was not previously contractually required to provide.

Consolidated VIEs—As of June 30, 2017, the Company consolidates VIEs for which it is considered the primary beneficiary. As of June 30, 2017, the total assets of these consolidated VIEs were $326.9 million and total liabilities were $68.9 million. The classifications of these assets are primarily within "Land and development, net" and "Real estate, net" on the Company's consolidated balance sheets. The classifications of liabilities are primarily within "Accounts payable, accrued expenses and other liabilities" and "debt obligations, net" on the Company's consolidated balance sheets. The liabilities of these VIEs are non-recourse to the Company and can only be satisfied from each VIE's respective assets. The Company did not have any unfunded commitments related to consolidated VIEs as of June 30, 2017.

Unconsolidated VIEs—As of June 30, 2017, the Company has investments in VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's consolidated financial statements. As of June 30, 2017, the Company's maximum exposure to loss from these investments does not exceed the sum of the $56.6 million carrying value of the investments, which are classified in "Other investments" and "Loans receivable and other lending investments, net" on the Company's consolidated balance sheets, and $53.8 million of related unfunded commitments.

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Note 3—Summary of Significant Accounting Policies

On January 1, 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09, Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") which was issued to simplify several aspects of the accounting for share-based payment transactions, including income tax, classification of awards as either equity or liabilities and classification on the statement of cash flows. The adoption of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements.

As of June 30, 2017, the remainder of the Company's significant accounting policies, which are detailed in the Company's 2016 Annual Report, have not changed materially.

New Accounting Pronouncements—In February 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets ("ASU 2017-05") to clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. The amendments in ASU 2017-05 simplify GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses. The amendments in ASU 2017-05 require an entity to initially measure a retained noncontrolling interest in a nonfinancial asset at fair value consistent with how a retained noncontrolling interest in a business is measured. Also, if an entity transfers ownership interests in a consolidated subsidiary that is within the scope of ASC 610-20 and continues to have a controlling financial interest in that subsidiary, ASU 2017-05 requires the entity to account for the transaction as an equity transaction, which is consistent with how changes in ownership interests in a consolidated subsidiary that is a business are recorded when a parent retains a controlling financial interest in the business. ASU 2017-05 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning January 1, 2017. Management is evaluating the impact of the guidance on the Company's consolidated financial statements and expects to adopt the retrospective approach, which would require the Company to recast revenue and expenses for all prior periods presented in the year of adoption of the new standard. The Company expects that transactions in assets and businesses in which the Company retains an ownership interest, such as the sale of a controlling interest in its GL business (refer to Note 4), will be impacted by this guidance. As a result, under the retrospective approach, in 2018, the Company expects to record an incremental gain of $55.5 million in its consolidated statements of operations for the three and six months ended June 30, 2017, bringing the Company's full gain on the sale of its GL business to approximately $178.9 million.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business ("ASU 2017-01") to provide a more robust framework to use in determining when a set of assets and activities is a business. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The Company's real estate acquisitions have historically been accounted for as a business combination or an asset acquisition. Under ASU 2017-01, certain transactions previously accounted for as business combinations under the existing guidance would be accounted for as asset acquisitions under the new guidance. As a result, the Company expects more transaction costs to be capitalized under real estate acquisitions and less transaction costs to be expensed under business combinations. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is permitted under certain conditions. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash ("ASU 2016-18") which requires that restricted cash be included with cash and cash equivalents when reconciling beginning and ending cash and cash equivalents on the statement of cash flows. In addition, ASU 2016-18 requires disclosure of what is included in restricted cash. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. Management does not believe the guidance will have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15") which was issued to reduce diversity in practice in how certain cash receipts and cash payments, including debt prepayment or debt extinguishment costs, distributions from equity method investees, and other separately identifiable cash flows, are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. Management does not believe the guidance will have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") which was issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments held by a reporting entity. This amendment replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company currently records a general reserve that covers performing loans and reserves for loan losses are recorded when (i) available information as of each balance sheet date indicates that it is probable a loss has occurred in the portfolio and (ii) the amount of the loss can be reasonably estimated. The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of loans based upon risk ratings assigned to loans with similar risk characteristics during our quarterly loan portfolio assessment. The Company estimates loss rates based on historical realized losses experienced within its portfolio and take into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience. The Company believes this general reserve component of its total loan loss reserves should minimize the impact of ASU 2016-13. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Management does not believe the guidance will have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. For operating leases, a lessee will be required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis and (iii) classify all cash payments within operating activities in the statement of cash flows. For operating lease arrangements for which the Company is the lessee, primarily the lease of office space, the Company expects the impact of ASU 2016-02 to be the recognition of a right-of-use asset and lease liability on its consolidated balance sheets. The accounting applied by the Company as a lessor will be largely unchanged from that applied under previous GAAP. However, in certain instances, a new long-term lease of land subsequent to adoption could be classified as a sales-type lease, which could result in the Company derecognizing the underlying asset from its books and recording a profit or loss on sale and the net investment in the lease. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") which supersedes existing industry-specific guidance, including ASC 360-20, Real Estate Sales. The new standard is principles-based and requires more estimates and judgment than current guidance. Certain contracts with customers, including lease contracts and financial instruments and other contractual rights, are not within the scope of the new guidance. Although most of the Company's revenue is operating lease income generated from lease contracts and interest income generated from financial instruments, certain other of the Company's revenue streams will be impacted by the new guidance. The Company currently expects that income from the sale of residential condominiums, land development revenue and other income will be impacted by ASU 2014-09. The Company does not expect income from the sales of net lease or commercial operating properties to be impacted by ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, to defer the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning January 1, 2017. Management is evaluating the impact of the guidance on the Company's consolidated financial statements and expects to adopt the full retrospective approach, which would require the Company to recast revenue and expenses for all prior periods presented in the year of adoption of the new standard.

Note 4—Real Estate

The Company's real estate assets were comprised of the following ($ in thousands):

	Net Lease(1)	Operating Properties	Total
As of June 30, 2017			
Land, at cost	$227,231	$211,057	$438,288
Buildings and improvements, at cost	950,548	322,079	1,272,627
Less: accumulated depreciation	(314,373)	(53,560)	(367,933)
Real estate, net	863,406	479,576	1,342,982
Real estate available and held for sale (2)	924	67,121	68,045
Total real estate	$864,330	$546,697	$1,411,027
As of December 31, 2016			
Land, at cost	$231,506	$211,054	$442,560
Buildings and improvements, at cost	987,050	311,283	1,298,333
Less: accumulated depreciation	(307,444)	(46,175)	(353,619)
Real estate, net	911,112	476,162	1,387,274
Real estate available and held for sale (2)	155,051	82,480	237,531
Total real estate	$1,066,163	$558,642	$1,624,805

(1) In 2014, the Company partnered with a sovereign wealth fund to form a venture to acquire and develop net lease assets (the "Net Lease Venture") and gave a right of first refusal to the Net Lease Venture on all new net lease investments (refer to Note 7 for more information on the Net Lease Venture). The Company is responsible for sourcing new opportunities and managing the Net Lease Venture and its assets in exchange for a promote and management fee.

(2) As of December 31, 2016, net lease includes the Company's ground lease ("GL") assets that were reclassified to "Real estate available and held for sale" (refer to "Dispositions" below). As of December 31, 2016, the carrying value of the Company's GL assets were previously classified as $104.5 million in "Real estate, net," $37.5 million in "Deferred expenses and other assets, net," $8.2 million in "Deferred operating lease income receivable, net" and $3.5 million in "Accrued interest and operating lease income receivable, net" on the Company's consolidated balance sheet. As of June 30, 2017 and December 31, 2016, the Company had $67.1 million and $82.5 million, respectively, of residential properties available for sale in its operating properties portfolio.

Real Estate Available and Held for Sale—During the six months ended June 30, 2017, the Company transferred one net lease asset with a carrying value of $0.9 million to held for sale due to an executed contract with a third party. During the six months ended June 30, 2016, the Company transferred one net lease asset with a carrying value of $0.7 million and one commercial operating property with a carrying value of $16.1 million to held for sale due to executed contracts with a third parties.

Acquisitions—During the six months ended June 30, 2016, the Company acquired land for $3.9 million and simultaneously entered into a 99 year ground lease with the seller.

Disposition of Ground Lease Business—In April 2017, institutional investors acquired a controlling interest in the Company's GL business through the merger of a Company subsidiary and related transactions (the "Acquisition Transactions"). The Company's GL business was a component of the Company's net lease segment and consisted of 12 properties subject to long-term net leases including seven GLs and one master lease (covering five properties). The acquiring entity was a newly formed unconsolidated entity named Safety, Income and Growth, Inc. ("SAFE"). The carrying value of the Company's GL assets was approximately $161.1 million. Shortly before the Acquisition Transactions, the Company completed the $227.0 million 2017 Secured Financing on its GL assets (refer to Note 10). The Company received all of the proceeds of the 2017 Secured Financing. The Company received an additional $113.0 million of proceeds in the Acquisition Transactions, including $55.5 million that the Company contributed to SAFE in its initial capitalization. As a result of the Acquisition Transactions, the Company deconsolidated the 12 properties and the associated 2017 Secured Financing. The Company accounts for its investment in SAFE as an equity method investment (refer to Note 7). The Company accounted for this transaction as an in substance sale of real estate and recognized a gain of $123.4 million, reflecting the aggregate gain less the fair value of the Company's retained interest in SAFE (refer to Note 2 - Summary of Significant Accounting Policies). The carrying value of the 12 properties is classified in "Real estate available and held for sale" on the Company's consolidated balance sheet as of December 31, 2016 and the gain was recorded in "Gain from discontinued operations" in the Company's consolidated statements of operations.

Discontinued Operations—The transactions described above involving the Company's GL business qualified for discontinued operations and the following table summarizes income from discontinued operations for the three and six months ended June 30, 2017 and 2016 ($ in thousands)[(1)(2)]:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$678	$4,543	$6,430	$8,986
Expenses	(505)	(910)	(1,491)	(1,772)
Income from discontinued operations	$173	$3,633	$4,939	$7,214

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(1) The transactions closed on April 14, 2017 and revenues, expenses and income from discontinued operations excludes the period from April 14, 2017 to June 30, 2017. Revenues primarily consisted of operating lease income and expenses primarily consisted of depreciation and amortization and real estate expense.

(2) For the six months ended June 30, 2017, cash flows provided by operating activities and cash flows used in investing activities from discontinued operations was $5.7 million and $0.5 million, respectively. For the six months ended June 30, 2016, cash flows provided by operating activities and cash flows used in investing activities from discontinued operations was $9.4 million and $4.6 million, respectively.

Other Dispositions—During the six months ended June 30, 2017 and 2016, the Company sold residential condominiums for total net proceeds of $17.6 million and $59.2 million, respectively, and recorded income from sales of real estate totaling $2.7 million and $18.8 million, respectively. During the six months ended June 30, 2017 and 2016, the Company sold net lease assets for net proceeds of $19.5 million and $30.2 million, respectively, resulting in gains of $6.2 million and $9.2 million, respectively. During the six months ended June 30, 2016, the Company also sold three commercial operating properties for net proceeds of $158.9 million resulting in gains of $25.9 million. The gains are recorded in "Income from sales of real estate" in the Company's consolidated statements of operations.

Impairments—During the six months ended June 30, 2017, the Company recorded an impairment of $4.4 million on a real estate asset held for sale due to shifting demand in the local condominium market along with a change in the Company's exit strategy. During the six months ended June 30, 2016, the Company recorded an impairment of $3.0 million on a residential operating property resulting from a slowdown in the local condominium real estate market.

Tenant Reimbursements—The Company receives reimbursements from tenants for certain facility operating expenses including common area costs, insurance, utilities and real estate taxes. Tenant expense reimbursements were $5.2 million and $10.7 million for the three and six months ended June 30, 2017, respectively. Tenant expense reimbursements were $5.9 million and $12.1 million for the three and six months ended June 30, 2016, respectively. These amounts are included in "Operating lease income" in the Company's consolidated statements of operations.

Allowance for Doubtful Accounts—As of June 30, 2017 and December 31, 2016, the allowance for doubtful accounts related to real estate tenant receivables was $1.4 million and $1.3 million, respectively, and the allowance for doubtful accounts related to deferred operating lease income was $1.1 million and $1.3 million as of June 30, 2017 and December 31, 2016, respectively. These amounts are included in "Accrued interest and operating lease income receivable, net" and "Deferred operating lease income receivable, net," respectively, on the Company's consolidated balance sheets.

Note 5—Land and Development

The Company's land and development assets were comprised of the following ($ in thousands):

As of

	June 30, 2017	December 31, 2016
Land and land development, at cost	$862,774	$952,051
Less: accumulated depreciation	(7,277)	(6,486)
Total land and development, net	$855,497	$945,565

Dispositions—During the six months ended June 30, 2017, the Company sold one land parcel totaling 1,250 acres (see following paragraph) and residential lots and units and recognized land development revenue of $152.8 million from its land and development portfolio. During the six months ended June 30, 2016, the Company sold residential lots and units and recognized land development revenue of $42.8 million from its land and development portfolio. During the six months ended June 30, 2017 and 2016, the Company recognized land development cost of sales of $138.4 million and $28.8 million, respectively, from its land and development portfolio.

In connection with the resolution of litigation involving a dispute over the purchase and sale of approximately 1,250 acres of land in Prince George's County, Maryland ("Bevard"), during the three and six months ended June 30, 2017, the Company recognized $114.0 million of land development revenue and $106.3 million of land development cost of sales (refer to Note 11). In 2016, the Company acquired an additional 10.7% interest in Bevard for $10.8 million and owns 95.7% of Bevard as of June 30, 2017.

Impairments—During the six months ended June 30, 2017, the Company recorded an impairment of $10.1 million on a land and development asset due to a change in the Company's exit strategy.

Redeemable Noncontrolling Interest—The Company has a majority interest in a strategic venture that provides the third party minority partner an option to redeem its interest at fair value. The Company has reflected the partner's noncontrolling interest in this venture as a component of redeemable noncontrolling interest within its consolidated balance sheets. Changes in fair value are being accreted over the term from the date of issuance of the redemption option to the earliest redemption date using the interest method. As of June 30, 2017 and December 31, 2016, this interest had a carrying value of zero and $1.3 million, respectively. As of June 30, 2017 and December 31, 2016, this interest did not have a redemption value.

Note 6—Loans Receivable and Other Lending Investments, net

The following is a summary of the Company's loans receivable and other lending investments by class ($ in thousands):

Type of Investment	As of June 30, 2017	December 31, 2016
Senior mortgages	$597,335	$940,738
Corporate/Partnership loans	543,589	490,389
Subordinate mortgages	22,841	24,941
Total gross carrying value of loans	1,163,765	1,456,068
Reserves for loan losses	(78,789)	(85,545)
Total loans receivable, net	1,084,976	1,370,523
Other lending investments—securities	85,589	79,916
Total loans receivable and other lending investments, net	$1,170,565	$1,450,439

Reserve for Loan Losses—Changes in the Company's reserve for loan losses were as follows ($ in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Reserve for loan losses at beginning of period	$79,389	$109,671	$85,545	$108,165
(Recovery of) provision for loan losses	(600)	700	(5,528)	2,206

Charge-offs	—	—	(1,228)	—
Reserve for loan losses at end of period	$78,789	$110,371	$78,789	$110,371

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Notes to Consolidated Financial Statements (Continued)
(unaudited)

The Company's recorded investment in loans (comprised of a loan's carrying value plus accrued interest) and the associated reserve for loan losses were as follows ($ in thousands):

	Individually Evaluated for Impairment(1)	Collectively Evaluated for Impairment(2)	Total
As of June 30, 2017			
Loans	$ 249,659	$ 919,793	$ 1,169,452
Less: Reserve for loan losses	(60,989)	(17,800)	(78,789)
Total(3)	$ 188,670	$ 901,993	$ 1,090,663
As of December 31, 2016			
Loans	$ 253,941	$ 1,209,062	$ 1,463,003
Less: Reserve for loan losses	(62,245)	(23,300)	(85,545)
Total(3)	$ 191,696	$ 1,185,762	$ 1,377,458

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(1) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs totaling net discounts of $0.7 million and $0.4 million as of June 30, 2017 and December 31, 2016, respectively. The Company's loans individually evaluated for impairment primarily represent loans on non-accrual status and therefore, the unamortized amounts associated with these loans are not currently being amortized into income.

(2) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs totaling net premiums of $4.5 million and $1.9 million as of June 30, 2017 and December 31, 2016, respectively.

(3) The Company's recorded investment in loans as of June 30, 2017 and December 31, 2016 includes accrued interest of $5.7 million and $6.9 million, respectively, which are included in "Accrued interest and operating lease income receivable, net" on the Company's consolidated balance sheets. As of June 30, 2017 and December 31, 2016, the total excludes $85.6 million and $79.9 million, respectively, of securities that are evaluated for impairment under ASC 320.

Credit Characteristics—As part of the Company's process for monitoring the credit quality of its loans, it performs a quarterly loan portfolio assessment and assigns risk ratings to each of its performing loans. Risk ratings, which range from 1 (lower risk) to 5 (higher risk), are based on judgments which are inherently uncertain and there can be no assurance that actual performance will be similar to current expectation. The Company designates loans as non-performing at such time as: (1) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) management determines it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. All non-performing loans are placed on non-accrual status and income is only recognized in certain cases upon actual cash receipt.

The Company's recorded investment in performing loans, presented by class and by credit quality, as indicated by risk rating, was as follows ($ in thousands):

	As of June 30, 2017		As of December 31, 2016	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	$ 518,362	2.53	$ 859,250	3.12

Corporate/Partnership loans	389,550	3.03	335,677	3.09
Subordinate mortgages	11,881	2.55	14,135	3.00
Total	$919,793	2.74	$1,209,062	3.11

iStar Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

The Company's recorded investment in loans, aged by payment status and presented by class, were as follows ($ in thousands):

	Current	Less Than and Equal to 90 Days	Greater Than 90 Days(1)	Total Past Due	Total
As of June 30, 2017					
Senior mortgages	$524,362	$ —	$76,282	$76,282	$600,644
Corporate/Partnership loans	389,550	—	156,375	156,375	545,925
Subordinate mortgages	22,883	—	—	—	22,883
Total	$936,795	$ —	$232,657	$232,657	$1,169,452
As of December 31, 2016					
Senior mortgages	$868,505	$ —	$76,677	$76,677	$945,182
Corporate/Partnership loans	335,677	—	157,146	157,146	492,823
Subordinate mortgages	24,998	—	—	—	24,998
Total	$1,229,180	$ —	$233,823	$233,823	$1,463,003

(1) As of June 30, 2017, the Company had four loans which were greater than 90 days delinquent and were in various stages of resolution, including legal proceedings, environmental concerns and foreclosure-related proceedings, and ranged from 1.0 to 8.0 years outstanding. As of December 31, 2016, the Company had four loans which were greater than 90 days delinquent and were in various stages of resolution, including legal proceedings, environmental concerns and foreclosure-related proceedings, and ranged from 1.0 to 8.0 years outstanding.

Impaired Loans—The Company's recorded investment in impaired loans, presented by class, were as follows ($ in thousands)(1):

	As of June 30, 2017			As of December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Subordinate mortgages	$11,002	$10,985	$—	$10,862	$10,846	$—
Subtotal	11,002	10,985	—	10,862	10,846	—
With an allowance recorded:						
Senior mortgages	82,282	82,390	(48,518)	85,933	85,780	(49,774)
Corporate/Partnership loans	156,375	145,849	(12,471)	157,146	146,783	(12,471)
Subtotal	238,657	228,239	(60,989)	243,079	232,563	(62,245)
Total:						
Senior mortgages	82,282	82,390	(48,518)	85,933	85,780	(49,774)
Corporate/Partnership loans	156,375	145,849	(12,471)	157,146	146,783	(12,471)
Subordinate mortgages	11,002	10,985	—	10,862	10,846	—
Total	$249,659	$239,224	$(60,989)	$253,941	$243,409	$(62,245)

(1) All of the Company's non-accrual loans are considered impaired and included in the table above.

iStar Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

The Company's average recorded investment in impaired loans and interest income recognized, presented by class, were as follows ($ in thousands):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017		2016		2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Senior mortgages	$—	$ —	$9,150	$ 111	$—	$ —	$6,100	$ 111
Subordinate mortgages	11,023	—	5,785	—	10,970	—	3,857	—
Subtotal	11,023	—	14,935	111	10,970	—	9,957	111
With an allowance recorded:								
Senior mortgages	82,368	—	126,978	—	83,556	—	126,903	—
Corporate/Partnership loans	156,839	—	5,224	—	156,941	—	5,396	—
Subtotal	239,207	—	132,202	—	240,497	—	132,299	—
Total:								
Senior mortgages	82,368	—	136,128	111	83,556	—	133,003	111
Corporate/Partnership loans	156,839	—	5,224	—	156,941	—	5,396	—
Subordinate mortgages	11,023	—	5,785	—	10,970	—	3,857	—
Total	$250,230	$ —	$147,137	$ 111	$251,467	$ —	$142,256	$ 111

Securities—Other lending investments—securities includes the following ($ in thousands):

	Face Value	Amortized Cost Basis	Net Unrealized Gain (Loss)	Estimated Fair Value	Net Carrying Value
As of June 30, 2017					
Available-for-Sale Securities					
Municipal debt securities	$21,230	$ 21,230	$ 992	$ 22,222	$ 22,222
Held-to-Maturity Securities					
Debt securities	63,418	63,367	1,544	64,911	63,367
Total	$84,648	$ 84,597	$ 2,536	$ 87,133	$ 85,589
As of December 31, 2016					
Available-for-Sale Securities					
Municipal debt securities	$21,240	$ 21,240	$ 426	$ 21,666	$ 21,666
Held-to-Maturity Securities					
Debt securities	58,454	58,250	2,753	61,003	58,250
Total	$79,694	$ 79,490	$ 3,179	$ 82,669	$ 79,916

Note 7—Other Investments

The Company's other investments and its proportionate share of earnings from equity method investments were as follows ($ in thousands):

	Carrying Value as of		Equity in Earnings For the Three Months Ended June 30,		Equity in Earnings For the Six Months Ended June 30,	
	June 30, 2017	December 31, 2016	2017	2016	2017	2016
Real estate equity investments						
iStar Net Lease I LLC ("Net Lease Venture")	$128,997	$ 92,669	$1,032	$ 944	$2,013	$1,890
Safety, Income and Growth, Inc. ("SAFE")[1]	50,287	—	48	—	48	—
Marina Palms, LLC ("Marina Palms")	7,191	35,185	1,183	5,180	4,300	13,401
Other real estate equity investments[2]	63,107	53,202	2,892	28,600	4,249	26,898
Subtotal	249,582	181,056	5,155	34,724	10,610	42,189
Other strategic investments[3]	27,239	33,350	360	4,723	607	5,525
Total	$276,821					