ISTAR FINANCIAL INC
Form 10-K
March 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012
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 FINANCIAL 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of Exchange on which registered:
Common Stock, $0.001 par value	New York Stock Exchange
8.000% Series D Cumulative Redeemable Preferred Stock, $0.001 par value	New York Stock Exchange
7.875% Series E Cumulative Redeemable Preferred Stock, $0.001 par value	New York Stock Exchange
7.8% Series F Cumulative Redeemable Preferred Stock, $0.001 par value	New York Stock Exchange
7.65% Series G Cumulative Redeemable Preferred Stock, $0.001 par value	New York Stock Exchange
7.50% Series I Cumulative Redeemable Preferred Stock, $0.001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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

As of June 30, 2012, the aggregate market value of the common stock, $0.001 par value per share of iStar Financial Inc. ("Common Stock"), held by non-affiliates (1) of the registrant was approximately $515.0 million, based upon the closing price of $6.45 on the New York Stock Exchange composite tape on such date.

As of February 22, 2013, there were 84,886,827 shares of Common Stock outstanding.

(1) For purposes of this Annual Report only, includes all outstanding Common Stock other than Common Stock held directly by the registrant's directors and executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2013 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Explanatory Note for Purposes of the "Safe Harbor Provisions" of Section 21E of the Securities Exchange Act of 1934, as amended

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are included with respect to, among other things, iStar Financial Inc.'s current business plan, business strategy, portfolio management, prospects and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. Important factors that iStar Financial Inc. believes might cause such differences are discussed in the section entitled, "Risk Factors" in Part I, Item 1a of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

Overview

iStar Financial Inc., or the “Company,” is a fully-integrated finance and investment company focused on the commercial real estate industry. The Company provides custom-tailored investment capital to high-end private and corporate owners of real estate and invests directly across a range of real estate sectors. The Company, which is taxed as a real estate investment trust, or “REIT,” has invested more than $35 billion over the past two decades. The Company's primary business segments are real estate finance, net leasing, operating properties and land.

The real estate finance portfolio is primarily comprised of senior and mezzanine real estate loans that may be either fixed-rate or variable-rate and are structured to meet the specific financing needs of borrowers. The Company's portfolio also includes senior and subordinated loans to corporations, particularly those engaged in real estate or real estate related businesses and may be either secured or unsecured. The Company's loan portfolio includes whole loans and loan participations.

The net lease portfolio is primarily comprised of properties owned by the Company and leased to single creditworthy tenants where the properties are subject to long-term leases. Most of the leases provide for expenses at the facility to be paid by the tenant on a triple net lease basis. The properties in this portfolio are diversified by property type and geographic location.

The operating properties portfolio is comprised of commercial and residential properties which represent a diverse pool of assets across a broad range of geographies and property types. The Company generally seeks to reposition or redevelop these assets with the objective of maximizing their value through the infusion of capital and/or intensive asset management efforts. The commercial properties within this portfolio include office, retail and hotel properties. The residential properties within this portfolio are generally luxury condominium projects located in major U.S. cities where the Company's strategy is to sell individual condominium units through retail distribution channels.

The land portfolio is primarily comprised of land entitled for master planned communities as well as waterfront and urban infill land parcels located throughout the U.S. Master planned communities represent large-scale residential projects that the Company intends to plan and/or develop and may sell through retail channels to home builders or in bulk. Waterfront parcels are generally entitled for residential projects and urban infill parcels are generally entitled for

mixed-use projects. The Company may develop these properties itself or sell to or partner with commercial real estate developers.

The Company's primary sources of revenues are operating lease income, which is the rent and reimbursements that tenants pay to lease its properties, and interest income, which is the interest that borrowers pay on loans. The Company primarily generates income through a “spread” or “margin,” which is the difference between the revenues generated from leases and loans and interest

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expense and cost of its real estate operations. In addition, the Company expects to generate income from sales of its remaining residential condominium assets and from its land portfolio over time.

Company History and Recent Market Conditions

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

The economic downturn that began in 2008 adversely affected the Company's business and resulted in high levels of non-performing loans and increasing amounts of owned real estate as the Company has acquired title to assets of defaulting borrowers. During this period the Company limited new investments and focused primarily on resolving problem assets, deleveraging and preserving shareholder value. As performing loans have repaid and the Company has taken title to collateral of defaulted loans, its lending portfolio has decreased and the composition of its real estate portfolio changed to include operating properties and land in addition to net lease assets. The Company's business segments are discussed in further detail below.

Financing Strategy

Prior to the onset of the credit crisis, the Company's primary sources of liquidity were its unsecured credit facilities, issuances of unsecured debt and equity securities in capital markets transactions and repayments from loan assets. During the economic downturn, the Company primarily relied on secured debt financings, asset sales and repayments from loan assets. In 2012, the Company raised approximately $3.5 billion through secured and unsecured debt capital market transactions. These transactions included three unsecured senior notes issuances, marking the first time the Company has accessed the unsecured debt market since 2008. In addition, during 2012 the Company's credit ratings were upgraded and it was able to achieve improved pricing on debt transactions completed throughout the year. Going forward, the Company will seek to raise capital through a variety of means, which may include secured and unsecured debt financing, debt exchanges, asset sales, issuances of equity, joint ventures and other third party capital arrangements. A more detailed discussion of the Company's current liquidity and capital resources is provided in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations."

Investment Strategy

The Company significantly curtailed its new investment activity since the onset of the economic downturn in 2008. During this time, the Company has continued to fund pre-existing commitments to assets in its portfolio and has made select new investments, many of which represent add-on fundings or refinancings pertaining to assets already in its portfolio. The Company believes that it has a competitive advantage in such opportunities because of existing relationships with the customers and in-depth knowledge of the assets. In addition, the Company has invested significant amounts of capital in its operating properties and land to reposition and redevelop these assets including $80.4 million in 2012. The Company believes that additional investment opportunities exist within its $5.66 billion portfolio which present attractive risk-adjusted returns.

As the Company's access to liquidity continues to improve, one of the Company's objectives is to increase its new investment activities. In making new investments, the Company expects its strategy will focus on the following:

- Targeting the origination of custom-tailored mortgage, corporate and lease financings where customers require flexible financial solutions and "one-call" responsiveness post-closing;
- Avoiding commodity businesses where there is significant direct competition from other providers of capital;
- Developing direct relationships with borrowers and corporate customers in addition to sourcing transactions through intermediaries;
- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty of closing and continuing relationships beyond the closing of a particular financing transaction;
- Taking advantage of market anomalies in the real estate financing markets when, in the Company's view, credit is mispriced by other providers of capital; and
- Evaluating relative risk adjusted returns across multiple investment markets.

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Underwriting Process

The Company discusses and analyzes investment opportunities in meetings which are attended by its investment professionals, as well as representatives from its legal, credit, risk management and capital markets areas. The Company has developed a process for screening potential investments called the Six Point Methodologysm. Through this process, the Company evaluates an investment opportunity prior to beginning its formal due diligence process by: (1) evaluating the source of the opportunity; (2) evaluating the quality of the collateral, corporate credit or lessee, as well as the market and industry dynamics; (3) evaluating the borrower equity, corporate sponsorship and/or guarantors; (4) determining the optimal legal and financial structure for the transaction given its risk profile; (5) performing an alternative investment test; and (6) evaluating the liquidity of the investment and its ability to match fund the asset.

The Company's underwriting process provides for feedback and review by key disciplines within the Company, including investments, legal, credit, risk management and capital markets. Participation is encouraged from professionals in these disciplines throughout the entire origination process, from the initial consideration of the opportunity, through the Six Point Methodologysm and into the preparation and distribution of an approval memorandum for the Company's internal and/or Board of Directors investment committees and into the documentation and closing process.

Any commitment to make an investment of $25 million or less ($50 million or less in the case of a corporate debt instrument or aggregate debt instruments issued by a single corporate issuer) in any transaction or series of related transactions requires the approval of the Chief Executive Officer and Chief Investment Officer. Any commitment in an amount in excess of $25 million (or $50 million, in the case of a corporate debt instrument) but less than or equal to $75 million requires the further approval of the Company's internal investment committee, consisting of senior management representatives from all of the Company's key disciplines. Any commitment in an amount in excess of $75 million but less than or equal to $150 million requires the further approval of the Investment Committee of the Board of Directors. Any commitment in an amount in excess of $150 million, and any strategic investment such as a corporate merger, acquisition or material transaction involving the Company's entry into a new line of business, requires the approval of the full Board of Directors.

Hedging Strategy

The Company finances its business with a combination of fixed-rate and variable-rate debt and its asset base consists of fixed-rate and variable-rate investments. Its variable-rate assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the Company's variable-rate debt obligations differ significantly from its variable-rate lending assets, the Company may utilize derivative instruments to limit the impact of changing interest rates on its net income. The Company also uses foreign currency swaps to limit its exposure to changes in currency rates in respect of certain investments denominated in foreign currencies. The Company does not use derivative instruments for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps and foreign currency hedges.

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Portfolio Overview

As of December 31, 2012, based on current gross carrying values, the Company's total investment portfolio has the following characteristics ($ in thousands):

Asset Type

Property Type Property/Collateral Types	Real Estate Finance	Net Lease Assets	Operating Properties	Land	Total	% of Total	
Land	$ 297,039	$ —	$ —	$ 970,593	$ 1,267,632	22.3	%
Office	124,058	301,304	258,977	—	684,339	12.0	%
Condominium	237,534	—	385,229	—	622,763	11.0	%
Industrial / R&D	94,617	472,149	55,439	—	622,205	10.9	%
Retail	293,651	50,529	184,000	—	528,180	9.3	%
Entertainment / Leisure	98,423	414,849	14	—	513,286	9.0	%
Hotel	298,293	91,746	84,375	—	474,414	8.3	%
Mixed Use / Mixed Collateral	237,989	—	179,337	—	417,326	7.3	%
Other Property Types	181,481	9,424	24,541	—	215,446	3.7	%
Strategic Investments	—	—	—	—	351,225	6.2	%
Total	$ 1,863,085	$ 1,340,001	$ 1,171,912	$ 970,593	$ 5,696,816	100.0	%

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Geography

Geographic Region	Real Estate Finance	Net Lease Assets	Operating Properties	Land	Total	% of Total
West	$340,457	$340,896	$237,496	$367,470	$1,286,319	22.6 %
Northeast	421,660	317,003	175,894	180,744	1,095,301	19.2 %
Southeast	308,559	201,535	251,410	89,035	850,539	14.9 %
Southwest	197,478	182,329	209,424	120,293	709,524	12.5 %
Mid-Atlantic	43,866	104,205	217,379	180,290	545,740	9.6 %
International	308,210	—	—	—	308,210	5.4 %
Central	159,460	68,434	61,938	9,500	299,332	5.2 %
Northwest	83,236	56,409	18,371	23,261	181,277	3.2 %
Various	159	69,190	—	—	69,349	1.2 %
Strategic Investments	—	—	—	—	351,225	6.2 %
Total	$1,863,085	$1,340,001	$1,171,912	$970,593	$5,696,816	100.0 %

Additional information regarding investments in and risks related to foreign investments is presented in Item 7—“Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

Industry Segments

The Company has four business segments: Real Estate Finance, Net Leasing, Operating Properties and Land. The following table reconciles the Company's reportable segments to its consolidated balance sheet ($ in thousands):

	Real Estate Finance	Net Leasing	Operating Properties	Land	Corporate / Other(1)	Total
Real estate, at cost	$—	$1,639,320	$801,214	$786,114	$—	$3,226,648
Less: accumulated depreciation	—	(315,699)	(109,634)	(2,292)	—	(427,625)
Real estate, net	—	1,323,621	691,580	783,822	—	2,799,023
Real estate available and held for sale	—	—	454,587	181,278	—	635,865
Total real estate	—	1,323,621	1,146,167	965,100	—	3,434,888
Loans receivable, net	1,829,985	—	—	—	—	1,829,985
Other investments	—	16,380	25,745	5,493	351,225	398,843
Total portfolio assets	$1,829,985	$1,340,001	$1,171,912	$970,593	$351,225	$5,663,716

Explanatory Note:

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(1) Corporate/Other includes certain equity investments that are not included in a reportable segment, such as the Company's investment in LNR. See Item 8—“Financial Statements and Supplementary Data—Note 6” for further detail on these investments.

Additional information regarding segment revenue and profit information as well as prior period information is presented in Item 8—"Financial Statements and Supplementary Data—Note 15" and a discussion of operating results is presented in Item 7—“Management's Discussion and Analysis of Financial Condition and Results of Operations.”

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Real Estate Finance

The Company's real estate finance portfolio primarily consists of senior mortgage loans that are secured by commercial real estate assets where the Company is the first lien holder. A smaller portion of the portfolio consists of subordinated mortgage loans that are secured by subordinated interests in commercial and residential real estate assets where the Company is in either a second lien or junior position, and corporate/partnership loans, which represent mezzanine or subordinated loans to entities for which the Company does not have a lien on the underlying asset, but may have a pledge of underlying equity ownership of such assets.

As of December 31, 2012, a portion of the Company's loan portfolio was designated as non-performing, whereby loans are placed on non-accrual status and reserves for loan losses are recorded to the extent these loans are determined to be impaired. See Item 8—"Financial Statements and Supplemental Data—Note 3" for a discussion of the Company's policies regarding non-performing loans and reserves for loan losses.

The Company's real estate finance portfolio included the following ($ in thousands):

	As of December 31,			
	2012		2011	
	Total	% of Total	Total	% of Total
Performing loans(1):				
Senior mortgages	$829,894	44.5 %	$1,499,458	51.4 %
Subordinate mortgages	98,758	5.3 %	189,010	6.5 %
Corporate/partnership loans	431,321	23.2 %	458,808	15.7 %
Subtotal	$1,359,973	73.0 %	$2,147,276	73.6 %
Non-performing loans(1):				
Senior mortgages	$478,602	25.7 %	$761,086	26.1 %
Subordinate mortgages	14,400	0.8 %	—	—
Corporate/partnership loans	10,110	0.5 %	10,110	0.3 %
Subtotal	$503,112	27.0 %	$771,196	26.4 %
Total carrying value of loans	$1,863,085	100.0 %	$2,918,472	100.0 %
General reserve for loan losses	(33,100)		(73,500)	
Total carrying value of loans	$1,829,985		$2,844,972	
Other lending investments—securities	—		15,790	
Total loans receivable, net	$1,829,985		$2,860,762	

Explanatory Note:

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(1) Performing and non-performing loans are presented net of asset-specific loan loss reserves of $15.3 million and $476.1 million, respectively, as of December 31, 2012, and $16.0 million and $557.1 million, respectively, as of December 31, 2011.

Summary of Portfolio Characteristics—As of December 31, 2012, the Company's performing loans and non-performing loans had weighted average loan to value ratios of 75% and 91%, respectively. Additionally, the Company's performing loans were comprised of 53% fixed-rate loans and 47% variable-rate loans that had weighted average accrual rates of 8.2% and 6.1%, respectively, and had a weighted average remaining term of 3.1 years.

Portfolio Activity—During the year ended December 31, 2012, the Company originated and funded $39.6 million of loans, received principal repayments of $710.7 million and sold loans with a total carrying value of $53.9 million. In addition, the Company took title to property in full or partial satisfaction of non-performing mortgage loans with a total gross carrying value of $352.8 million, for which the properties had served as collateral and recorded charge-offs totaling $85.3 million related to these loans. See Item 8—"Financial Statements and Supplemental Data—Note 5" for further details on real estate finance activities.

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Summary of Loan Interest Rate Characteristics—The Company's loans receivable had the following interest rate characteristics ($ in thousands):

	As of December 31, 2012			2011		
	Carrying Value	% of Total	Weighted Average Accrual Rate	Carrying Value	% of Total	Weighted Average Accrual Rate
Fixed-rate loans	$ 704,653	37.8 %	8.24 %	$ 1,056,920	36.0 %	7.96 %
Variable-rate loans(1)	655,320	35.2 %	6.06 %	1,106,146	37.7 %	5.38 %
Non-performing loans(2)	503,112	27.0 %	N/A	771,196	26.3 %	N/A
Total carrying value of loans	$ 1,863,085	100.0 %		$ 2,934,262	100.0 %	
General reserve for loan losses	(33,100)			(73,500)		
Total loans receivable, net	$ 1,829,985			$ 2,860,762		

Explanatory Notes:

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(1) As of December 31, 2012 and 2011, includes $286.3 million and $398.5 million, respectively, of loans with a weighted average interest rate floor of 3.30% and 3.16%, respectively.

(2) Performing and non-performing loans are presented net of asset-specific loan loss reserves of $15.3 million and $476.1 million, respectively, as of December 31, 2012, and $16.0 million and $557.1 million, respectively, as of December 31, 2011.

Summary of Loan Maturities—As of December 31, 2012, the Company's loans receivable had the following maturities ($ in thousands):

Year of Maturity	Number of Loans Maturing	Carrying Value	% of Total
2013	17	$ 545,034	29.3 %
2014	7	170,161	9.1 %
2015	8	137,829	7.4 %
2016	3	148,526	8.0 %
2017	4	37,532	2.0 %
2018 and thereafter	16	320,891	17.2 %
Total performing loans	55	$ 1,359,973	73.0 %
Non-performing loans	22	503,112	27.0 %
Total carrying value of loans	77	$ 1,863,085	100.0 %
General reserve for loan losses		(33,100)	
Total loans receivable, net		$ 1,829,985	

Explanatory Note:

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(1) Performing and non-performing loans are presented net of asset-specific loan loss reserves of $15.3 million and $476.1 million, respectively.

Net Leasing

The net lease portfolio is primarily comprised of properties owned by the Company and leased to single creditworthy tenants where the properties are subject to long-term leases. Most or all of the leases provide for expenses at the

facility to be paid by the tenant on a triple net lease basis. The Company generally intends to hold its net lease assets ("NLAs") for long-term investment. However, subject to certain tax restrictions, the Company may dispose of assets if it deems the disposition to be in the Company's best interests.

Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and most or all of the facility operating expenses (including taxes, utilities, maintenance and insurance). The Company generally targets corporate customers with facilities that are mission-critical to their ongoing businesses.

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The Company's net leasing portfolio included the following ($ in thousands):

	As of December 31,	
	2012	2011
Real estate, at cost	$ 1,639,320	$ 1,773,149
Less: accumulated depreciation	(315,699)	(302,851)
Real estate, net	1,323,621	1,470,298
Real estate available and held for sale	—	—
Other investments	16,380	16,297
Total	$ 1,340,001	$ 1,486,595

Summary of Portfolio Characteristics—As of December 31, 2012, the Company owned 277 facilities, comprising 20.6 million square feet in 34 states. In addition, net lease assets were 94.8% leased with a weighted average remaining lease term of approximately 12 years. The Company's annual average effective base rent per square foot, net of any tenant concessions, was $7.48 per square foot.

Portfolio Activity—During the year ended December 31, 2012, the Company funded $11.6 million of capital expenditures and also entered into a $40.0 million build-to-suit that will be subject to an 18 year lease when completed. The Company did not purchase any net lease assets and sold assets with a net carrying value of $115.5 million during 2012. See Item 8 —"Financial Statements and Supplemental Data—Note 4" for further details on net lease asset activities.

Summary of Lease Expirations—As of December 31, 2012, lease expirations on the Company's net lease assets are as follows ($ in thousands):

Year of Lease Expiration	Number of Leases Expiring	Square Feet of Leases Expiring (in thousands)	Annualized NLA In-Place Operating Lease Income(1)	% of NLA In-Place Operating Lease Income	% of Total Revenue(2)
2013	7	584	$ 6,656	4.5%	1.8%
2014	1	37	485	0.3%	0.1%
2015	3	202	2,270	1.6%	0.6%
2016	4	478	5,966	4.1%	1.6%
2017	7	311	4,033	2.8%	1.1%
2018	5	281	3,743	2.6%	1.0%
2019	3	85	882	0.6%	0.2%
2020	4	361	3,859	2.6%	1.0%
2021	3	223	4,513	3.1%	1.2%
2022	3	640	10,209	7.0%	2.7%
2023 and thereafter	19	16,305	103,238	70.8%	27.5%
Total	59	19,507	$ 145,854	100.0%	
Weighted average remaining lease term	12.3 years				

Explanatory Notes:

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(1) Reflects annualized GAAP operating lease income for NLA leases in-place at December 31, 2012.

(2) Reflects the percentage of annualized GAAP operating lease income for NLA leases in-place at December 31, 2012 as a percentage of annualized total revenue for the quarter ended December 31, 2012.

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Operating Properties

The operating properties portfolio is comprised of commercial and residential properties which represent a diverse pool of assets across a broad range of geographies and property types. The Company generally seeks to reposition or redevelop these assets with the objective of maximizing their value through the infusion of capital and/or intensive asset management efforts. The commercial properties within this portfolio include office, retail and hotel properties. The residential properties within this portfolio are generally luxury condominium projects located in major U.S. cities where the Company's strategy is to sell individual condominium units through retail distribution channels.

The Company's operating properties portfolio included the following ($ in thousands):

	Commercial		Residential	
	As of December 31,		As of December 31,	
	2012	2011	2012	2011
Real estate, at cost	$801,214	$720,251	$—	$—
Less: accumulated depreciation and amortization	(109,634)	(90,383)	—	—
Real estate, net	$691,580	$629,868	$—	$—
Real estate available and held for sale	80,504	132,964	374,083	419,034
Other investments	14,599	—	11,146	37,957
Total portfolio assets	$786,683	$762,832	$385,229	$456,991

Commercial Properties

Summary of Portfolio Characteristics—As of December 31, 2012, commercial properties within the operating properties portfolio included 36 facilities, comprising 5.8 million square feet in 11 states. Excluding hotels and multifamily properties, the properties were 58.1% leased with a weighted average remaining lease term of approximately 6.6 years. The Company had 11 commercial operating properties classified as held for sale as of December 31, 2012 and their operating results are presented in "Income from discontinued operations" on the Company's Consolidated Statements of Operations.

Portfolio Activity—During the year ended December 31, 2012, the Company acquired title to $63.4 million of commercial properties through the resolution of non-performing loans, sold properties with a carrying value of $29.3 million and funded capital expenditures of $40.6 million, nearly all of which was spent on assets held for investment.

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As of December 31, 2012, lease expirations on commercial properties within the operating properties portfolio were as follows ($ in thousands)(1):

Year of Lease Expiration	Number of Leases Expiring	Square Feet of Leases Expiring (in thousands)	Annualized Operating Property In-Place Operating Lease Income(2)	% of In-Place Operating Property Operating Lease Income	% of Total Revenue(3)
2013	148	550	$6,250	9.5 %	1.7 %
2014	66	240	5,815	8.8 %	1.6 %
2015	58	495	3,906	5.9 %	1.0 %
2016	38	121	3,259	4.9 %	0.9 %
2017	50	309	6,110	9.3 %	1.6 %
2018	39	380	7,288	11.0 %	1.9 %
2019	29	132	5,244	8.0 %	1.4 %
2020	21	114	4,085	6.2 %	1.1 %
2021	23	256	4,463	6.8 %	1.2 %
2022	16	268	5,446	8.3 %	1.5 %
2023 and thereafter	41	524	14,024	21.3 %	3.7 %
Total	529	3,389	$65,890	100.0 %	
Weighted average remaining lease term	6.6 years				

Explanatory Notes:

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(1) Excludes hotels and multifamily properties included in the commercial operating properties portfolio.
(2) Reflects annualized GAAP operating lease income for operating property leases in-place at December 31, 2012.
(3) Reflects the percentage of annualized GAAP operating lease income for operating property leases in-place at December 31, 2012 as a percentage of annualized total revenue for the quarter ended December 31, 2012.

Residential Properties

Summary of Portfolio Characteristics—As of December 31, 2012, residential properties within the operating properties portfolio included 17 residential projects, representing approximately 974 units located in major cities throughout the United States. The projects are substantially completed and 15 of the projects are actively selling units.

Portfolio Activity—During the year ended December 31, 2012, the Company acquired title to $172.4 million of residential properties through resolution of non-performing loans and sold 529 units for net proceeds of $319.3 million, resulting in gains on sales of residential units of $63.5 million. During the same period, the Company funded $19.3 million of capital expenditures related to these projects and also incurred $26.5 million of net carrying costs that were reflected in "Real estate expenses" on the Company's Consolidated Statements of Operations.

Land

The Company's land portfolio primarily consists of 11 master planned community projects, seven urban infill land parcels and six waterfront land parcels located throughout the United States. Master planned communities represent large-scale residential projects that the Company intends to plan and/or develop and may sell through retail channels to home builders or in bulk. The Company currently has entitlements at these projects for more than 25,000 lots. Waterfront parcels are generally entitled for residential projects and urban infill parcels are generally entitled for mixed-use projects. The Company may develop these properties itself or sell to or partner with commercial real estate developers. These projects are currently entitled for approximately 6,000 residential units, and select projects include commercial, retail and office uses. As of December 31, 2012, the Company had four land projects in production, nine in development and 11 in the pre-development phase.

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The Company's land portfolio included the following ($ in thousands):

	As of December 31,	
	2012	2011
Real estate, net	$783,822	$847,745
Real estate available and held for sale	181,278	125,460
Other investments	5,493	14,845
Total	$970,593	$988,050

Summary of Portfolio Characteristics—As of December 31, 2012, the Company's Land Segment included 24 properties, comprised of 11 master planned community projects, seven infill land parcels and six waterfront land parcels located throughout the United States. The master planned communities are currently entitled for more than 25,000 lots and the waterfront and urban infill parcels are currently entitled for approximately 6,000 units.

Portfolio Activity—During the year ended December 31, 2012, the Company acquired title to $33.3 million of land assets through resolution of non-performing loans, sold assets with a carrying value of $72.1 million and funded $20.5 million of capital expenditures in the portfolio.

Policies with Respect to Other Activities

The Company's investment, financing and corporate governance policies (including conflicts of interests policies) are managed under the ultimate supervision of the Company's Board of Directors. The Company can amend, revise or eliminate these policies at anytime without a vote of its shareholders. The Company currently intends to make investments in a manner consistent with the requirements of the Internal Revenue Code of 1986, as amended (the "Code") for the Company to qualify as a REIT.

Investment Restrictions or Limitations

The Company does not have any prescribed allocation among investments or product lines. Instead, the Company focuses on corporate and real estate credit underwriting to develop an analysis of the risk/reward trade-offs in determining the pricing and advisability of each particular transaction.

The Company believes that it is not, and intends to conduct its operations so as not to become, regulated as an investment company under the Investment Company Act. The Investment Company Act generally exempts entities that are "primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (collectively, "Qualifying Interests"). The Company intends to rely on current interpretations of the Securities and Exchange Commission in an effort to qualify for this exemption. Based on these interpretations, the Company, among other things, must maintain at least 55% of its assets in Qualifying Interests and at least 25% of its assets in real estate-related assets (subject to reduction to the extent the Company invests more than 55% of its assets in Qualifying Interests). The Company's senior mortgages, real estate assets and certain of its subordinated mortgages generally constitute Qualifying Interests. Subject to the limitations on ownership of certain types of assets and the gross income tests imposed by the Code, the Company also may invest in the securities of other REITs, other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

Competition

The Company operates in a competitive market. See Item 1a—Risk factors—"We compete with a variety of investment, financing and leasing sources for our customers," for a discussion of how we may be affected by competition.

Regulation

The operations of the Company are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; and (5) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. The Company is also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans.

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In the judgment of management, existing statutes and regulations have not had a material adverse effect on the business conducted by the Company. It is not possible at this time to forecast the exact nature of any future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon the future business, financial condition or results of operations or prospects of the Company.

The Company has elected and expects to continue to qualify to be taxed as a REIT under Section 856 through 860 of the Code. As a REIT, the Company must generally distribute at least 90% of its net taxable income, excluding capital gains, to its shareholders each year. In addition, the Company must distribute 100% of its net taxable income each year to avoid paying federal income taxes. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT qualification. These requirements include specific share ownership tests and asset and gross income tests. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its net taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to state and local taxes and to federal income tax and excise tax on its undistributed income.

Code of Conduct

The Company has adopted a Code of Conduct that sets forth the principles of conduct and ethics to be followed by our directors, officers and employees. The purpose of the Code of Conduct is to promote honest and ethical conduct, compliance with applicable governmental rules and regulations, full, fair, accurate, timely and understandable disclosure in periodic reports, prompt internal reporting of violations of the Code of Conduct and a culture of honesty and accountability. A copy of the Code of Conduct has been provided to each of our directors, officers and employees, who are required to acknowledge that they have received and will comply with the Code of Conduct. A copy of the Company's Code of Conduct has been previously filed with the SEC and is incorporated by reference in this Annual Report on Form 10-K as Exhibit 14.0. The Code of Conduct is also available on the Company's website at www.istarfinancial.com. The Company will disclose to shareholders material changes to its Code of Conduct, or any waivers for directors or executive officers, if any, within four business days of any such event. As of December 31, 2012, there were no waivers or changes since adoption of the current Code of Conduct in October 2002.

Employees

As of February 1, 2013, the Company had 170 employees and believes its relationships with its employees to be good. The Company's employees are not represented by any collective bargaining agreements.

Other

In addition to this Annual Report, the Company files quarterly and special reports, proxy statements and other information with the SEC. All documents are filed with the SEC and are available free of charge on the Company's corporate website, which is www.istarfinancial.com. Through the Company's website, the Company makes available free of charge its annual proxy statement, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those Reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. You may also read and copy any document filed at the public reference facilities at 100 F Street, N.E., Washington, D.C. 25049. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC's electronic data gathering, analysis and retrieval system ("EDGAR") via electronic means, including on the SEC's homepage, which can be found at www.sec.gov.

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Item 1a. Risk Factors

In addition to the other information in this report, you should consider carefully the following risk factors in evaluating an investment in our securities. Any of these risks or the occurrence of any one or more of the uncertainties described below could have a material adverse effect on our business, financial condition, results of operations, cash flows and trading price of our common stock. The risks set forth below speak only as of the date of this report and we disclaim any duty to update them except as required by law. For purposes of these risk factors, the terms "our Company," "we," "our" and "us" refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

Risks Related to Our Business

Changes in general economic conditions may adversely affect our business.

Our success is generally dependent upon economic conditions in the U.S. and, in particular, the geographic areas in which our investments are located. Substantially all businesses, including ours, were negatively affected by the recent economic recession and illiquidity and volatility in the credit and commercial real estate markets. Although there have been signs of improvement in the commercial real estate and credit markets since 2010, such markets remain volatile and it is not possible for us to predict whether these trends will continue in the future or quantify the impact of these or other trends on our financial results. Deterioration in economic trends could have a material adverse effect on our financial performance and our ability to meet our debt obligations.

We have suffered adverse consequences as a result of our credit ratings.

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. Our unsecured corporate credit ratings from major national credit rating agencies are currently below investment grade. Having below investment grade credit ratings has increased our borrowing costs and caused restrictive covenants in our public debt instruments to become operative. These restrictive covenants are described below in "Covenants in our indebtedness could limit our flexibility and adversely affect our financial condition." These factors have adversely impacted our financial performance and will continue to do so unless our credit ratings improve.

Covenants in our indebtedness could limit our flexibility and adversely affect our financial condition.

Our outstanding unsecured debt securities contain corporate level covenants that include a covenant to maintain a ratio of unencumbered assets to unsecured indebtedness of at least 1.2x and a restriction on debt incurrence based upon the effect of the debt incurrence on our fixed charge coverage. If any of our covenants are breached and not cured within applicable cure periods, the breach could result in acceleration of our debt securities unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. While we expect that our ability to incur new indebtedness under the fixed charge coverage ratio will be limited for the foreseeable future, which may put limitations on our ability to make new investments, we will continue to be permitted to incur indebtedness for the purpose of refinancing existing indebtedness and for other permitted purposes under the indentures.

Our Secured Credit Facilities contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, we are required to maintain collateral coverage of 1.25x outstanding borrowings. In addition, for so long as we maintain our qualification as a REIT, the Secured Credit Facilities permit us to distribute 100% of our REIT taxable income on an annual basis and the October 2012 Secured Credit Facility permits us to distribute up to $200 million of real property assets, or interests therein. We may not pay common dividends if we cease to qualify as a REIT.

Our Secured Credit Facilities contain cross default provisions that would allow the lenders to declare an event of default and accelerate our indebtedness to them if we fail to pay amounts due in respect of our other recourse indebtedness in excess of specified thresholds or if the lenders under such other indebtedness are otherwise permitted to accelerate such indebtedness for any reason. The indentures governing our unsecured public debt securities permit the bondholders to declare an event of default and accelerate our indebtedness to them if our other recourse indebtedness in excess of specified thresholds is not paid at final maturity or if such indebtedness is accelerated. A default by us on our indebtedness would have a material adverse effect on our business and the market prices of our

Common Stock.

We have significant indebtedness and limitations on our liquidity and ability to raise capital may adversely affect us.

Sufficient liquidity is critical to the management of our balance sheet and our ability to meet our scheduled debt payments. We have relied on secured borrowings, proceeds from issuance of unsecured debt, repayments from our loan assets and proceeds

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from asset sales to fund our operations and meet our debt maturities, and we expect to continue to rely primarily on these sources of liquidity for the foreseeable future. While our access to capital improved in 2012, as we completed our first unsecured debt offerings since May 2008, our ability to access capital in the future will be subject to a number of factors, many of which are outside of our control, such as conditions prevailing in the credit and real estate markets. There can be no assurance that we will have access to liquidity when needed or, on terms that are acceptable to us. We may also encounter difficulty in selling assets or executing capital raising strategies on acceptable terms in a timely manner, which could impact our ability to make scheduled repayments on our outstanding debt.

As of December 31, 2012, we had $545.3 million of debt maturing on or before December 31, 2013, including $96.8 million of senior unsecured notes due in June 2013 and $448.5 million senior unsecured notes due in October 2013. As of December 31, 2012, we had unrestricted cash of $256.3 million and other unencumbered assets with a carrying value of $2.75 billion that are available to repay these maturities through asset sales or debt refinancing transactions. Failure to repay or refinance our borrowings as they come due would be an event of default under the relevant debt instruments, which could result in a cross default and acceleration of our other outstanding debt obligations, all of which would have a material adverse effect on our business and stock price.

We may utilize derivative instruments to hedge risk, which may adversely affect our borrowing cost and expose us to other risks.

The derivative instruments we may use are typically in the form of interest rate swaps and foreign currency swaps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations or fixed-rate debt obligations to variable-rate debt obligations. Foreign currency swaps limit or offset our exposure to changes in currency rates in respect of certain investments denominated in foreign currencies.

Our use of derivative instruments also involves the risk that a counterparty to a hedging arrangement could default on its obligation and the risk that we may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by us. As a matter of policy, we enter into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "A/A2" by S&P and Moody's, respectively.

Developing an effective strategy for dealing with movements in interest rates and foreign currencies is complex and no strategy can completely insulate us from risks associated with such fluctuations. There can be no assurance that any hedging activities will have the desired beneficial impact on our results of operations or financial condition.

Significant increases in interest rates could have an adverse effect on our operating results.

Our operating results depend in part on the difference between the interest and related income earned on our assets and the interest expense incurred in connection with our interest bearing liabilities. Changes in the general level of interest rates prevailing in the financial markets will affect the spread between our interest earning assets and interest bearing liabilities subject to the impact of interest rate floors and caps, as well as the amounts of floating rate assets and liabilities. Any significant compression of the spreads between interest earning assets and interest bearing liabilities could have a material adverse effect on us. In the event of a significant rising interest rate environment, rates could exceed the interest rate floors that exist on certain of our floating rate debt and create a mismatch between our floating rate loans and our floating rate debt that could have a significant adverse effect on our operating results. In addition, an increase in interest rates could, among other things, reduce the value of our fixed-rate interest bearing assets and our ability to realize gains from the sale of such assets. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control.

We are required to make a number of judgments in applying accounting policies, and different estimates and assumptions could result in changes to our financial condition and results of operations.

Material estimates that are particularly susceptible to significant change relate to our determination of the reserve for loan losses, which is based primarily on the estimated fair value of loan collateral, as well as the valuation of real estate assets and deferred tax assets. While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could have a material adverse effect on our financial performance and results of operations and actual results may differ materially from our estimates.

Our reserves for loan losses may prove inadequate, which could have a material adverse effect on our financial results. We maintain loan loss reserves to protect against potential losses and conduct a review of the adequacy of these reserves on a quarterly basis. Our general loan loss reserve reflects management's then-current estimation of the probability and severity of losses within our portfolio, based on this quarterly review. In addition, our determination of asset-specific loan loss reserves relies on material estimates regarding the fair value of loan collateral. Estimation of ultimate loan losses, provision expenses and loss

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reserves is a complex and subjective process. As such, there can be no assurance that management's judgment will prove to be correct and that reserves will be adequate over time to protect against potential future losses. Such losses could be caused by factors including, but not limited to, unanticipated adverse changes in the economy or events adversely affecting specific assets, borrowers, industries in which our borrowers operate or markets in which our borrowers or their properties are located. In particular, during the previous financial crisis, the weak economy and disruption of the credit markets adversely impacted the ability and willingness of many of our borrowers to service their debt and refinance our loans to them at maturity. If our reserves for credit losses prove inadequate we may suffer additional losses which would have a material adverse effect on our financial performance and results of operations.

We have suffered losses when a borrower defaults on a loan and the underlying collateral value is not sufficient, and we may suffer additional losses in the future.

We have suffered losses arising from borrower defaults on our loan assets and we may suffer additional losses in the future. In the event of a default by a borrower on a non-recourse loan, we will only have recourse to the real estate-related assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss. Conversely, we sometimes make loans that are unsecured or are secured only by equity interests in the borrowing entities. These loans are subject to the risk that other lenders may be directly secured by the real estate assets of the borrower. In the event of a default, those collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying real estate. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the borrower prior to a default, and as a result the value of the collateral may be reduced by acts or omissions by owners or managers of the assets.

We sometimes obtain individual or corporate guarantees from borrowers or their affiliates. In cases where guarantees are not fully or partially secured, we typically rely on financial covenants from borrowers and guarantors which are designed to require the borrower or guarantor to maintain certain levels of creditworthiness. Where we do not have recourse to specific collateral pledged to satisfy such guarantees or recourse loans, or where the value of the collateral proves insufficient, we will only have recourse as an unsecured creditor to the general assets of the borrower or guarantor, some or all of which may be pledged to satisfy other lenders. There can be no assurance that a borrower or guarantor will comply with its financial covenants, or that sufficient assets will be available to pay amounts owed to us under our loans and guarantees. As a result of these factors, we may suffer additional losses which could have a material adverse effect on our financial performance.

In the event of a borrower bankruptcy, we may not have full recourse to the assets of the borrower in order to satisfy our loan. In addition, certain of our loans are subordinate to other debts of the borrower. If a borrower defaults on our loan or on debt senior to our loan, or in the event of a borrower bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy and borrower litigation can significantly increase collection costs and losses and the time necessary to acquire title to the underlying collateral, during which time the collateral may decline in value, causing us to suffer additional losses.

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a borrower may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a borrower's ability to refinance our loan because the underlying property cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer additional loss which may adversely impact our financial performance.

We are subject to additional risks associated with loan participations.

Some of our loans are participation interests or co-lender arrangements in which we share the rights, obligations and benefits of the loan with other lenders. We may need the consent of these parties to exercise our rights under such loans, including rights with respect to amendment of loan documentation, enforcement proceedings in the event of default and the institution of, and control over, foreclosure proceedings. Similarly, a majority of the participants may be able to take actions to which we object but to which we will be bound if our participation interest represents a minority interest. We may be adversely affected by this lack of full control.

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We are subject to additional risk associated with owning and developing real estate.

We have obtained title to a number of assets that previously served as collateral on defaulted loans. These assets are predominantly land and operating properties. These assets expose us to additional risks, including, without limitation:

- We must incur costs to carry these assets and in some cases make repairs to defects in construction, make improvements to, or complete the assets, which requires additional liquidity and results in additional expenses that impact our operating results.
- Real estate projects are not liquid and, to the extent we need to raise liquidity through asset sales, we may be limited in our ability to sell these assets in a short-time frame.
- Uncertainty associated with rezoning, obtaining governmental permits and approvals, concerns of community associations and reliance on third party contractors may materially delay our completion of rehabilitation and development activities and materially increase their cost to us.
- The values of our real estate investments are subject to a number of factors outside of our control, including changes in the general economic climate, changes in interest rates and the availability of attractive financing, over-building or decreasing demand in the markets where we own assets, and changes in law and governmental regulations.

We may experience losses if the creditworthiness of our tenants deteriorates and they are unable to meet their lease obligations.

We own properties leased to tenants of our real estate assets and receive rents from tenants during the contracted term of such leases. A tenant's ability to pay rent is determined by its creditworthiness, among other factors. If a tenant's credit deteriorates, the tenant may default on its obligations under our lease and may also become bankrupt. The bankruptcy or insolvency of our tenants or other failure to pay is likely to adversely affect the income produced by our real estate assets. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we may not be able to evict the tenant solely because of such bankruptcy or failure to pay. A court, however, may authorize a tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In addition, certain amounts paid to us within 90 days prior to the tenant's bankruptcy filing could be required to be returned to the tenant's bankruptcy estate. In any event, it is highly unlikely that a bankrupt or insolvent tenant would pay in full amounts it owes us under a lease that it intends to reject. In other circumstances, where a tenant's financial condition has become impaired, we may agree to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is likely less than the total contractual rental amount. Without regard to the manner in which the lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant. In any of the foregoing circumstances, our financial performance could be materially adversely affected.

We are subject to risks relating to our asset concentration.

Our portfolio consists primarily of real estate and commercial real estate loans which are generally diversified by asset type, obligor, property type and geographic location. However, as of December 31, 2012, approximately 22% of the carrying value of our assets related to land, 12% related to office properties, 11% related to condominium assets and 11% related to industrial/R&D properties. All of these property types have been adversely affected by the previous financial crisis. In addition, as of December 31, 2012, approximately 23% of the carrying value of our assets related to properties located in the western U.S., 19% related to properties located in the northeastern U.S., 15% related to properties located in the southeast U.S and 13% related to properties located in the southwestern U.S. These regions include areas that were particularly hard hit by the prior downturn in the residential real estate markets. In addition, we have $228.7 million of European assets, which are subject to increased risks due to the current economic uncertainty in the Eurozone. We may suffer additional losses on our assets due to these concentrations.

We underwrite the credit of prospective borrowers and tenants and often require them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although our loans and real estate assets are geographically diverse and the borrowers and tenants operate in a variety of industries, to the extent we have a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability

of that borrower or tenant to make its payment could have an adverse effect on us. As of December 31, 2012, our five largest borrowers or tenants of net lease assets collectively accounted for approximately 22% of our aggregate annualized interest and operating lease revenue, of which no single customer accounts for more than 7%.

Lease expirations, lease defaults and lease terminations may adversely affect our revenue.

Lease expirations and lease terminations may result in reduced revenues if the lease payments received from replacement tenants are less than the lease payments received from the expiring or terminating corporate tenants. In addition, lease defaults or lease terminations by one or more significant tenants or the failure of tenants under expiring leases to elect to renew their leases

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could cause us to experience long periods of vacancy with no revenue from a facility and to incur substantial capital expenditures and/or lease concessions in order to obtain replacement tenants.

We compete with a variety of financing and leasing sources for our customers.

The financial services industry and commercial real estate markets are highly competitive. Our competitors include finance companies, other REITs, commercial banks and thrift institutions, investment banks and hedge funds. Our competitors seek to compete aggressively on the basis of a number of factors including transaction pricing, terms and structure. We may have difficulty competing to the extent we are unwilling to match our competitors' deal terms in order to maintain our interest margins and/or credit standards. To the extent that we match competitors' pricing, terms or structure, we may experience decreased interest margins and/or increased risk of credit losses, which could have an adverse effect on our financial performance.

We face significant competition within our net leasing business from other owners, operators and developers of properties, many of which own properties similar to ours in markets where we operate. Such competition may affect our ability to attract and retain tenants and reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners offering lower rental rates than we would or providing greater tenant improvement allowances or other leasing concessions. This combination of circumstances could adversely affect our revenues and financial performance.

We are subject to certain risks associated with investing in real estate, including potential liabilities under environmental laws and risks of loss from earthquakes, terrorism and climate change.

Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. While a secured lender is not likely to be subject to these forms of environmental liability, when we foreclose on real property, we become an owner and are subject to the risks of environmental liability. Additionally, under our net lease assets we require our tenants to undertake the obligation for environmental compliance and indemnify us from liability with respect thereto. There can be no assurance that our tenants will have sufficient resources to satisfy their obligations to us.

As of December 31, 2012, approximately 26% of the carrying value of our assets was located in the Western and Northwestern United States, geographic areas at higher risk for earthquakes. In addition, a significant number of our properties are located in major urban areas which, in recent years, have been high risk geographical areas for terrorism and threats of terrorism. The value of our properties will potentially also be subject to the risks associated with long-term effects of climate change. Future earthquakes, acts of terrorism or effects of climate change could adversely impact the demand for, and value of, our assets and could also directly impact the value of our assets through damage, destruction or loss, and could thereafter materially impact the availability or cost of insurance to protect against these events. Although we believe our owned real estate and the properties collateralizing our loan assets are adequately covered by insurance, we cannot predict at this time if we or our borrowers will be able to obtain appropriate coverage at a reasonable cost in the future, or if we will be able to continue to pass along all of the costs of insurance to our tenants. Any earthquake, terrorist attack or effect of climate change, whether or not insured, could have a material adverse effect on our financial performance, the market price of our Common Stock and our ability to pay dividends. In addition, there is a risk that one or more of our property insurers may not be able to fulfill its obligations with respect to claims payments due to a deterioration in its financial condition.

From time to time we make investments in companies over which we do not have sole control. Some of these companies operate in industries that differ from our current operations, with different risks than investing in real

estate.

From time to time we make debt or equity investments in other companies that we may not control or over which we may not have sole control. These investments include but are not limited to: LNR Property Corporation ("LNR"), Madison Funds and other equity and mezzanine investments. Although these businesses generally have a significant real estate component, some of them operate in businesses that are different from our primary business segments. Consequently, investments in these businesses, among other risks, subject us to the operating and financial risks of industries other than real estate and to the risk that we do not have sole control over the operations of these businesses.

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From time to time we may make additional investments in or acquire other entities that may subject us to similar risks. Investments in entities over which we do not have sole control, including joint ventures, present additional risks such as having differing objectives than our partners or the entities in which we invest, or becoming involved in disputes, or competing with those persons. In addition, we rely on the internal controls and financial reporting controls of these entities and their failure to maintain effectiveness or comply with applicable standards may adversely affect us.

Declines in the market values of our equity investments may adversely affect periodic reported results.

Most of our equity investments are in funds or companies that are not publicly traded and their fair value may not be readily determinable. We may periodically estimate the fair value of these investments, based upon available information and management's judgment. Because such valuations are inherently uncertain, they may fluctuate over short periods of time. In addition, our determinations regarding the fair value of these investments may be materially higher than the values that we ultimately realize upon their disposal, which could result in losses that have a material adverse effect on our financial performance, the market price of our common stock and our ability to pay dividends.

Quarterly results may fluctuate and may not be indicative of future quarterly performance.

Our quarterly operating results could fluctuate; therefore, reliance should not be placed on past quarterly results as indicative of our performance in future quarters. Factors that could cause quarterly operating results to fluctuate include, among others, variations in loan and real estate portfolio performance, levels of non-performing assets and related provisions, market values of investments, costs associated with debt, general economic conditions, the state of the real estate and financial markets and the degree to which we encounter competition in our markets.

Our ability to retain and attract key personnel is critical to our success.

Our success depends on our ability to retain our senior management and the other key members of our management team and recruit additional qualified personnel. We rely in part on equity compensation to retain and incentivize our personnel. In addition, if members of our management join competitors or form competing companies, the competition could have a material adverse effect on our business. Efforts to retain or attract professionals may result in additional compensation expense, which could affect our financial performance.

We are highly dependent on information systems, and systems failures could significantly disrupt our business.

Our business is highly dependent on communications, information, financial and operational systems. Any failure or interruption of our systems could cause delays or other problems in our business activities, which could have a material adverse effect on our operations and financial performance.

We may change certain of our policies without stockholder approval.

Our charter does not set forth specific percentages of the types of investments we may make. We can amend, revise or eliminate our investment financing and conflict of interest policies at any time at our discretion without a vote of our shareholders. A change in these policies could adversely affect our financial condition or results of operations or the market price of our common stock.

Certain provisions in our charter may inhibit a change in control.

Generally, to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of our taxable year. The Code defines "individuals" for purposes of the requirement described in the preceding sentence to include some types of entities. Under our charter, no person may own more than 9.8% of our outstanding shares of stock, with some exceptions. The restrictions on transferability and ownership may delay, deter or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interest of the security holders.

We would be subject to adverse consequences if we fail to qualify as a REIT.

We believe that we have been organized and operated in a manner so as to qualify for taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 1998. However, our qualification as a REIT has depended and will continue to depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income and the amount of our distributions to our shareholders.

If we were to fail to qualify as a REIT for any taxable year, we would not be allowed a deduction for distributions to our shareholders in computing our net taxable income and would be subject to U.S. federal income tax, including any applicable alternative minimum tax, or "AMT," on our net taxable income at regular corporate rates, as well as applicable state and local taxes. Unless entitled to relief under certain Code provisions, we would also be disqualified from treatment as a REIT for the four subsequent taxable years following the year during which our REIT qualification was lost. As a result, cash available for distribution would be reduced for each of the years involved. Furthermore, it is possible that future economic, market, legal, tax or other considerations may cause our REIT qualification to be revoked.

Our Secured Credit Facilities (see Item 8—"Financial Statements and Supplemental Data—Note 8") prohibit us from paying dividends on our common stock if we no longer qualify as a REIT.

To qualify as a REIT, we may be forced to borrow funds, sell assets or take other actions during unfavorable market conditions. In addition, we may be required to limit certain activities or conduct them through taxable entities.

To qualify as a REIT, we generally must distribute to our shareholders at least 90% of our net taxable income, excluding net capital gains each year, and we will be subject to U.S. federal income tax, as well as applicable state and local taxes, to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

In the event that principal, premium or interest payments with respect to a particular debt instrument that we hold are not made when due, we may nonetheless be required to continue to recognize the unpaid amounts as taxable income. Due to these and other potential timing differences between income recognition or expense deduction and cash receipts or disbursements, there is a significant risk that we may have substantial taxable income in excess of cash available for distribution. In order to qualify as a REIT and avoid the payment of income and excise taxes, we may need to borrow funds or take other actions to meet our REIT distribution requirements for the taxable year in which the "phantom income" is recognized.

In addition, we may be required to limit certain activities that generate non-qualifying REIT income, such as land development and sales of condominiums, and/or we may be required to conduct such activities through "taxable REIT subsidiaries."

Certain of our activities, including our use of taxable REIT subsidiaries, are subject to taxes that could reduce our cash flows.

Even if we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state, local and non-U.S. taxes on our income and property, including taxes on any undistributed income, taxes on income from certain activities conducted as a result of foreclosures, and property and transfer taxes. We would be required to pay taxes on net taxable income that we fail to distribute to our shareholders. In addition, we hold a significant amount of assets in our "taxable REIT subsidiaries," including assets that we have acquired through foreclosure, assets that may be treated as dealer property and other assets that could adversely affect our ability to qualify as a REIT if held directly by us. As a result, we will be required to pay income taxes on the taxable income generated by these assets. There are also limitations on the ability of taxable REIT subsidiaries to make interest payments to affiliated REITs. Furthermore, we will be subject to a 100% penalty tax to the extent our economic arrangements with our tenants or our taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties. We will also be subject to a 100% tax to the extent we derive income from the sale of assets to customers in the ordinary course of business. To the extent we or our taxable REIT subsidiaries are required to pay U.S. federal, state, local or non-U.S. taxes, we will have less cash available for distribution to our shareholders.

We have substantial net operating and net capital loss carry forwards which we use to offset our tax and distribution requirements. In the event that we experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, our ability to use these losses will be limited. An "ownership change" is determined based upon complex rules which track the changes in ownership that occur in our Common Stock for a trailing three year period. We have experienced volatility and significant trading in our Common Stock in recent years. The occurrence of an ownership change is generally beyond our control and, if triggered, may

increase our tax and distribution obligations for which we may not have sufficient cash flow.

A failure to comply with the limits on our ownership of and relationship with our taxable REIT subsidiaries would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

No more than 25% of the value of a REIT's total assets may consist of stock or securities of one or more taxable REIT subsidiaries. This requirement limits the extent to which we can conduct activities through taxable REIT subsidiaries or expand the activities that we conduct through taxable REIT subsidiaries. The values of some of our assets, including assets that we hold

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through taxable REIT subsidiaries may not be subject to precise determination, and values are subject to change in the future. In addition, we hold certain loans to one or more of our taxable REIT subsidiaries that are secured by real property. We treat these mortgage loans as qualifying assets for purposes of the REIT assets tests to the extent that they are secured by real property. If the IRS were to successfully challenge the treatment of any such loans, our ability to meet the REIT asset tests and other REIT requirements could be adversely affected. Accordingly, there can be no assurance that we have met or will be able to continue to comply with the taxable REIT subsidiary 25% limitation.

In addition, we may from time to time need to make distributions from a taxable REIT subsidiary in order to keep the value of our taxable REIT subsidiaries below 25% of our total assets. However, taxable REIT subsidiary dividends will generally not constitute qualifying income for purposes of the 75% REIT gross income test. While we will monitor our compliance with both this income test and the limitation on the percentage of our total assets represented by taxable REIT subsidiary securities, and intend to conduct our affairs so as to comply with both, the two may at times be in conflict with one another. For example, it is possible that we may wish to distribute a dividend from a taxable REIT subsidiary in order to reduce the value of our taxable REIT subsidiaries below 25% of our assets, but we may be unable to do so without violating the 75% REIT gross income test.

Although there are other measures we can take in such circumstances in order to remain in compliance with the requirements for REIT qualification, there can be no assurance that we will be able to comply with both of these tests in all market conditions.

Our Investment Company Act exemption limits our investment discretion and loss of the exemption would adversely affect us.

We believe that we currently are not, and we intend to operate our company so that we will not be, regulated as an investment company under the Investment Company Act because we are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interest in real estate." Specifically, we are required to invest at least 55% of our assets in "qualifying real estate assets" (that is, real estate, mortgage loans and other qualifying interests in real estate), and at least an additional 25% of our assets in other "real estate-related assets," such as mezzanine loans and unsecured investments in real estate entities, or additional qualifying real estate assets.

We will need to monitor our assets to ensure that we continue to satisfy the percentage tests. Maintaining our exemption from regulation as an investment company under the Investment Company Act limits our ability to invest in assets that otherwise would meet our investment strategies. If we fail to qualify for this exemption, we could not operate our business efficiently under the regulatory scheme imposed on investment companies under the Investment Company Act, and we could be required to restructure our activities. This would have a material adverse effect on our financial performance and the market price of our securities.

Actions of the U.S. government, including the U.S. Congress, Federal Reserve, U.S. Treasury and other governmental and regulatory bodies, to stabilize or reform the financial markets, or market responses to those actions, may not achieve the intended effect and may adversely affect our business.

In light of the recent financial crisis, the Obama Administration, Congress and regulators have increased their focus on the regulation of the financial industry. New or modified regulations and related regulatory guidance, including under the Dodd-Frank Wall Street Reform Act, or the Dodd-Frank Act, may have unforeseen or unintended adverse effects on the financial industry. Laws, regulations or policies, including accounting standards and interpretations, currently affecting us may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, our business may also be adversely affected by future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement.

In addition to the enactment of the Dodd-Frank Act, various legislative bodies have also considered altering the existing framework governing creditors' rights and mortgage products including legislation that would result in or allow loan modifications of various sorts. Such legislation may change the operating environment in substantial and unpredictable ways. We cannot predict whether new legislation will be enacted, and if enacted, the effect that it or any regulations would have on our activities, financial condition, or results of operations.

Item 1b. Unresolved Staff Comments

None.

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Item 2. Properties

The Company's principal executive and administrative offices are located at 1114 Avenue of the Americas, New York, NY 10036. Its telephone number, general facsimile number and web address are (212) 930-9400, (212) 930-9494 and www.istarfinancial.com, respectively. The lease for the Company's principal executive and administrative offices expires in February 2021. The Company's principal regional offices are located in Atlanta, Georgia; Dallas, Texas; Hartford, Connecticut; San Francisco, California and three offices in the Los Angeles, California metropolitan area.

See Item 1—"Net Leasing," "Operating Properties" and "Land" for a discussion of properties held by the Company for investment purposes and Item 8—"Financial Statements and Supplemental Data—Schedule III," for a detailed listing of such facilities.

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ITEM 3. LEGAL PROCEEDINGS

The Company and/or one or more of its subsidiaries is party to various pending litigation matters that are considered ordinary routine litigation incidental to its business as a finance and investment company focused on the commercial real estate industry, including loan foreclosure and foreclosure related proceedings. In addition to such matters, the Company or its subsidiaries is a party to, or any of their property is the subject of, the following pending legal proceedings.

Citiline Holdings, Inc., et al. v. iStar Financial, Inc., et al.

As previously reported, in April 2008, two putative class action complaints were filed in the United States District Court for the Southern District of New York alleging violations of federal securities laws by the Company and certain of its current and former executive officers in connection with the Company's December 13, 2007 public offering (the "Citiline Action"). On June 4, 2012, we reached an agreement in principle with the plaintiffs' Court-appointed representatives in the Citiline Action to settle the litigation. The parties to the Citiline Action have executed a final settlement stipulation, including releases of liability in favor of the defendants conditioned on final Court approval. On December 5, 2012, the Court issued an order preliminarily approving the settlement, certifying a class of persons (other than persons who timely and validly request exclusion from the class) entitled to participate in the settlement, approving the notice and proof of claim to be sent to all class members and scheduling a hearing to be held on April 5, 2013 for final approval of the settlement. The required settlement payments ($2.0 million contributed by us and the balance funded by our insurance carriers) have been deposited with an independent claims administrator. Notices of the proposed settlement and proof of claim forms have been mailed to all class members.

Upon final Court approval of the settlement, the Citiline Action will be dismissed in its entirety with prejudice and the settlement will be final.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Equity and Related Share Matters

The Company's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "SFI. " The high and low closing prices per share of Common Stock are set forth below for the periods indicated.

	2012		2011	
Quarter Ended	High	Low	High	Low
December 31	$8.93	$7.24	$7.18	$5.09
September 30	$8.48	$6.47	$8.41	$4.61
June 30	$7.50	$5.50	$9.62	$7.35
March 31	$7.46	$5.62	$10.31	$7.84

On February 22, 2013, the closing sale price of the Common Stock as reported by the NYSE was $10.10. The Company had 2,388 holders of record of Common Stock as of February 22, 2013.

At December 31, 2012, the Company had five series of preferred stock outstanding: 8.000% Series D Preferred Stock, 7.875% Series E Preferred Stock, 7.8% Series F Preferred Stock, 7.65% Series G Preferred Stock and 7.50% Series I Preferred Stock. Each of the Series D, E, F, G and I preferred stock is publicly traded.

Dividends

The Board of Directors has not established any minimum distribution level. In order to maintain its qualification as a REIT, the Company intends to pay dividends to its shareholders that, on an annual basis, will represent at least 90% of its taxable income (which may not necessarily equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company has recorded net operating losses and may record net operating losses in the future, which may reduce its taxable income in future periods and lower or eliminate entirely the Company's obligation to pay dividends for such periods in order to maintain its REIT qualification.

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Holders of Common Stock, vested High Performance Units and certain unvested restricted stock units and common share equivalents will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In addition, the Company's Secured Credit Facilities (see Item 8—"Financial Statements and Supplemental Data—Note 8") permit the Company to distribute 100% of its REIT taxable income on an annual basis, for so long as the Company maintains its qualification as a REIT. The Secured Credit Facilities generally restrict the Company from paying any common dividends if it ceases to qualify as a REIT. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock and HPU share equivalent will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

The Company did not declare or pay dividends on its Common Stock for the years ended December 31, 2012 and 2011. The Company declared and paid dividends of $8.0 million, $11.0 million, $7.8 million, $6.1 million and $9.4 million on its Series D, E, F, G and I preferred stock, respectively, for each of the years ended December 31, 2012 and 2011, all of which qualified as return of capital for tax reporting purposes. There are no dividend arrearages on any of the preferred shares currently outstanding.

Distributions to shareholders will generally be taxable as ordinary income, although all or a portion of such distributions may be designated by the Company as capital gain or may constitute a tax-free return of capital. The Company annually furnishes to each of its shareholders a statement setting forth the distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

No assurance can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's taxable income after giving effect to its net operating loss carryforwards, financial condition, capital requirements, debt covenants, any change in the Company's intention to maintain its REIT qualification and such other factors as the Company's Board of Directors deems relevant. The Company may elect to satisfy some of its 2012 REIT distribution requirements, if any, through qualifying stock dividends.

Disclosure of Equity Compensation Plan Information

Plans Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders-restricted stock awards(1)	5,660,843	N/A	4,135,419

Explanatory Note:

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(1) Restricted Stock—The amount shown in column (a) includes 5,276,092 unvested restricted stock units which may vest in the future based on the employees' continued service to the Company. None of these unvested units are included in the Company's outstanding share balance (see Item 8—"Financial Statements and Supplementary Data—Note 12" for a more detailed description of the Company's restricted stock grants). Substantially all of the restricted stock units included in column (a) are required to be settled on a net, after-tax basis (after deducting shares for minimum required statutory withholdings); therefore, the actual number of shares issued will be less than the gross amount of the awards. The amounts shown in column (a) also includes 384,751 of common stock equivalents and restricted stock awarded to our non-employee directors in consideration of their service to us as directors. Common stock equivalents represent rights to receive shares of Common Stock at the date the common

stock equivalents are settled. Common stock equivalents have dividend equivalent rights beginning on the date of grant. The amount in column (c) represents the aggregate amount of stock options, shares of restricted stock awards or other performance awards that could be granted under compensation plans approved by the Company's security holders after giving effect to previously issued awards of stock options, shares of restricted stock and other performance awards (see Item 8—"Financial Statements and Supplementary Data—Note 12" for a more detailed description of the Company's Long-Term Incentive Plans).

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Item 6. Selected Financial Data

The following table sets forth selected financial data on a consolidated historical basis for the Company. This information should be read in conjunction with the discussions set forth in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2012 presentation as set forth in Item 8—"Financial Statements and Supplementary Data—Note 2."

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data and ratios)				
OPERATING DATA:					
Operating lease income	$219,019	$198,478	$186,630	$186,082	$186,946
Interest income	133,410	226,871	364,094	557,809	947,661
Other income	48,043	39,720	50,733	32,442	100,292
Total revenue	$400,472	$465,069	$601,457	$776,333	$1,234,899
Interest expense	$355,097	$342,186	$313,766	$411,889	$615,533
Real estate expense	151,827	138,943	121,399	81,794	50,010
Depreciation and amortization	69,350	58,662	57,220	57,741	55,470
General and administrative	80,856	105,039	109,526	124,152	138,164
Provision for loan losses	81,740	46,412	331,487	1,255,357	1,029,322
Impairment of assets	13,778	13,239	12,809	114,117	303,611
Other expense	17,266	11,070	16,055	62,329	14,582
Total costs and expenses	$769,914	$715,551	$962,262	$2,107,379	$2,206,692
Income (loss) before earnings from equity method investments and other items	$(369,442)	$(250,482)	$(360,805)	$(1,331,046)	$(971,793)
Gain (loss) on early extinguishment of debt, net	(37,816)	101,466	108,923	547,349	393,131
Earnings from equity method investments	103,009	95,091	51,908	5,298	286,754
Income (loss) from continuing operations before income taxes	$(304,249)	$(53,925)	$(199,974)	$(778,399)	$(291,908)
Income tax (expense) benefit	(8,445)	4,719	(7,023)	(4,141)	(10,375)
Income (loss) from continuing operations	$(312,694)	$(49,206)	$(206,997)	$(782,540)	$(302,283)
Income (loss) from discontinued operations	(19,465)	(7,318)	16,821	267	29,058
Gain from discontinued operations	27,257	25,110	270,382	12,426	91,458
Income from sales of residential property	63,472	5,721	—	—	—
Net income (loss)	$(241,430)	$(25,693)	$80,206	$(769,847)	$(181,767)
Net (income) loss attributable to noncontrolling interests	1,500	3,629	(523)	1,071	(21,258)
Net income (loss) attributable to iStar Financial Inc.	$(239,930)	$(22,064)	$79,683	$(768,776)	$(203,025)
Preferred dividends	(42,320)	(42,320)	(42,320)	(42,320)	(42,320)
Net (income) loss allocable to HPU holders and Participating Security holders(1)	9,253	1,997	(1,084)	22,526	2,855
Net income (loss) allocable to common shareholders	$(272,997)	$(62,387)	$36,279	$(788,570)	$(242,490)

Per common share data(2):					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic	$(3.35)	$(0.89)	$(2.60)	$(8.00)	$(2.75)
Diluted	$(3.35)	$(0.89)	$(2.60)	$(8.00)	$(2.75)
Net income (loss) attributable to iStar Financial Inc.:					
Basic	$(3.26)	$(0.70)	$0.39	$(7.88)	$(1.85)
Diluted	$(3.26)	$(0.70)	$0.39	$(7.88)	$(1.85)
Per HPU share data(2):					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					

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Basic	$(633.94)	$(169.93)	$(493.33)	$(1,525.07)	$(520.07)
Diluted	$(633.94)	$(169.93)	$(493.33)	$(1,525.07)	$(520.07)
Net income (loss) attributable to iStar Financial Inc.:					
Basic	$(616.87)	$(133.13)	$72.27	$(1,501.73)	$(349.87)
Diluted	$(616.87)	$(133.13)	$72.27	$(1,501.73)	$(349.87)
Dividends declared per common share(3)	$—	$—	$—	$—	$1.74

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data and ratios)				
SUPPLEMENTAL DATA:					
Adjusted Income(4)	$(53,847)	$(3,316)	$360,525	$155,324	$842,049
Adjusted EBITDA(4)	$349,754	$376,464	$767,663	$686,267	$1,592,422
Ratio of Adjusted EBITDA to interest expense and preferred dividends(4)	0.9x	1.0x	2.0x	1.3x	2.2x
Ratio of earnings to fixed charges(5)(6)	—	—	—	—	—
Ratio of earnings to fixed charges and preferred dividends(5)(6)	—	—	—	—	—
Weighted average common shares outstanding—basic	83,742	88,688	93,244	100,071	131,153
Weighted average common shares outstanding—diluted	83,742	88,688	93,244	100,071	131,153
Weighted average HPU shares outstanding—basic and diluted	15	15	15	15	15
Cash flows from:					
Operating activities	$(191,932)	$(28,577)	$(45,883)	$77,795	$418,529
Investing activities	$1,267,047	$1,461,257	$3,738,823	$724,702	$(27,943)
Financing activities	$(1,175,597)	$(1,580,719)	$(3,412,707)	$(1,074,402)	$1,444

	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
BALANCE SHEET DATA:					
Real estate, net	$2,799,023	$2,947,911	$2,642,038	$3,357,311	$3,103,310
Real estate available and held for sale	$635,865	$677,458	$746,081	$856,422	$242,505
Loans receivable, net	$1,829,985	$2,860,762	$4,587,352	$7,661,562	$10,586,644
Total assets	$6,150,789	$7,517,837	$9,174,154	$12,810,575	$15,296,748
Debt obligations, net	$4,691,494	$5,837,540	$7,345,433	$10,894,903	$12,486,404
Total equity	$1,313,154	$1,573,604	$1,694,659	$1,656,118	$2,446,662

Explanatory Notes:

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(1) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program. Participating Security holders are Company employees and directors who hold unvested restricted stock units, restricted stock awards and common stock equivalents granted under the Company's Long Term Incentive Plans.

(2) See Item 8—"Financial Statements and Supplementary Data—Note 13."

(3) The Company has not declared or paid a common dividend since the quarter ended June 30, 2008.

(4) Adjusted income and Adjusted EBITDA should be examined in conjunction with net income (loss) as shown in our Consolidated Statements of Operations. Adjusted income and Adjusted EBITDA should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor are Adjusted income and Adjusted EBITDA indicative of funds available to fund our cash needs or available for distribution to shareholders. Rather, Adjusted income and Adjusted EBITDA are additional measures for us to use to analyze how our business is performing. It should be noted that our manner of calculating Adjusted income and Adjusted EBITDA may differ from the calculations of similarly-titled measures by other companies. See computation of Adjusted income and Adjusted EBITDA on page 36.

(5) This ratio of earnings to fixed charges is calculated in accordance with SEC Regulation S-K Item 503. The Company's unsecured debt securities have a fixed charge coverage covenant which is calculated differently in accordance with the terms of the agreements governing such securities.

(6) For the years ended December 31, 2012, 2011, 2010, 2009 and 2008, earnings were not sufficient to cover fixed charges by $303,466, $68,784, $218,353, $757,283 and $276,951, respectively, and earnings were not sufficient to cover fixed charges and preferred dividends by $345,786, $111,104, $260,673, $799,603 and $319,271, respectively.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are included with respect to, among other things, the Company's current business plan, business strategy, portfolio management, prospects and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. Important factors that the Company believes might cause such differences are discussed in the section entitled, "Risk Factors" in Part I, Item 1a of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K. For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations, the terms "we," "our" and "us" refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity during the three-year period ended December 31, 2012. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2012 included elsewhere in this Annual Report on Form 10-K. These historical financial statements may not be indicative of our future performance. We have reclassified certain items in our consolidated financial statements from prior years in order to conform to our current year presentation (see Item 8—"Financial Statements and Supplemental Data —Note 2").

Introduction

iStar Financial Inc. is a fully-integrated finance and investment company focused on the commercial real estate industry. We provide custom-tailored investment capital to high-end private and corporate owners of real estate and invest directly across a range of real estate sectors. We are taxed as a real estate investment trust, or "REIT," and have invested more than $35 billion over the past two decades. Our primary business segments are real estate finance, net leasing, operating properties and land.

Our real estate finance portfolio is primarily comprised of senior and mezzanine real estate loans that may be either fixed-rate or variable-rate and are structured to meet the specific financing needs of borrowers. Our portfolio also includes senior and subordinated loans to corporations, particularly those engaged in real estate or real estate related businesses and may be either secured or unsecured. Our loan portfolio includes whole loans and loan participations.

Our net lease portfolio is primarily comprised of properties owned by us and leased to single creditworthy tenants where the properties are subject to long-term leases. Most of the leases provide for expenses at the facility to be paid by the tenant on a triple net lease basis. The properties in this portfolio are diversified by property type and geographic location.

Our operating properties portfolio is comprised of commercial and residential properties which represent a diverse pool of assets across a broad range of geographies and property types. We generally seek to reposition or redevelop these assets with the objective of maximizing their value through the infusion of capital and/or intensive asset management efforts. The commercial properties within this portfolio include office, retail and hotel properties. The residential properties within this portfolio are generally luxury condominium projects located in major U.S. cities where our strategy is to sell individual condominium units through retail distribution channels.

Our land portfolio primarily consists of 11 master planned community projects, seven urban infill land parcels and six waterfront land parcels located throughout the United States. Master planned communities represent large-scale residential projects that we intend to plan and/or develop and may sell through retail channels to home builders or in bulk. We currently have entitlements at these projects for more than 25,000 lots. Waterfront parcels are generally

entitled for residential projects and urban infill parcels are generally entitled for mixed-use projects. We may develop these properties ourselves or sell to or partner with commercial real estate developers. These projects are currently entitled for approximately 6,000 residential units, and select projects include commercial, retail and office uses. As of December 31, 2012, we had four land projects in production, nine in development and 11 in the pre-development phase.

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Executive Overview

2012 was a transitional year for the Company during which we made significant progress in strengthening our balance sheet and positioning the Company for the future. We executed several capital markets transactions that extended our debt maturities, including three senior notes issuances which marked our return to the unsecured debt markets for the first time since 2008. The rates associated with the financings that we completed in the latter half of the year, following an upgrade of the Company's corporate credit ratings, were materially lower than our earlier financings. Within our real estate and loan portfolios, our performing loans, net lease assets and residential condominium projects performed well, and we continued to make progress reducing the balance of our non-performing loans and enhancing the value of our commercial operating properties and land assets through the investment of capital and intensive asset management. We intend to continue these efforts, with the objective of having these assets contribute positively to earnings.

During 2012, we saw a meaningful contribution to earnings from our performing loans, net lease assets and sales of our residential operating properties. However, the performance of our commercial operating properties and nonperforming loans resulted in losses and our land assets incurred sizable carrying costs, which factors continue to negatively impact our earnings.

For the year ended December 31, 2012, we recorded a net loss allocable to common shareholders of $(273.0) million, compared to a loss of $(62.4) million in the prior year. Results for the current year included $35.2 million of expenses associated with three capital markets transactions. Results in the prior year included a $109.0 million gain associated with the redemption of the Company's 10% senior secured notes and $30.3 million of additional earnings from equity method investments associated with the sale of Oak Hill Advisors.

With respect to liquidity, during 2012, we generated $1.48 billion of proceeds from our portfolio and we raised approximately $3.51 billion through secured and unsecured debt capital markets transactions. We used the proceeds of these transactions to repay and/or refinance a significant portion of our debt that was due to mature before 2017, which should enable us to increase our investment originations beginning in 2013. As of December 31, 2012, we had $545.3 million of debt maturities due before December 31, 2013, with a majority of that amount due in October 2013. As of December 31, 2012, we had $256.3 million of cash on hand and in January 2013, we entered into a definitive agreement to sell our interest in LNR for approximate net proceeds of $220.0 million. Additionally, as of December 31, 2012, we had unencumbered assets with a carrying value of $3.01 billion. Our capital resources to meet debt maturities in the coming year include debt refinancings, proceeds from asset sales, loan repayments from borrowers and may include equity capital raising transactions.

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Results of Operations for the Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

	For the Years Ended December 31,			
	2012	2011	$ Change	% Change
	(in thousands)			
Operating lease income	$219,019	$198,478	$20,541	10%
Interest income	133,410	226,871	(93,461)	(41)%
Other income	48,043	39,720	8,323	21%
Total revenue	$400,472	$465,069	$(64,597)	(10)%
Interest expense	$355,097	$342,186	$12,911	4%
Real estate expenses	151,827	138,943	12,884	9%
Depreciation and amortization	69,350	58,662	10,688	18%
General and administrative	80,856	105,039	(24,183)	(23)%
Provision for loan losses	81,740	46,412	35,328	76%
Impairment of assets	13,778	13,239	539	4%
Other expense	17,266	11,070	6,196	56%
Total costs and expenses	$769,914	$715,551	$54,363	8%
Gain (loss) on early extinguishment of debt, net	$(37,816)	$101,466	$(139,282)	>100%
Earnings from equity method investments	103,009	95,091	7,918	8%
Income tax (expense) benefit	(8,445)	4,719	(13,164)	>100%
Income (loss) from discontinued operations	(19,465)	(7,318)	(12,147)	>100%
Gain from discontinued operations	27,257	25,110	2,147	9%
Income from sales of residential property	63,472	5,721	57,751	>100%
Net income (loss)	$(241,430)	$(25,693)	$(215,737)	>100%

Revenue—Operating lease income increased to $219.0 million in 2012 and includes income from net lease assets and commercial operating properties. Operating lease income from net lease assets increased 3.3% to $152.0 million in 2012 from $147.2 million in 2011 primarily due to new leasing activity. As of December 31, 2012, net lease assets were 94.8% leased compared to 94.4% leased as of December 31, 2011. For the year ended December 31, 2012, the net lease portfolio generated a weighted average effective yield of 8.6% compared to 8.4% during the same period in 2011.

Operating lease income from commercial operating properties increased to $65.5 million in 2012 from $51.2 million in 2011. We acquired title to additional commercial operating properties at the end of 2011 and during 2012, which contributed $20.6 million in operating lease income for the year ended December 31, 2012. The impact of certain lease terminations offset this increase by $6.3 million year over year. As of December 31, 2012, commercial operating properties, excluding hotels, were 58.1% leased compared to 41.0% leased as of December 31, 2011.

Interest income declined primarily due to a decline in the average balance of performing loans to $1.67 billion for the year ended December 31, 2012 from $2.58 billion for the same period in 2011. The decrease in performing loans was primarily due to loan repayments as well as performing loans moving to non-performing status (see Risk Management below). For the year ended December 31, 2012, performing loans generated a weighted average effective yield of 7.5% as compared to 7.2% in 2011.

Other income primarily includes revenue related to hotel properties included in the operating property portfolio, which was $32.8 million in 2012 compared to $32.5 million in 2011. For the year ended December 31, 2012, other income also includes $8.6 million of loan income related to the prepayment and sales of loans as compared to $2.9 million for the year ended December 31, 2011.

Costs and expenses—Interest expense increased in 2012 primarily due to a higher weighted average cost of debt offset by a lower average outstanding balance. Our weighted average effective cost of debt increased to 6.5% for the year ended December 31, 2012 as compared to 5.3% during 2011, primarily due to the refinancing of existing debt in 2011 and the first half of 2012 at higher rates. With continued improvement in the capital markets and upgrades in our credit ratings achieved later in 2012, we refinanced one of our secured credit facilities and issued unsecured debt at rates which will reduce our weighted average cost of debt in future

periods. The average outstanding balance of our debt declined to $5.49 billion for the year ended December 31, 2012 from $6.47 billion for the year ended December 31, 2011.

The increase in real estate expense year over year was primarily driven by additional properties that we took title to in 2012 and late 2011 through resolution of non-performing loans. Expenses for operating properties were $100.3 million in 2012 as compared to $92.0 million in 2011, which includes carrying costs on our residential operating properties totaling $26.5 million in 2012 and $24.4 million in 2011. Operating expenses for net lease assets declined slightly to $24.3 million in 2012 from $25.3 million in 2011. Carrying costs and other expenses on our land assets increased to $27.3 million in 2012 from $21.6 million in 2011, primarily related to acquiring title to assets in resolution of non-performing loans as well as increased legal and consulting expenses. Depreciation and amortization increased in 2012 primarily due to the acquisition of additional operating properties in late 2011 and 2012.

General and administrative expenses decreased primarily due to lower stock-based compensation expense, lower payroll and employee related costs and decreased legal expenses. Stock-based compensation expense declined to $15.3 million in 2012 from $29.7 million in 2011, primarily resulting from the incremental expense in 2011 associated with the July 2011 modification of our restricted stock units originally awarded on December 19, 2008. Payroll and employee related costs declined due to staffing reductions, while legal expenses declined due to the settlement of litigation in June 2012 (see Item 3. Legal Proceedings).

Provisions for loan losses totaled $81.7 million during the year ended December 31, 2012 and included higher specific reserves on non-performing loans, offset by a reduction in the general reserve primarily due to a reduction in the balance of performing loans outstanding during the current year (see Risk Management below).

Impairment of assets for the year ended December 31, 2012 resulted primarily from changes in business strategy for certain assets and consisted of $27.7 million on operating properties and $7.7 million on net lease assets. Of these amounts, $22.6 million of impairments related to real estate assets held for sale or sold and were therefore included in discontinued operations for the year ended December 31, 2012. For the year ended December 31, 2011, we recorded impairments of $22.4 million related to operating properties which resulted from changing market conditions and changes in business strategy for certain assets. Of this amount, $9.1 million relates to real estate assets held for sale or sold and therefore, were included in discontinued operations for the year ended December 31, 2011.

Other expense for the year ended December 31, 2012 increased primarily due to $8.1 million of third party expenses incurred in connection with the refinancing of our 2011 Secured Credit Facilities with our October Credit Facility (see Liquidity and Capital Resources below).

Gain on early extinguishment of debt, net—During the year ended December 31, 2012, net losses on the early extinguishment of debt included a $14.9 million prepayment fee on the early redemption of our 8.625% Senior Unsecured Notes due in June 2013 as well as $12.1 million related to the accelerated amortization of discounts and fees in connection with the refinancing of our 2011 Secured Credit Facilities in October of 2012 (see Liquidity and Capital Resources below). We also recorded $13.8 million of losses in 2012 related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our 2011 and 2012 Secured Credit Facilities. These losses were partially offset by gains on the repurchases of unsecured notes during 2012.

During the same period in 2011, we fully redeemed the $312.3 million remaining principal balance of our 10% senior secured notes due June 2014 which resulted in a $109.0 million gain on early extinguishment of debt primarily related to the recognition of deferred gain that resulted from a previous debt exchange. This was offset by losses on extinguishment of debt related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our secured credit facilities, including the A-1 Tranche of the 2011 Secured Credit Facilities.

Earnings from equity method investments—Earnings from equity method investments increased during the year ended December 31, 2012, primarily due to $26.0 million of equity in earnings recognized from income from sales of residential property units recorded by one of our real estate equity investments. Earnings from certain of our other strategic investments increased due to better overall market performance. These increases were partially offset by the impact of the sale of Oak Hill Advisors, L.P. and related entities in October 2011, which contributed $38.4 million to earnings, including a pre-tax gain of $30.3 million during the year ended December 31, 2011.

Income tax (expense) benefit—Income taxes are primarily generated by assets held in our taxable REIT subsidiaries ("TRS's"), and increased to an expense of $8.4 million in 2012 versus a benefit of $4.7 million in 2011. During the year ended December 31, 2012, TRS entities generated taxable income of $42.2 million, which was partially offset by the utilization of net operating loss carryforwards, resulting in current tax expense of $8.4 million. For the year ended December 31, 2011, TRS entities

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generated taxable income of $75.8 million, including the gain on the sale of our Oak Hill investments. This income was partially offset by the utilization of net operating loss carryforwards that reduced our current tax expense to $9.0 million for the year. The current tax expense was partially offset by a $13.7 million non-cash deferred tax benefit that resulted from the reversal of a deferred tax liability related to a difference in investment basis for our Oak Hill investments that were sold in October of 2011.

Discontinued operations—During the year ended December 31, 2012, we sold net lease assets with a carrying value of $115.5 million and recorded gains of $27.3 million. During the year ended December 31, 2011, we realized a $22.2 million gain from discontinued operations previously deferred as part of the June 2010 sale of 32 net lease assets.

Income (loss) from discontinued operations includes operating results from net lease assets and commercial operating properties held for sale or sold as of December 31, 2012. For the years ended December 31, 2012 and 2011, income (loss) from discontinued operations includes impairment of assets of $22.6 million and $9.1 million, respectively.

Income from sales of residential property—During the year ended December 31, 2012 and 2011, we sold condominium units for total net proceeds of $319.3 million and $154.0 million, respectively, that resulted in income from sales of residential properties totaling $63.5 million and $5.7 million, respectively.

Results of Operations for the Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

	For the Years Ended December 31,			
	2011	2010	$ Change	% Change
	(in thousands)			
Operating lease income	$198,478	$186,630	$11,848	6%
Interest income	226,871	364,094	(137,223)	(38)%
Other income	39,720	50,733	(11,013)	(22)%
Total revenue	$465,069	$601,457	$(136,388)	(23)%
Interest expense	$342,186	$313,766	$28,420	9%
Real estate expense	138,943	121,399	17,544	14%
Depreciation and amortization	58,662	57,220	1,442	3%
General and administrative	105,039	109,526	(4,487)	(4)%
Provision for loan losses	46,412	331,487	(285,075)	(86)%
Impairment of assets	13,239	12,809	430	3%
Other expense	11,070	16,055	(4,985)	(31)%
Total costs and expenses	$715,551	$962,262	$(246,711)	(26)%
Gain on early extinguishment of debt, net	$101,466	$108,923	$(7,457)	(7)%
Earnings from equity method investments	95,091	51,908	43,183	83%
Income tax (expense) benefit	4,719	(7,023)	11,742	>100%
Income (loss) from discontinued operations	(7,318)	16,821	(24,139)	>100%
Gain from discontinued operations	25,110	270,382	(245,272)	(91)%
Income from sales of residential property	5,721	—	5,721	100%
Net income (loss)	$(25,693)	$80,206	$(105,899)	>100%

Revenue—Operating lease income increased to $198.5 million in 2011 and includes income from our net lease assets and commercial operating properties. Operating lease income from net lease assets remained consistent at $147.2 million compared to $147.0 million in 2010. As of December 31, 2011, net lease assets were 94.4% leased compared to 91.0% leased as of December 31, 2010. For the year ended December 31, 2011, total net lease assets generated a weighted average effective yield of 8.4% compared to 8.3% during the same period in 2010.

Operating lease income from commercial operating properties increased to $51.2 million in 2011 from $39.2 million in 2010. We acquired title to additional commercial operating properties in resolution of non-performing loans during 2011 and late in 2010, which contributed $10.0 million in operating lease income for the year ended December 31, 2011. The remaining increase relates to new leasing activity at various commercial operating properties.

Interest income declined primarily due to a decrease in the average balance of performing loans to $2.58 billion for the year ended December 31, 2011 from $3.92 billion for 2010. The decrease in performing loans was primarily due to loan repayments as well as performing loans moving to non-performing status (see Risk Management below). For the year ended December 31, 2011, performing loans generated a weighted average effective yield of 7.2% as compared to 7.9% in 2010. The decrease was partially offset by $26.3 million of interest income recorded during the year ended December 31, 2011, related to certain non-performing loans that were resolved, including interest not previously recorded due to the loans being on non-accrual status.

Other income primarily includes revenue related to hotel properties included in the operating property portfolio, which was $32.5 million in 2011 compared to $32.3 million in 2010. For the year ended December 31, 2011, other income also includes $2.9 million of loan income related to the prepayment and sales of loans as compared to $13.8 million for the year ended December 31, 2010.

Costs and expenses—Interest expense increased primarily due to higher interest rates on our Secured Credit Facility entered into during 2011, partially offset by lower average outstanding borrowings. Our weighted average effective cost of debt increased to 5.3% for the year ended December 31, 2011 as compared to 3.7% during 2010. The average outstanding balance of our debt declined to $6.47 billion for the year ended December 31, 2011 from $9.28 billion for the year ended December 31, 2010.

The increase in real estate expenses year over year was primarily driven by additional operating properties that we took title to in 2011 and late 2010 through resolution of non-performing loans. Expenses for operating properties were $92.0 million in 2011 as compared to $84.5 million in 2010, which includes carrying costs on our residential properties totaling $24.4 million in 2011 and $26.1 million in 2010. Operating expenses for net lease assets increased to $25.3 million in 2011 from $21.9 million in 2010 primarily related to provisions for uncollectable tenant receivables. Carrying costs and other expenses on our land assets increased to $21.6 million in 2011 from $15.1 million in 2010, primarily related to additional consulting, legal and maintenance costs. Depreciation and amortization increased in 2011 primarily due to the acquisition of operating properties in late 2011 and 2010.

General and administrative expenses decreased primarily due to lower payroll and employee related costs from both staffing reductions and reduced annual cash compensation offset by additional stock-based compensation expense resulting from the modification of our December 19, 2008 restricted stock units. Excluding stock-based compensation expense, general and administrative expense declined by $14.8 million or 16.5% from the prior year.

Our total costs and expenses were impacted most significantly by lower provisions for loan losses. The decline in our provisions for loan losses primarily resulted from fewer loans moving to non-performing status and a lower overall balance of non-performing loans during the year ended December 31, 2011 as compared to 2010. Additionally, repayments and sales of performing loans resulted in a lower portfolio balance leading to a reduction in the required general loan loss reserve.

For the years ended December 31, 2011 and 2010, impairments on real estate assets resulted from changes in market conditions and changes in business strategy. In 2011, $22.4 million of impairments were recorded related to operating properties and of this amount, $9.1 million related to real estate assets held for sale or sold and were therefore included in discontinued operations. In 2010, we recorded $19.1 million of impairments on operating properties and $4.2 million on net lease assets. Of these amounts, $9.6 million related to real estate assets held for sale or sold and were therefore included in discontinued operations.

Other expense decreased primarily due to lower legal fees and other unreimbursed expenses incurred relating to non-performing loans.

Gain (loss) on early extinguishment of debt, net—During the year ended December 31, 2011, we fully redeemed the $312.3 million remaining principal balance of our 10% senior secured notes due June 2014, which resulted in a $109.0 million gain on early extinguishment of debt. This was offset by losses on extinguishment of debt related to the accelerated amortization of deferred fees and debt discount resulting from amortization payments made on our secured credit facilities, including the Tranche A-1 facility.

During the same period in 2010, we retired $633.0 million par value of our senior secured and unsecured notes and we redeemed $282.3 million of senior secured notes. Together, these transactions resulted in an aggregate gain on early

extinguishment of debt of $131.0 million. These gains were offset by $22.1 million of losses resulting from the acceleration of unamortized deferred fees and debt discount in connection with the prepayments of our $1.0 billion First Priority Credit Agreement, which was due to mature in 2012, and our $947.9 million non-recourse secured term loan and another secured term loan that were collateralized by net lease assets we sold during the period.

Earnings from equity method investments—The increase in earnings from equity method investments was primarily attributable to the sale of our interests in Oak Hill Advisors, L.P. and related entities as well as a full year of earnings from our investment in LNR. In October 2011, we sold a substantial portion of our interests in Oak Hill Advisors, L.P. and related entities and recorded a pre-tax gain of $30.3 million. Prior to the sale in October of 2011, we recorded $8.5 million of earnings from our investments in the Oak Hill entities that were sold during the year ended December 31, 2011. We also recorded a full year of

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earnings from our investment in LNR, which was $52.1 million higher than our partial year earnings in the prior year when the investment was made. During the year ended December 31, 2011, our share of earnings from LNR included $19.2 million of nonrecurring income from the settlement of tax liabilities. These increases in earnings were partially offset by losses and lower returns recorded by certain of our strategic investments, primarily due to weaker market performance as compared to 2010.

Income tax (expense) benefit—The income tax benefit recorded during the year ended December 31, 2011 was comprised of $13.7 million of deferred tax benefit offset by $9.0 million of current tax expense related to taxable income generated by assets held in our TRS's. TRS entities generated taxable income of $75.8 million for the year ended December 31, 2011, including the gain on the sale of our investment in Oak Hill Advisors L.P. This income was partially offset by the utilization of net operating loss carryforwards that reduced our current tax expense to $9.0 million for the year. The $13.7 million non-cash deferred tax benefit was due to the reversal of a deferred tax liability related to a difference in investment basis for our Oak Hill investments that were sold in October of 2011.

Discontinued operations—During the year ended December 31, 2011, we sold net lease assets with an aggregate carrying value of $34.4 million resulting in a net gain of $2.9 million. In 2011, we also resolved a contingent obligation related to the 2010 portfolio sale of 32 net lease assets, resulting in a gain of $22.2 million. During the same period in 2010, we sold net lease assets, including a portfolio of 32 net lease assets, and recognized an aggregate initial gain of $270.4 million.

Income (loss) from discontinued operations includes operating results from net lease assets and commercial operating properties held for sale or sold as of December 31, 2012. For the years ended December 31, 2011 and 2010, income (loss) from discontinued operations includes impairment of assets of $9.1 million and $9.6 million, respectively.

Income from sales of residential property—During the year ended December 31, 2011 we sold condominium units for total net proceeds of $154.0 million that resulted in income from sales of residential properties totaling $5.7 million.

Adjusted income and Adjusted EBITDA

In addition to net income (loss), we use Adjusted income and Adjusted EBITDA to measure our operating performance. Adjusted income represents net income (loss) allocable to common shareholders, prior to the effect of depreciation and amortization, provision for loan losses, impairment of assets, stock-based compensation expense, and the non-cash portion of gain (loss) on early extinguishment of debt. Adjusted EBITDA represents net income (loss) plus the sum of interest expense, income taxes, depreciation and amortization, provision for loan losses, impairment of assets and stock-based compensation expense, less the non-cash portion of gain (loss) on early extinguishment of debt.

We believe Adjusted income and Adjusted EBITDA are useful measures to consider, in addition to net income (loss), as they may help investors evaluate our core operating performance prior to certain non-cash items.

Adjusted income and Adjusted EBITDA should be examined in conjunction with net income (loss) as shown in our Consolidated Statements of Operations. Adjusted income and Adjusted EBITDA should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor are Adjusted income and Adjusted EBITDA indicative of funds available to fund our cash needs or available for distribution to shareholders. Rather, Adjusted income and Adjusted EBITDA are additional measures for us to use to analyze how our business is performing. It should be noted that our manner of calculating Adjusted income and Adjusted EBITDA may differ from the calculations of similarly-titled measures by other companies.

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	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Adjusted income					
Net income (loss) allocable to common shareholders	$(272,997)	$(62,387)	$36,279	$(788,570)	$(242,490)
Add: Depreciation and amortization(1)	70,786	63,928	70,786	98,238	102,745
Add: Provision for loan losses	81,740	46,412	331,487	1,255,357	1,029,322
Add: Impairment of assets(2)	36,354	22,386	22,381	141,018	334,830
Add: Stock-based compensation expense	15,293	29,702	19,355	23,593	23,542
Less: (Gain) loss on early extinguishment of debt, net(3)	22,405	(101,466)	(110,075)	(547,349)	(393,131)
Less: HPU/Participating Security allocation	(7,428)	(1,891)	(9,688)	(26,963)	(12,769)
Adjusted income (loss) allocable to common shareholders	$(53,847)	$(3,316)	$360,525	$155,324	$842,049

Explanatory Notes:

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(1) For the years ended December 31, 2012, 2011, 2010, 2009 and 2008, depreciation and amortization includes $1,436, $5,266, $13,566, $41,547 and $45,973, respectively, of depreciation and amortization reclassified to discontinued operations.

(2) For the years ended December 31, 2012, 2011, 2010, 2009 and 2008 impairment of assets includes $22,576, $9,147, $9,572, $26,901 and $31,219, of impairment of assets reclassified to discontinued operations.

(3) For the years ended December 31, 2012 and 2010, (Gain) loss on early extinguishment of debt excludes the portion of losses paid in cash of $15,411 and $1,152, respectively.

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Adjusted EBITDA					
Net income (loss)	$(241,430)	$(25,693)	$80,206	$(769,847)	$(181,767)
Add: Interest expense(1)	356,161	345,914	346,500	481,116	666,706
Add: Income tax expense					