ISTAR FINANCIAL INC
Form 424B3
October 19, 2001

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

As Filed Pursuant to Rule 424(b)(3)
Reg No. 333-32946

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS SUPPLEMENT DATED OCTOBER 16, 2001

P R O S P E C T U S S U P P L E M E N T
(TO PROSPECTUS DATED SEPTEMBER 30, 2001)

15,000,000 SHARES

[LOGO]

COMMON STOCK

All of the shares of iStar Financial common stock are being offered by the selling stockholders identified in this prospectus supplement. iStar Financial will not receive any of the proceeds from the offering.

Our common stock trades on the New York Stock Exchange under the symbol "SFI." The last reported sale price of our common stock on October 15, 2001 was $25.80 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS THAT ARE DESCRIBED IN THE RISK FACTORS SECTION BEGINNING ON PAGE S-9 OF THIS PROSPECTUS SUPPLEMENT AND PAGE FOUR OF THE ACCOMPANYING PROSPECTUS.

	PER SHARE	TOTAL
Public offering price.....................................	$	$
Underwriting discount.....................................	$	$
Proceeds to selling stockholders..........................	$	$

The underwriters may also purchase up to an additional 2,250,000 shares from the selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The common stock will be ready for delivery on or about November , 2001.

JOINT LEAD MANAGERS

MERRILL LYNCH & CO.
SOLE BOOK-RUNNING MANAGER

LEHMAN BROTHERS

BANC OF AMERICA SECURITIES LLC

BEAR, STEARNS & CO. INC.

SALOMON SMITH BARNEY

UBS WARBURG

The date of this prospectus supplement is October , 2001.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference that are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are usually identified by the use of words such as "will," "anticipates," "believes," "estimates," "expects," "projects," "plans," "intends," "should" or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. We have discussed in this prospectus supplement and the accompanying prospectus some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from the forward-looking statements we make in these documents.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the SEC, and you should not place undue reliance on those statements.

SUMMARY

THIS SUMMARY MAY NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ THE ENTIRE PROSPECTUS SUPPLEMENT AND ACCOMPANYING PROSPECTUS, AS WELL AS THE DOCUMENTS INCORPORATED BY REFERENCE IN THEM, BEFORE MAKING AN INVESTMENT DECISION. ALL REFERENCES TO "WE" OR "US" IN THIS PROSPECTUS SUPPLEMENT REFER TO ISTAR FINANCIAL INC. AND ITS CONSOLIDATED SUBSIDIARIES, UNLESS THE CONTEXT OTHERWISE REQUIRES.

ISTAR FINANCIAL INC.

OVERVIEW

We are the largest publicly-traded finance company focused exclusively on the commercial real estate industry. We provide structured financing to private and corporate owners of high-quality real estate nationwide, including senior and junior mortgage debt, corporate net lease financing and corporate mezzanine and subordinated capital. Our objective is to deliver superior risk-adjusted returns on equity to our stockholders by providing innovative and value-added financing solutions to our customers. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial finance companies. As of September 30, 2001, our total enterprise value (market value of equity plus book value of preferred stock and debt, less cash balances) was $4.9 billion, and our annualized revenue and adjusted earnings for the quarter ended September 30, 2001 were $483.3 million and $259.7 million, respectively.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our eight-year history, we have structured or originated over $5 billion of financing commitments. During this period, we have generated a realized internal rate of return of 28.1% on the approximately $1.7 billion of investments that we have funded and which have since been repaid. We have never realized a loss of principal or interest on any loan investment we have funded.

Since becoming a public company in March 1998, we have expanded our platform by making a limited number of strategic corporate acquisitions. In September 1998, we acquired the loan origination and servicing business of Phoenix Home Life Insurance Company. In December 1998, we acquired the structured finance portfolio of our largest private competitor, an affiliate of Lazard Freres & Co. LLC. In November 1999, we acquired TriNet Corporate Realty Trust, Inc., the then largest publicly-traded company specializing in corporate tenant leasing for owners of office and industrial facilities. In March 2000, we acquired American Corporate Real Estate, Inc., a leading privately-held investment firm whose senior management team had extensive experience in the corporate tenant leasing industry.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financial solutions for our customers. We have consistently grown our adjusted earnings and dividends since June 1998, our first quarter as a public company. Between that quarter and the quarter ended September 30, 2001, we grew our adjusted earnings on a diluted basis by 78.0%, from approximately $0.41 to $0.73 per share, and increased our common stock dividend by 75.0%, from $0.35 to $0.6125. Based on the last reported sale price of our common stock on October 15, 2001, our current annualized dividend yield is 9.5%.

The graph below shows our quarterly adjusted earnings per share since our first full quarter as a public company.

QUARTERLY ADJUSTED EARNINGS PER SHARE(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	$0.41
9/30/98	$0.43
12/31/98	$0.45
3/31/99	$0.46
6/30/99	$0.49
9/30/99	$0.52
12/31/99	$0.60
3/31/00	$0.64
6/30/00	$0.66
9/30/00	$0.68
12/31/00	$0.69
3/31/01	$0.71
6/30/01	$0.72
9/30/01	$0.73

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(1) We generally define "adjusted earnings" as GAAP net income before depreciation and amortization. For a further discussion of our adjusted earnings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish our business model from other commercial finance enterprises and contribute to our ability to generate attractive risk-adjusted returns to our common stockholders.

CREATIVE CAPITAL SOLUTIONS

We target markets where customers require a knowledgeable provider of capital which is capable of originating customized and flexible financial products. We provide our customers with a level of service and creativity generally unavailable from other lenders. We do not participate in distribution-based commercial finance businesses, which are typically characterized by intense price competition and lower profit margins, such as conduit lending and mortgage-backed securities.

We believe that we have a reputation in the marketplace for delivering unique financing solutions and a high level of service to our customers in a reliable and credible fashion. Since beginning our business in 1993, we have provided nearly $1.9 billion in financing to customers who have sought our expertise more than once.

As a result of our focus, we have generated consistent and attractive returns on our asset base. The graph below shows our returns on average book assets, after interest expense, since June 1998, our first full quarter as a public company.

RETURN ON AVERAGE BOOK ASSETS(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	7.2%
9/30/98	6.0%
12/31/98	5.3%
3/31/99	5.9%
6/30/99	6.0%
9/30/99	6.4%
12/31/99	6.5%
3/31/00	6.6%
6/30/00	6.7%
9/30/00	6.7%
12/31/00	6.8%
3/31/01	7.0%
6/30/01	7.2%
9/30/01	7.2%

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(1) We define "return on average book assets" as the sum of annualized quarterly adjusted earnings and preferred dividends divided by the average book value of assets outstanding during the quarter.

EXPERIENCED MANAGEMENT

The ten members of our executive management team have an average of more than 20 years of experience in the fields of real estate finance, private investment, capital markets, transaction structuring, risk management and loan servicing, providing us with significant expertise in the key disciplines required for success in our business. We emphasize long-term, incentive-based compensation, such as stock options and grants of restricted common stock, rather than cash compensation, and none of our employees is compensated based on the volume of investment originations. Our directors and employees directly own approximately 7% of our outstanding common stock on a diluted basis, which had a market value of approximately $160 million based upon the last reported sale price of our common stock on October 15, 2001. Our executive management team is supported by approximately 125 employees operating from six primary offices nationwide.

SIGNIFICANT EQUITY BASE

We had approximately $1.8 billion of tangible book equity and a consolidated debt-to-book equity ratio of 1.3x as of September 30, 2001. We believe that we are one of the most strongly capitalized asset-based finance companies. We target a maximum consolidated debt-to-book equity ratio of 1.5x to 2.0x, which is significantly lower than most other commercial finance companies. We believe that operating within this targeted range enables us to maintain a well-balanced, conservative and flexible capital structure. Our tax-advantaged structure as a real estate investment trust and our ability to operate with less overhead, as a percentage of revenues, than many other commercial finance companies enhance risk-adjusted returns on equity for our common stockholders.

TAX-ADVANTAGED CORPORATE STRUCTURE

Because of our focus on commercial real estate finance, we are able to qualify as a real estate investment trust, or "REIT," under the Internal Revenue Code. Since we are taxed as a REIT, we do not pay corporate-level taxes in most circumstances. This tax-advantaged structure enables us to produce superior returns on equity for our stockholders compared to taxable finance companies, while utilizing significantly less leverage than most taxable finance companies. The graphs below show our returns on average common book equity and our debt-to-equity ratios since our first full quarter as a public company.

RETURN ON AVERAGE COMMON BOOK EQUITY(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	11.7%
9/30/98	12.3%
12/31/98	13.0%
3/31/99	13.6%
6/30/99	14.1%
9/30/99	14.7%
12/31/99	14.8%
3/31/00	15.1%
6/30/00	15.5%
9/30/00	16.1%
12/31/00	16.7%
3/31/01	17.3%
6/30/01	17.5%
9/30/01	17.9%

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(1) We define "return on average common book equity" as annualized quarterly adjusted earnings divided by the average common book value of equity outstanding during the quarter.

DEBT-TO-BOOK EQUITY

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	0.7X
9/30/98	1.3x
12/31/98	1.1x
3/31/99	1.2x
6/30/99	1.2x
9/30/99	1.1x
12/31/99	1.1x
3/31/00	1.1x
6/30/00	1.2x
9/30/00	1.2x
12/31/00	1.2x
3/31/01	1.2x
6/30/01	1.2x
9/30/01	1.3x

ASSET QUALITY AND DIVERSIFICATION

Throughout our operating history, we have focused on maintaining diversification of our asset base by product line, asset type, obligor, property type and geographic region. Asset diversification is a key part of our risk management strategy. The graphs below depict the diversification of our asset base based upon the total gross book value of our assets of approximately $4.1 billion as of September 30, 2001.

ASSET TYPE DIVERSIFICATION	PROPERTY TYPE DIVERSIFICATION	GEOGRAPHIC DIVERSIFICATION
Pie Chart	Pie Chart	Pie Chart

Secured first mortgages and corporate tenant lease assets together comprise approximately 70% of our asset base. The weighted average "first dollar" and "last dollar" loan-to-value ratios on our loan assets were 30.5% and 70.9%, respectively, as of September 30, 2001. "First dollar" and "last dollar" loan-to-value ratios represent the average beginning and ending points of our lending exposure in the aggregate capitalization of the underlying assets or companies that we finance.

In addition, as of September 30, 2001, 52% of our corporate tenants, based on GAAP annual lease payments, had actual or implied investment grade credit ratings. Our corporate tenants include leading companies such as FedEx Corporation, Hilton Hotels Corporation, International Business Machines Corporation, Nike, Inc., Verizon Communications, Inc. and Wells Fargo Bank.

MATCH FUNDING DISCIPLINE

Our objective is to match fund our liabilities and assets with respect to maturities and interest rates. This means that we seek to match the maturities of our financial obligations with the maturities of our investments. Match funding allows us to reduce the risk of having to refinance our liabilities prior to the maturities of our assets. In addition, we match fund interest rates with like-kind debt (i.e., fixed-rate assets are financed with fixed-rate debt, and floating-rate assets are financed with floating-rate debt), through the use of hedges such as interest rate swaps, or through a combination of these strategies. This allows us to reduce the impact of changing interest rates on our earnings. Our objective is to limit volatility from a 100 basis point move in short-term interest rates to no more than 2.5% of annual adjusted earnings per share. As of September 30, 2001, a 100 basis point change in short-term interest rates would have essentially no impact on our third quarter adjusted earnings per share of $0.73.

OUR TARGET MARKETS AND PRODUCT LINES

We believe we are the largest dedicated participant in a $100-$150 billion niche of the approximately $2.1 trillion commercial real estate market, consisting of the $1.5 trillion commercial

mortgage market and the $600 billion single-user market for corporate office and industrial facilities. Our primary product lines include structured finance, portfolio finance, corporate tenant leasing, corporate finance and loan acquisition. Our real estate lending assets consist of mortgages secured by real estate collateral, loans secured by equity interests in real estate assets, and secured and unsecured loans to corporations engaged in real estate or real estate-related businesses. Our corporate tenant lease assets consist of office and industrial facilities that we typically purchase from, and lease back to, a diversified group of creditworthy corporate tenants as a form of financing for their businesses. Our leases are generally long-term, and typically provide for all expenses at the facility to be paid by the corporate tenant on a "triple net" basis. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses, including taxes, maintenance and insurance.

The graph below shows the composition of our asset base by product line, based on the total gross book value of our assets of approximately $4.1 billion as of September 30, 2001.

PRODUCT LINE DIVERSIFICATION

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

CORPORATE TENANT LEASING	43%
Loan Acquisition	9%
Corporate Finance	13%
Structured Finance	26%
Portfolio Finance	9%

INVESTMENT STRATEGY

Our investment strategy focuses on the origination of structured mortgage, corporate and lease financings backed by high-quality commercial real estate assets located in major U.S. metropolitan markets. Because we deliver the intensive structuring expertise required by our customers, we are able to avoid significant direct competition from other capital providers. We focus on developing direct relationships with borrowers and corporate tenants, as opposed to sourcing transactions through intermediaries, and offer our customers added value in the form of specific lending expertise, flexibility, certainty and post-closing support. We also take advantage of market anomalies in the real estate financing markets when we believe credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations. In addition, we have developed a disciplined process for screening potential investments prior to beginning our formal underwriting and commitment process called the "Six Point Methodology(SM)." We also have an intensive underwriting process in place for all potential investments.

RISK MANAGEMENT

We have comprehensive, pro-active and hands-on risk management systems centered around a fully-integrated risk management team of over 50 professionals, including dedicated expertise in asset management, corporate credit, loan servicing, project management and engineering. We manage our risk exposure by diversifying our asset base and using conservative assumptions during our underwriting of potential investments. We utilize information received from our risk management professionals on a real-time basis to monitor the performance of our asset base and to quickly identify and address

potential credit issues. In addition, although we have not realized any losses of principal or interest on any loan investments we have funded since our inception, we nonetheless maintain and regularly evaluate financial reserves to protect against potential future losses.

FINANCING STRATEGY

Our financing strategy revolves around three primary principles. First, we maintain significantly lower leverage than other commercial finance companies and a large tangible equity capital base. We target a consolidated debt-to-book equity ratio of 1.5x to 2.0x, which is significantly lower than most other commercial finance companies. Second, we maintain access to a broad array of capital resources from a diverse group of lending sources, such as committed secured and unsecured credit facilities, term loans, corporate bonds and our own proprietary matched funding program, iStar Asset Receivables, or "STARs." In doing so, we seek to insulate our business from potential fluctuations in the availability of capital. Third, we seek to match fund our liabilities and assets to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings.

RECENT DEVELOPMENTS

Our adjusted earnings for the quarter ended September 30, 2001 increased to a record $0.73 per diluted common share, up from $0.68 per diluted common share for the quarter ended September 30, 2000. Adjusted earnings for the third quarter 2001 increased 10% to $64.9 million on a diluted basis, from $58.9 million for the third quarter 2000. Adjusted earnings represent GAAP net income before depreciation and amortization. For a discussion of how we compute adjusted earnings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

In the third quarter of 2001, we achieved a record return on average common book equity of 17.9%, while leverage increased slightly, from 1.2x to 1.3x book equity. Net investment income for the third quarter ended September 30, 2001 increased to $67.9 million, from $66.7 million for the third quarter of 2000. Net investment income represents interest and operating lease revenue less interest expense and operating costs for corporate tenant lease assets.

Adjusted earnings for the nine months ended September 30, 2001 were $190.2 million, or $2.15 per diluted share, compared to $170.7 million, or $1.98 per diluted share for the same period in 2000. Net investment income and total revenue increased to $203.3 million and $364.3 million, respectively, for the nine months ended September 30, 2001, from $200.3 million and $349.5 million, respectively, for the 2000 period.

During the third quarter of 2001, we closed ten new financing commitments totaling $207.9 million, of which $160.2 million was funded during the quarter. In addition, we funded $20.7 million under four pre-existing commitments and received $13.2 million in principal repayments.

Also during the third quarter of 2001, we completed a $350.0 million public offering of seven-year unsecured senior notes bearing interest at 8.75%. The net proceeds of this offering were used to repay our secured revolving credit facilities. Additionally, we completed a new $300.0 million revolving credit facility with a group of leading financial institutions. This facility matures in 2004, including a one-year extension at our option, and replaces two prior credit facilities maturing in 2002. For a further discussion of this new facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

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On October 1, 2001, we declared a regular quarterly cash dividend on our common stock of $0.6125 per share for the quarter ended September 30, 2001.

Our principal executive offices are located at 1114 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 930-9400. Our website is www.istarfinancial.com. Our six primary regional offices are located in Atlanta, Boston, Dallas, Denver, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

THE OFFERING

Common stock offered by the selling stockholders..........................	15,000,000 shares
Shares outstanding before and after the offering..............................	86,568,767 shares
Use of proceeds..........................	We will not receive any proceeds from the sale of sha by the selling stockholders.
Risk factors............................	See "Risk Factors" and other information contained in this prospectus supplement and in the accompanying prospectus for a discussion of the factors you should carefully consider before purchasing our common stock the offering.
NYSE symbol..............................	SFI

The number of shares outstanding before and after the offering excludes 7,919,922 shares reserved for issuance under our stock option plans, of which options to purchase 5,800,218 shares at an average option price of $18.31 have been issued. The number of shares outstanding before and after the offering also excludes 6,113,167 shares reserved for issuance upon exercise of warrants held by affiliates of Lazard Freres & Co. LLC that have an exercise price of $34.35 per share. After the offering, assuming that the underwriters' overallotment option is exercised, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C. and B Holdings, LLC, the selling stockholders, will collectively own 36,113,338 shares of common stock, which will represent approximately 41.0% of our shares of common stock on a diluted basis, or 41.7% based on our outstanding shares of common stock. If the overallotment option is not exercised, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C. and B Holdings, LLC will collectively own 38,363,338 shares of common stock, which will represent approximately 43.6% of our shares of common stock on a diluted basis, or 44.3% based on our outstanding shares of common stock.

RISK FACTORS

THIS SECTION DESCRIBES SOME, BUT NOT ALL, OF THE RISKS OF PURCHASING OUR COMMON STOCK IN THE OFFERING. YOU SHOULD CAREFULLY CONSIDER THESE RISKS, AND THE RISK DESCRIBED UNDER THE CORRESPONDING HEADING BEGINNING ON PAGE FOUR OF THE ACCOMPANYING PROSPECTUS, BEFORE PURCHASING OUR COMMON STOCK IN THE OFFERING. IN CONNECTION WITH THE FORWARD-LOOKING STATEMENTS THAT APPEAR IN THIS PROSPECTUS

SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS, YOU SHOULD ALSO CAREFULLY REVIEW THE CAUTIONARY STATEMENTS REFERRED TO IN "FORWARD-LOOKING STATEMENTS."

THE RECENT TERRORIST ATTACKS ON THE UNITED STATES HAVE NEGATIVELY IMPACTED THE U.S. ECONOMY AND COULD ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

The recent terrorist attacks on The World Trade Center in New York City, the Pentagon in Washington, D.C. and in Pennsylvania, have disrupted the U.S. financial markets and have negatively impacted the U.S. economy in general. Any future terrorist attacks and the anticipation of any such attacks, or the consequences of the military or other response by the U.S. and its allies, may have a further adverse impact on the U.S. financial markets and economy. It is not possible to predict the severity of the effect that such future events would have on the U.S. financial markets and economy.

Although it is too early to determine fully how this national tragedy will impact our business, it is possible that the economic impact of the terrorist attacks will adversely affect the credit quality of some of our borrowers and corporate tenant lease customers. Some of our borrowers are more susceptible to the adverse effects than others, such as the hotel industry, which experienced a significant reduction in occupancy rates following the attack. While our asset base is diversified and we employ a variety of techniques to enhance the credit quality of our assets, such as dedicated cash reserves, letters of credit and guarantees, we may suffer losses as a result of the adverse impact of the attacks, or of future attacks, on our assets, and these losses may adversely impact our financial performance. In addition, the instability of the U.S. economy may reduce the number of suitable investment opportunities available to us and the pace at which those investments are made. A reduction in asset originations could adversely affect our ability to grow our earnings.

OUR OWNERSHIP IS CONCENTRATED

The selling stockholders will hold approximately 41.0%, on a diluted basis, or 41.7% on an outstanding basis, of our shares of common stock (or 43.6% and 44.3%, respectively, if the overallotment option is not exercised) after the offering. The selling stockholders are under common control, and four of the 16 members of our Board of Directors are employed by an affiliate of the selling stockholders. As a result of their ownership interests, the selling stockholders may have significant influence over our business and affairs, including decisions regarding:

- Mergers or other business combinations.

- Issuance of equity securities, including additional shares of our common stock.

- Payment of dividends.

The influence held by these affiliated entities may result in various conflicts of interest between them and us or between them and the holders of our common stock. Certain individuals who own interests (direct or indirect) in these affiliated entities, including Jay Sugarman, who serves as our Chairman and Chief Executive Officer; and Barry Sternlicht, Jeffrey Dishner, Madison Grose and Merrick Kleeman, each of whom is a director of our Company, own directly an aggregate of 2.5% of our common stock and hold options to purchase an additional 0.8% of our common stock, assuming cashless option exercises, in addition to their interests in the selling stockholders and their affiliates. These people may be faced with decisions that have different implications for the selling stockholders and their affiliates, on the one hand, and us or the holders of our common stock, on the other hand, which could create, or appear to create, potential conflicts of interest.

FUTURE SALES OF OUR COMMON STOCK BY THE SELLING STOCKHOLDERS COULD ADVERSELY AFFECT OUR STOCK PRICE

If the selling stockholders were to sell a substantial number of the shares of our common stock which they will own after this offering, the prevailing market prices for our common stock could be adversely affected. Each of the selling stockholders has agreed not to sell or transfer any shares of common stock or to engage in certain hedging transactions with respect to the common stock for a period of 180 days after the date of this prospectus supplement, except in certain circumstances. The selling stockholders are permitted to include shares for sale in a public primary equity offering by us, subject to certain limitations. SOFI-IV SMT Holdings, L.L.C. has pledged 25,267,462 shares of common stock owned by it under a $150.0 million margin loan that is fully recourse to SOFI-IV SMT Holdings, L.L.C. In the event that SOFI-IV SMT Holdings, L.L.C. were to default in the performance of its obligations under that loan, the lender could foreclose upon those pledged shares and sell them in the open market at any time. In addition, unless Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, L.P. (the entity which owns SOFI-IV SMT Holdings, L.L.C.), are able to extend their terms, they will have to begin, on November 1, 2002 and February 27, 2005, respectively, distributing their investments to their investors, selling their investments to third parties, or a combination of the two. Any such sales or distributions could adversely affect the prevailing market prices for our common stock. See "Selling Stockholders."

WE ARE SUBJECT TO RISKS RELATING TO OUR ASSET CONCENTRATION

As of September 30, 2001, the average size of our lending and leasing investments was $22.0 million. No single investment represented more than 4.0% of our total revenues for the fiscal quarter ended September 30, 2001. While our asset base is diversified by product line, asset type, obligor, property type and geographic location, it is possible that if we suffer losses on a portion of our larger assets, our financial performance could be adversely impacted. See "iStar Financial Inc.--Competitive Strengths--Asset Quality and Diversification."

BECAUSE WE MUST DISTRIBUTE A PORTION OF OUR INCOME, WE WILL CONTINUE TO NEED ADDITIONAL DEBT AND/OR EQUITY CAPITAL TO GROW

We must distribute at least 90% of our taxable net income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to fund investment activities. We have historically funded our investments by borrowing from financial institutions and raising capital in the public and private capital markets. We expect to continue to fund our investments this way. If we fail to obtain funds from these sources, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock. Our taxable net income has historically been lower than the cash flow generated by our business activities, primarily because our taxable net income is reduced by non-cash expenses, such as depreciation and amortization. As a result, our dividend payout ratio as a percentage of free cash flow has generally been lower than our payout ratio as a percentage of taxable net income. Our common stock dividends for the quarter ended September 30, 2001 represented approximately 81.9% of our adjusted earnings for that quarter.

QUARTERLY RESULTS MAY FLUCTUATE AND MAY NOT BE INDICATIVE OF FUTURE QUARTERLY PERFORMANCE

Our quarterly operating results could fluctuate; therefore, you should not rely on past quarterly results to be indicative of our performance in future quarters. Factors that could cause quarterly operating results to fluctuate include, among others, variations in our investment origination volume, variations in the timing of prepayments, the degree to which we encounter competition in our markets and general economic conditions.

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds from selling the common stock offered hereby. See "Selling Stockholders." We will not receive any of the proceeds from this offering.

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SELECTED FINANCIAL DATA

The following table sets forth our selected financial data on a consolidated historical basis as of and for the six months ended June 30, 2001 and 2000, and as of and for the years ended December 31, 2000, 1999 and 1998.

In November 1999, we completed a number of significant corporate transactions which increased the size of our operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Operating results for the year ended December 31, 1999 reflect the effects of these transactions subsequent to their consummation.

	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000	YEA DEC 2000
	(IN THOUSANDS, EXCEPT PER SHA		
OPERATING DATA:			
Interest income	$130,816	$126,947	$268,011
Operating lease income	98,767	93,495	185,956
Other income	13,861	8,360	17,855
Total revenue	243,444	228,802	471,822
Interest expense	87,728	80,559	173,891
Operating costs-corporate tenant lease assets	6,510	6,284	12,809
Depreciation and amortization	17,586	17,871	34,514
General and administrative	12,600	14,711	25,706
Provision for possible credit losses	3,500	3,000	6,500
Stock-based compensation expense	2,060	1,134	2,864
Advisory fees	--	--	--
Costs incurred in acquiring external advisor(1)	--	--	--
Total expenses	129,984	123,559	256,284
Income before minority interest	113,460	105,243	215,538
Minority interest in consolidated entities	(136)	(82)	(195)
Gain on sale of corporate tenant lease assets	1,599	974	2,948
One-time effect of change in accounting principle	(282)	--	--
Extraordinary loss on early extinguishment of debt	(1,037)	(317)	(705)
Net income	$113,604	$105,818	$217,586
Preferred dividend requirements	(18,454)	(18,454)	(36,908)
Net income allocable to common shareholders	$95,150	$87,364	$180,678

Basic earnings per common share(2)	$1.11	$1.03	$2.11	
Diluted earnings per common share	$1.09	$1.02	$2.10	
Dividends declared per common share	$0.6125	$0.6000	$2.40	

	SIX MONTHS ENDED JUNE 30,		YEA DEC	
	2001	2000	2000	
	(IN THOUSANDS, EXCEPT PER SHA			
SUPPLEMENTAL DATA:				
Dividends declared on preferred shares	$9,144	$9,144	$36,576	
Dividends declared on common shares	104,087	99,611	205,477	
Adjusted earnings allocable to common shareholders(3)	125,267	111,779	230,688	
Adjusted earnings per common share--basic	$1.45	$1.31	$2.69	
Adjusted earnings per common share--diluted	$1.42	$1.30	$2.67	
Cash flows from:				
Operating activities	115,937	99,788	192,469	
Investing activities	10,604	(186,540)	(176,652)	
Financing activities	(122,992)	85,062	(27,473)	
EBITDA(4)	218,774	203,673	423,943	
Ratio of EBITDA to interest expense	2.5x	2.5x	2.4x	
Ratio of EBITDA to combined fixed charges(6)	2.1x	2.1x	2.0x	
Weighted average common shares outstanding--basic(7)	85,958	85,184	85,441	
Weighted average common shares outstanding--diluted(7)	87,584	85,725	86,151	
Efficiency ratio(8)	6.0%	6.9%	6.1%	
Total debt to shareholders' equity(9)	1.2x	1.2x	1.2x	
BALANCE SHEET DATA:				
Loans and other lending investments, net	$2,252,255	$2,253,339	$2,225,183	$2
Real estate subject to operating leases, net	1,634,524	1,653,512	1,670,169	1
Total assets	4,053,350	4,041,269	4,034,775	3
Debt obligations	2,153,031	2,138,060	2,131,967	1
Minority interest in consolidated entities	2,649	2,565	6,224	
Shareholders' equity	1,831,125	1,842,883	1,787,885	1

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(1) This amount represents a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

(2) Earnings per common share excludes 1% of net income allocable to our class B shares prior to November 4, 1999. The class B shares were exchanged for common stock on November 4, 1999. As a result, we have a single class of common stock outstanding. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(3) See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

(4) EBITDA is calculated as total revenue minus the sum of general and administrative expenses, provision for possible credit losses, stock-based compensation expense, operating costs on corporate tenant lease assets and, prior to November 1, 1999, advisory fees.

(5) Excludes a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

(6) Combined fixed charges are comprised of interest expense, amortization of loan costs and preferred stock dividend requirements.

(7) As adjusted for the one-for-six reverse stock split we effected on June 19, 1998.

(8) Efficiency ratio reflects: (a) the sum of general administrative expense, stock option compensation expense and, for the period prior to November 4, 1999, advisory fees; divided by (b) total revenue for the period.

(9) Total shareholders' equity is defined as the sum of the book value of common equity and preferred equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. In March 1998, our private investment funds contributed their approximately $1.1 billion of assets to our predecessor, Starwood Financial Trust, in exchange for a controlling interest in that public company. In November 1999, we acquired TriNet Corporate Realty Trust, Inc., our leasing subsidiary, which was then the largest publicly-traded company specializing in the net leasing of corporate office and industrial facilities. Concurrent with the acquisition of our leasing subsidiary, we also acquired our external advisor in exchange for shares of our common stock and converted our organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, we replaced our dual-class common stock structure with a single class of common stock. This single class of common stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO THE THREE-MONTH PERIOD ENDED JUNE 30, 2000

INTEREST INCOME. Interest income decreased to approximately $63.9 million for the three months ended June 30, 2001 from approximately $66.9 million for the same period in 2000. This decrease in interest income is primarily a result of the decrease in average LIBOR rates on our variable-rate lending investments, which was partially offset by the increase in the average balance of loans and other lending investments.

OPERATING LEASE INCOME. Operating lease income increased to $49.2 million for the three months ended June 30, 2001 from $47.2 million for the same period in 2000. Of this increase, $1.3 million was attributable to new corporate tenant lease investments and $3.6 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. These increases in operating lease income from assets owned were partially offset by a $2.9 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME. Other income for the three-month period ended June 30, 2001 is primarily comprised of approximately $8.5 million in realized gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans. Other income was offset by approximately $1.2 million in losses from iStar Operating, Inc. Other income for the three-month period ended June 30, 2000 included a prepayment penalty of approximately $2.1 million resulting from a partial repayment of a senior mortgage.

INTEREST EXPENSE. Our interest expense decreased by $1.4 million for the three months ended June 30, 2001 over the same period in the prior year. The decrease was primarily due to lower average LIBOR rates on our outstanding floating-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS. For the three months ended June 30, 2001, operating costs associated with corporate tenant lease assets increased by approximately $315,000 to approximately $3.3 million, from $3.0 million for the same period in 2000. This increase is primarily due to an increase in unreimbursed operating expenses associated with corporate tenant lease assets.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased by approximately $84,000 to $8.8 million for the three months ended June 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on capital investments.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses during the three months ended June 30, 2001 decreased by approximately $1.3 million to $6.5 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased to $1.8 million from $1.5 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio. We have not realized any actual losses on any loan investments we have funded to date. However, we have considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. Accordingly, since our first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense increased by approximately $614,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of our former external advisor subsequent to such personnel becoming our direct employees as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS. On April 18, 2001, we disposed of one corporate tenant lease asset for total proceeds of $4.5 million, and recognized a gain of approximately $1.0 million. During the second quarter of 2000, we disposed of three assets for total proceeds of $102.3 million, and recognized gains of approximately $440,000.

SIX-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO THE SIX-MONTH PERIOD ENDED JUNE 30, 2000

INTEREST INCOME. Interest income increased to approximately $130.8 million for the six months ended June 30, 2001 from approximately $126.9 million for the same period in 2000. This increase in interest income is a result of a higher average balance of loans and other lending investments.

OPERATING LEASE INCOME. Operating lease income increased to $98.8 million for the six months ended June 30, 2001 from $93.5 million for the same period in 2000. Of this increase, $2.7 million was attributable to new corporate tenant lease investments and $7.4 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. In addition, joint venture income contributed $1.8 million to the increase. These increases in operating lease income from assets owned were partially offset by a $6.7 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME. Other income for the six-month period ended June 30, 2001 is primarily comprised of approximately $9.2 million in realized gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans, $3.0 million in participation payments and advisory fees of approximately $868,000. Other income was offset by approximately $842,000 in losses from iStar Operating. Other income for the six-month period ended June 30, 2000 included prepayment fees of approximately $5.4 million resulting from the full or partial repayments of three loans and a fee of $1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully-performing status.

INTEREST EXPENSE. Our interest expense increased by $7.2 million for the six months ended June 30, 2001 over the same period in the prior year. The increase was primarily due to higher average borrowings on our credit facilities, other term loans and unsecured notes, in addition to the amortization of deferred financing costs on our credit facilities. This increase was partially offset by the lower average LIBOR rates on our floating rate debt obligations.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS. For the six months ended June 30, 2001, operating costs increased by approximately $226,000 to $6.5 million, from $6.3 million for the same period in 2000. This increase is primarily due to an increase in unreimbursed operating expenses associated with corporate tenant lease assets. The increase is offset by a reduction of general and administrative costs related to the facilities.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased by approximately $285,000 to $17.6 million for the six months ended June 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on capital investments.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses during the six months ended June 30, 2001 decreased by approximately $2.1 million to $12.6 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased to $3.5 million from $3.0 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense increased by approximately $926,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of our former external advisor subsequent to such personnel becoming our direct employees as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS. During the six months ended June 30, 2001, we disposed of two corporate tenant lease assets for total proceeds of $8.4 million, and recognized gains of approximately $1.6 million. During the first six months of 2000, we disposed of five assets for total proceeds of $148.3 million, and recognized gains of approximately $973,000.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT. During the six months ended June 30, 2001, we repaid a secured term loan which had an original maturity date of December 2004. In connection with this early repayment, we incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of approximately $1.0 million during the first quarter of 2001. During the first quarter of 2000, certain of the proceeds from an asset disposition were used to partially repay $8.1 million of a secured term loan. In connection with this partial paydown, we incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of $317,000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

INTEREST INCOME. Interest income increased to approximately $268.0 million for the year ended December 31, 2000 from approximately $209.8 million for the same period in 1999. This increase is a result of the interest generated by $721.2 million of newly-originated loan investments during fiscal 2000 and an additional $56.0 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $584.5 million made to us on our loan investments during the year ended December 31, 2000. In addition, the increase was in part due to higher average interest rates on our variable-rate loans and other lending investments.

OPERATING LEASE INCOME. Operating lease income increased to approximately $186.0 million for the year ended December 31, 2000 from approximately $42.2 million for the same period in 1999. Approximately $134.2 million of this increase is attributable to operating lease income generated from

corporate tenant lease assets acquired in the acquisition of our leasing subsidiary, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in fiscal 1999. In addition, approximately $5.4 million resulted from income generated by $128.4 million of new corporate tenant lease investments.

OTHER INCOME. Included in other income for fiscal year 2000 are prepayment fees of approximately $7.9 million resulting from the full or partial repayments of several loans, recognition of $2.1 million in connection with loan defeasances, a forbearance fee of $1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully performing status, a prepayment penalty of approximately $1.2 million resulting from the refinancing of a senior mortgage and corporate loan, and approximately $1.4 million resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to us in connection with our original investment in the asset.

INTEREST EXPENSE. Our interest expense increased by $82.7 million for the year ended December 31, 2000 over the same period in the prior year. Approximately $44.1 million of this increase is attributable to interest expense incurred by our leasing subsidiary subsequent to its acquisition, which was included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999. In addition, the increase was in part due to higher average aggregate borrowings under our credit facilities, other term loans and secured notes, the proceeds of which were used to fund additional investments. The increase was also attributable to higher average interest rates on our variable-rate debt obligations.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS. For the year ended December 31, 2000, operating costs associated with corporate tenant lease assets increased by approximately $10.6 million to approximately $12.8 million, net of recoveries from corporate tenants. Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets. This increase is primarily attributable to operating costs generated from corporate tenant lease assets acquired in the acquisition of our leasing subsidiary, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased by approximately $24.2 million to $34.5 million for the year ended December 31, 2000 over the same period in the prior year. Approximately $24.0 million of this increase is attributable to depreciation and amortization relating to the corporate tenant lease assets acquired in the acquisition of our leasing subsidiary, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

GENERAL AND ADMINISTRATIVE. Our general and administrative expenses during the year ended December 31, 2000 increased by approximately $19.4 million to $25.7 million compared to the same period in 1999. These increases were generally the result of the increased scope of our operations associated with the acquisition of our leasing subsidiary and the direct overhead costs associated with our former external advisor, which impacted operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased to $6.5 million from $4.8 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense increased by approximately $2.5 million as a result of charges relating to grants of stock options to our employees,

including amortization of the deferred charge related to options granted to employees of our former external advisor subsequent to such personnel becoming our direct employees as of November 4, 1999.

ADVISORY FEES. There were no advisory fees during the year ended December 31, 2000 because, as a result of our acquisition of our external advisor, we became internally-managed. No further advisory fees will be incurred.

COSTS INCURRED IN ACQUIRING EXTERNAL ADVISOR. Included in fiscal 1999 costs and expenses is a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS. During the year ended 2000, we disposed of 14 corporate tenant lease assets, including six assets held in joint venture partnerships, for a total of $256.7 million in proceeds, and recognized total gains of $2.9 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT. Certain of the proceeds from an asset disposition were used to partially repay $8.1 million of a mortgage loan. In connection with this partial paydown, we incurred prepayment penalties, which resulted in an extraordinary loss of $317,000 during the first quarter of 2000. Additionally, proceeds from a joint venture asset disposition were used to repay $16.4 million of the third-party debt of the joint venture. In connection with this paydown, the venture incurred certain prepayment penalties, which resulted in an extraordinary loss of $388,000 during the third quarter of 2000. There were no comparable early extinguishments of debt during the year ended December 31, 1999, including by our leasing subsidiary subsequent to its acquisition on November 4, 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

INTEREST INCOME. During fiscal year 1999, interest income increased by approximately $96.9 million over interest income for fiscal year 1998. This increase is a result of the interest generated by the loans and other investments contributed in the 1998 recapitalization, as well as approximately $663.4 million of loans and other lending investments newly-originated or acquired by us during 1999 and an additional $46.4 million funded under existing commitments. The increase was partially offset by principal repayments of approximately $561.9 million made to us during fiscal year 1999.

OPERATING LEASE INCOME. Operating lease income increased by $29.8 million from fiscal year 1998 to fiscal year 1999 due to approximately $26.8 million in operating lease income generated from corporate tenant lease assets acquired in the acquisition of our leasing subsidiary.

OTHER INCOME. Included in other income for fiscal year 1999 is a fee associated with the repayment of a construction loan of approximately $1.9 million, yield maintenance payments of approximately $8.1 million resulting from the repayment of three loans, and approximately $1.0 million in additional revenue from certain cash flow participation features on five of our loan investments.

INTEREST EXPENSE. Our interest expense increased by $46.5 million as a result of higher average borrowings by us on our credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. The increase was also attributable to higher average interest rates on our variable-rate debt obligations. Further, interest expense includes interest incurred by our leasing subsidiary subsequent to its acquisition.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS. These operating costs represent unreimbursed operating expenses incurred by our leasing subsidiary subsequent to its acquisition.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased as a result of a full year's depreciation on our pre-existing corporate tenant leasing portfolio, as well as depreciation on our leasing subsidiary's corporate tenant lease assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE. General and administrative costs increased by approximately $3.7 million as a result of the direct overhead costs associated with our former external advisor, as well as additional administrative expenses associated with our leasing subsidiary subsequent to its acquisition.

PROVISION FOR POSSIBLE CREDIT LOSSES. Our charge for provision for possible credit losses increased by approximately $2.0 million as a result of expanded lending operations as well as additional seasoning of our existing lending portfolio.

STOCK-BASED COMPENSATION EXPENSE. Stock-based compensation expense declined by approximately $5.6 million as a result of the non-recurring charge relating to the original grant of stock options to our former external advisor in fiscal 1998 concurrently with the merger of our private business into a public company in March 1998.

ADVISORY FEES. Advisory fees increased by approximately $8.4 million as a result of fees being incurred from June 16, 1998 through year end in the prior year and through November 4, 1999 in fiscal 1999, as well as a result of our expanded operations. As a result of the acquisition of our external advisor, we became internally-managed. No further advisory fees will be incurred.

COSTS INCURRED IN ACQUIRING EXTERNAL ADVISOR. Included in fiscal 1999 costs and expenses is a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of our external advisor.

LIQUIDITY AND CAPITAL RESOURCES

We require capital to fund our investment activities and operating expenses. We have significant access to capital resources to fund our existing business plan, which includes the expansion of our real estate lending and corporate tenant leasing businesses. Our capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by our assets, unsecured financing and the issuance of common, convertible and/or preferred equity securities. Further, we may acquire other businesses or assets using our capital stock, cash or a combination of the two.

The distribution requirements under the REIT provisions of the Internal Revenue Code limit our ability to retain earnings and thereby replenish capital committed to our operations. However, we believe that our significant capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

We believe that our existing sources of funds will be adequate for purposes of meeting our short-and long-term liquidity needs. Our ability to meet long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of our credit lines and/or obtaining other sources of financing,

including issuing additional debt or equity from time to time. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as compliance with the terms of our existing credit arrangements, our financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

In July 2001, we completed a $300.0 million revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at our option and another one-year extension at the lenders' option, and replaces two prior credit facilities maturing in 2002. The facility bears interest at LIBOR plus 2.125% based on our current credit ratings. In August 2001, we completed a $350.0 million public offering of unsecured seven-year senior notes bearing interest at 8.75%. The net proceeds of this offering were used to repay our secured revolving credit facilities.

The table below reflects our debt obligations under various arrangements with financial institutions as of June 30, 2001. All of our indebtedness shown below which has not subsequently been repaid is non-recourse to us, except for the $60.0 million term loan due January 2004 and the $16.6 million of "Other debt obligations," which are fully recourse to us.

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF JUNE 30, 2001	STATED INTEREST RATES	SCHE
	(IN THOUSANDS, UNAUDITED)			
SECURED REVOLVING CREDIT FACILITIES(1):				
Line of credit....................	$700,000	$194,100	LIBOR + 1.75%-2.25%	Marc
Line of credit....................	700,000	514,503	LIBOR + 1.40%-2.15%	Janu
Line of credit....................	500,000	81,248	LIBOR + 1.50%-1.75%	Augu
UNSECURED REVOLVING CREDIT FACILITIES:				
Line of credit....................	350,000	153,000	LIBOR + 1.55%	May
Line of credit....................	100,000	6,000	LIBOR + 2.25%	Janu
Total revolving credit facilities......................	$2,350,000	$948,851		
SECURED TERM LOANS:				
Secured by real estate under operating leases...		$149,113	7.44%	Marc
Secured by corporate lending investments........		60,000	LIBOR + 2.50%	Janu
Secured by real estate under operating leases...		40,720	Fixed: 6.00%-11.38%	Vari
Secured by real estate under operating leases...		193,000	LIBOR + 1.85%	July
Total principal of term loans..................		442,833		
Add: debt premiums............................		379		
Total secured term loans......................		443,212		
iStar Asset Receivables secured notes:				
Class A.......................................		105,216	LIBOR + 0.30%	Augu
Class B.......................................		94,055	LIBOR + 0.50%	Octo
Class C.......................................		105,813	LIBOR + 1.00%	Janu
Class D.......................................		52,906	LIBOR + 1.45%	June
Class E.......................................		123,447	LIBOR + 2.75%	Janu
Class F.......................................		5,000	LIBOR + 3.15%	Janu
Total iStar Asset Receivables secured notes.....		486,437		

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF JUNE 30, 2001	STATED INTEREST RATES	SCHE

	(IN THOUSANDS, UNAUDITED)		
UNSECURED NOTES(6):			
6.75% Dealer Remarketable Securities(7).........	125,000	6.75%	Marc
7.70% Notes....................................	100,000	7.70%	July
7.95% Notes....................................	50,000	7.95%	May
Total principal of unsecured notes(1)..........	275,000		
Less: debt discount(8).........................	(17,091)		
Total unsecured notes..........................	257,909		
OTHER DEBT OBLIGATIONS:	16,622	Various	Var
TOTAL DEBT OBLIGATIONS:	$2,153,031		

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(1) Subsequent to June 30, 2001, we completed a $350.0 million public offering of unsecured seven-year senior notes bearing interest at 8.75%. The net proceeds of this offering were used to repay borrowings under our secured revolving credit facilities that had a weighted average interest rate of 5.93% and a weighted average maturity of 3.6 years.

(2) Includes a one-year "term-out" extension at our option.

(3) Subsequent to June 30, 2001, we replaced both of these facilities with a new $300.0 million revolving credit facility bearing interest at LIBOR + 2.125% (based on our current credit ratings). The new facility has an initial maturity of July 2003 with a one-year extension at our option and another one-year extension at the lenders' option.

(4) Includes a one-year extension at our option.

(5) Principal payments on these bonds are a function of the principal repayments on loan assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on Classes A, B, C, D, E and F is September 25, 2022.

(6) The notes are callable by us at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.

(7) Subject to mandatory tender on March 1, 2003, to either the dealer or our leasing subsidiary. The initial coupon of 6.75% applies to the first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset upon remarketing.

(8) These obligations were assumed as part of our acquisition of our leasing subsidiary. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which our leasing subsidiary could issue new debt obligations and, accordingly, we ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the

obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.70% Notes and 7.95% Notes, respectively.

At June 30, 2001, we had pay-fixed interest rate swaps with a total notional amount of $325.0 million and a fair value (liability) of ($12.8) million. Our pay-fixed interest rate swaps have rates ranging from 5.58% to 7.06%, and have maturities ranging from June 2003 to December 2004. Interest rate swaps allow us to effectively fix the rate on a portion of our outstanding floating-rate debt. At June 30, 2001, we also had interest rate caps with a net notional amount of $110.0 million and a fair value of $399,875. Our interest rate caps have strike prices ranging from 7.75% to 10.00%, and have maturities ranging from December 2004 to May 2007. Interest rate caps enable us to limit our exposure to rising interest rates.

On May 17, 2000, we closed the inaugural offering under our proprietary matched funding program, STARs(SM), Series 2000-1. In the initial transaction, one of our wholly-owned subsidiaries issued $896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. We initially purchased the Class F bonds at a par value of $38.2 million, which we financed with a $27.8 million repurchase agreement maturing in May 2001. This repurchase agreement was repaid in April 2001. On July 17, 2000, we sold, at par, $5.0 million of the Class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

Moody's Investors Service, Inc., Fitch Inc. and Standard & Poor's Ratings Services have each upgraded the ratings of the STARs(SM) bonds. The STARs(SM) Class B bonds were upgraded to "Aaa," "AAA" and "AAA" from "Aa2," "AA" and "AA" by Moody's, Fitch and Standard & Poor's, respectively. The STARs(SM) Class C bonds were upgraded to "Aa3" and "AA-" from "A2" and "A+" by Moody's and Fitch, respectively. In addition, Fitch also upgraded the STARs(SM) Class D, E and F bonds by one notch to "A+," "BBB+" and "BBB," respectively.

In January 2001, Moody's upgraded our corporate senior unsecured credit rating to "Ba1" from "Ba2," and the credit ratings on our perpetual preferred stock to "Ba3" from "B1." In addition, in April 2001, Standard & Poor's upgraded our corporate senior unsecured credit rating to "BB+" from "BB," and the credit ratings on our perpetual preferred stock to "B+" from "B."

On July 2, 2001, we declared a regular quarterly cash dividend of $0.6125 per common share for the quarter ended June 30, 2001. The second quarter 2001 dividend, which was paid on July 30, 2001 to holders of record as of July 16, 2001, represented approximately 83.3% of basic adjusted earnings per share for the second quarter.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and we have implemented, a stock repurchase program under which we are authorized to repurchase up to 5.0 million shares of our common stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under our credit facilities if we determine that it is advantageous to do so. As of both June 30, 2001 and December 31, 2000, we had repurchased approximately 2.3 million shares at an aggregate cost of approximately $40.7 million.

ADJUSTED EARNINGS

Adjusted earnings represents net income computed in accordance with GAAP, before gains (losses) on sales of corporate tenant lease assets, extraordinary items and cumulative effect of change in accounting principle, plus depreciation and amortization, less preferred stock dividends, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect adjusted earnings on the same basis.

We believe that to facilitate a clear understanding of our historical operating results, adjusted earnings should be examined in conjunction with net income as shown in our consolidated statements of operations. Adjusted earnings should not be considered as an alternative to GAAP net income as an indicator of our performance, or to cash flows from operating activities, as determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs.

	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	2000	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)			
Adjusted earnings:				
Net income	$113,604	$105,818	$217,586	$38,886
Add: Depreciation	17,586	17,871	34,514	11,016
Add: Allocated share of joint venture depreciation	1,905	1,442	3,662	365
Add: Amortization of deferred financing costs	10,432	5,288	13,140	6,121
Add: Costs incurred in acquiring external advisor	--	--	--	94,476
Less: Preferred dividends	(18,454)	(18,454)	(36,908)	(23,843)
Less: Net income allocable to class B shares(1)	--	--	--	(826)
Add: Cumulative effect of change in accounting principle(2)	282	--	--	--
Less: Gain on sale of corporate tenant lease assets	(1,599)	(974)	(2,948)	--
Add: Extraordinary loss -- early extinguishment of debt	1,037	317	705	--
Adjusted earnings allocable to common shareholders:				
Basic	$124,793	$111,308	$229,751	$126,195
Diluted	$125,267	$111,779	$230,688	$127,798
Adjusted earnings per common share:				
Basic	$1.45	$1.31	$2.69	$2.19
Diluted	$1.42	$1.30	$2.67	$2.07

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(1) For the year ended December 31, 1999, net income allocable to class B

shares represents 1% of net income allocable to our class B shares. On November 4, 1999, the class B shares were exchanged for common shares in connection with our acquisition of our leasing subsidiary and related transactions. As a result, we now have a single class of common shares outstanding.

(2) Represents one-time effect of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Investments and Hedging Activities" as of January 1, 2001.

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ISTAR FINANCIAL INC.

OVERVIEW

We are the largest publicly-traded finance company focused exclusively on the commercial real estate industry. We provide structured financing to private and corporate owners of high-quality real estate nationwide, including senior and junior mortgage debt, corporate net lease financing and corporate mezzanine and subordinated capital. Our objective is to deliver superior risk-adjusted returns on equity to our stockholders by providing innovative and value-added financing solutions to our customers. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial real estate finance companies.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our eight-year history, we have structured or originated over $5 billion of financing commitments. During this period, we have generated a realized internal rate of return of 28.1% on the approximately $1.7 billion of investments that we have funded and which have since been repaid. We have never realized a loss of principal or interest on any loan investment we have funded.

Since becoming a public company in March 1998, we have also expanded our platform by making a limited number of strategic corporate acquisitions. In September 1998, we acquired the loan origination and servicing business of Phoenix Home Life Insurance Company. In December 1998, we acquired the structured finance portfolio of our largest private competitor, an affiliate of Lazard Freres & Co. LLC. In November 1999, we acquired TriNet Corporate Realty Trust, Inc., the then largest publicly-traded company specializing in corporate tenant leasing for owners of office and industrial facilities. In March 2000, we acquired American Corporate Real Estate, Inc., a leading privately-held investment firm whose senior management team had extensive experience in the corporate tenant leasing industry.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financing solutions for our customers. We have consistently grown our adjusted earnings and dividends since June 1998, our first quarter as a public company. Between that quarter and the quarter ended September 30, 2001, we grew our adjusted earnings on a diluted basis by 78.0%, from approximately $0.41 to $0.73 per share, and increased our common stock dividend by 75.0%, from $0.35 to $0.6125.

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The graph below shows our quarterly adjusted earnings per share since our first full quarter as a public company.

QUARTERLY ADJUSTED EARNINGS PER SHARE(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	$0.41
9/30/98	$0.43
12/31/98	$0.45
3/31/99	$0.46
6/30/99	$0.49
9/30/99	$0.52
12/31/99	$0.60
3/31/00	$0.64
6/30/00	$0.66
9/30/00	$0.68
12/31/00	$0.69
3/31/01	$0.71
6/30/01	$0.72
9/30/01	$0.73

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(1) We generally define "adjusted earnings" as GAAP net income before depreciation and amortization. For a further discussion of our adjusted earnings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Adjusted Earnings."

COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish our business model from other commercial finance enterprises and contribute to our ability to generate attractive risk-adjusted returns to our common stockholders.

CREATIVE CAPITAL SOLUTIONS

We target markets where customers require a knowledgeable provider of capital which is capable of originating customized and flexible financial products. We provide our customers with a level of service and creativity generally unavailable from other lenders. We do not participate in distribution-based commercial finance businesses, which are typically characterized by intense price competition and lower profit margins, such as conduit lending and mortgage-backed securities.

We believe that we have a reputation in the marketplace for delivering unique financing solutions and a high level of service to our customers in a reliable and credible fashion. Since beginning our business in 1993, we have provided nearly $1.9 billion in financing to customers who have sought our expertise more than once.

As a result of our focus, we have generated consistent and attractive returns on our asset base. The graph below shows our return on average book assets, after interest expenses, since June 1998, our first full quarter as a public company.

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RETURN ON AVERAGE BOOK ASSETS(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	7.2%
9/30/98	6.0%
12/31/98	5.3%
3/31/99	5.9%
6/30/99	6.0%
9/30/99	6.4%
12/31/99	6.5%
3/31/00	6.6%
6/30/00	6.7%
9/30/00	6.7%
12/31/00	6.8%
3/31/01	7.0%
6/30/01	7.2%
9/30/01	7.2%

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(1) We define "return on average book assets" as the sum of annualized quarterly adjusted earnings and preferred dividends divided by the average book value of assets outstanding during the quarter.

EXPERIENCED MANAGEMENT

The ten members of our executive management team have an average of more than 20 years of experience in the fields of real estate finance, private investment, capital markets, transaction structuring, risk management and loan servicing, providing us with significant expertise in the key disciplines required for success in our business. Our culture is also highly-focused toward on-going asset risk management. We emphasize long-term, incentive-based compensation, such as stock options and grants of restricted common stock, rather than cash compensation, and none of our employees is compensated based on the volume of investment originations. Our directors and employees directly own approximately 7% of our outstanding common stock on a diluted basis, which had a market value of approximately $160 million based upon the last reported sales price of our common stock on October 15, 2001. Our executive management team is supported by approximately 125 employees operating from six primary offices nationwide.

SIGNIFICANT EQUITY BASE

We had approximately $1.8 billion of tangible book equity and a consolidated debt-to-book equity ratio of 1.3x as of September 30, 2001. We believe that we are one of the most strongly capitalized asset-based finance companies. Our business model is premised on maintaining significantly lower leverage than other traditional commercial finance companies. We target a maximum consolidated debt-to-book equity ratio of 1.5x to 2.0x, which is significantly lower than most other commercial finance companies. We believe that operating within this targeted range enables us to maintain a well-balanced, conservative and flexible capital structure. In addition, our tax-advantaged structure as a REIT and our ability to operate with less overhead, as a percentage of revenues, than many other commercial finance companies enhance risk-adjusted returns on equity for our common stockholders.

TAX-ADVANTAGED CORPORATE STRUCTURE

Because of our focus on commercial real estate finance, we are able to qualify as a REIT under the Internal Revenue Code. Since we are taxed as a REIT, we do not pay corporate-level taxes in most circumstances. This tax-advantaged structure enables us to produce superior returns on equity for our stockholders compared to taxable finance companies while utilizing significantly less leverage than most taxable finance companies. The graphs below show our returns on average common book equity and our debt-to-equity ratios since our first full quarter as a public company.

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RETURN ON AVERAGE COMMON BOOK EQUITY(1)

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	11.7%
9/30/98	12.3%
12/31/98	13.0%
3/31/99	13.6%
6/30/99	14.1%
9/30/99	14.7%
12/31/99	14.8%
3/31/00	15.1%
6/30/00	15.5%
9/30/00	16.1%
12/31/00	16.7%
3/31/01	17.3%
6/30/01	17.5%
9/30/01	17.9%

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(1) We define "return on average common book equity" as annualized quarterly adjusted earnings divided by the average common book value of equity outstanding during the quarter.

DEBT-TO-BOOK EQUITY

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

6/30/98	0.7X
9/30/98	1.3x
12/31/98	1.1x
3/31/99	1.2x
6/30/99	1.2x
9/30/99	1.1x
12/31/99	1.1x
3/31/00	1.1x
6/30/00	1.2x
9/30/00	1.2x
12/31/00	1.2x
3/31/01	1.2x
6/30/01	1.2x
9/30/01	1.3x

ASSET QUALITY AND DIVERSIFICATION

Throughout our operating history, we have focused on maintaining diversification of our asset base by product line, asset type, obligor, property type and geographic region. Asset diversification is a key part of our risk management strategy. Our borrower and corporate tenant base includes more than 170 customers in a wide range of industries, and our assets are backed by over 580 underlying properties of varying types located throughout the U.S. The graphs below depict the diversification of our asset base, based upon the total gross book value of our assets of approximately $4.1 billion as of September 30, 2001.

ASSET TYPE DIVERSIFICATION PIE CHART

PROPERTY TYPE DIVERSIFICATION PIE CHART

GEOGRAPHIC DIVERSIFICATION PIE CHART

The table below reflects the diversification of our asset base as represented by our 25 largest assets. The table shows the percentage these assets represent of the total carrying value of our assets as of September 30, 2001, and the percentage these assets represent of our total revenues for the three months ended September 30, 2001.

	TOP 25 ASSETS	
	% ASSETS	% REVENUE
PROPERTY TYPE		
Office	19%	17%
Hotel	13%	10%
Mixed Use	2%	1%
Retail	4%	4%
Residential	3%	4%
Other	5%	5%
ASSET TYPE		
First Mortgages	22%	16%
Second Mortgages	4%	4%
Corporate Tenant Leases	10%	10%
Corporate/Partnership Loans	11%	11%
GEOGRAPHIC REGION		
West	14%	12%
South	11%	11%
Northeast	9%	7%
Southeast	3%	3%
Mid-Atlantic	2%	2%
Northwest	4%	3%
Other	5%	4%

Secured first mortgages and corporate tenant lease assets together comprise approximately 70% of our asset base. The weighted average "first dollar" and "last dollar" loan-to-value ratios on our loan assets were 30.5% and 70.9%, respectively, as of September 30, 2001. "First dollar" and "last dollar" loan-to-value ratios represent the average beginning and ending points of our lending exposure in the aggregate capitalization of the underlying assets or companies that we finance.

In addition, as of September 30, 2001, 52% of our corporate tenants, based on GAAP annual lease payments, had actual or implied investment grade credit ratings. Our corporate tenants include leading companies such as Federal Express, Hilton Hotels, IBM, Nike, Verizon and Wells Fargo Bank.

We employ an in-depth review process and grading system to monitor the credit quality of our asset base over time. We assign to each asset a risk rating ranging from "one," which indicates superior credit quality, to "five," which indicates inferior credit quality. Each newly-originated asset is typically assigned an initial rating of "three," or average. Based upon our third quarter 2001 review, the weighted average risk rating of our loan assets and corporate tenant lease assets was 2.82 and 2.92, respectively.

MATCH FUNDING DISCIPLINE

Our objective is to match fund our liabilities and assets with respect to maturities and interest rates. This means that we seek to match the maturities of our financial obligations with the maturities of our investments. Match funding allows us to reduce the risk of having to refinance our liabilities prior to the maturities of our assets. In addition, we match fund interest rates with like-kind debt (i.e., fixed-rate assets are financed with fixed-rate debt, and floating-rate assets are financed with

floating-rate debt), through the use of hedges such as interest rate swaps, or through a combination of these strategies. This allows us to reduce the impact of changing interest rates on our earnings.

Our objective is to limit volatility from a 100 basis point move in short-term interest rates to no more than 2.5% of annual adjusted earnings per share. As of September 30, 2001, a 100 basis point change in short-term interest rates would have essentially no impact on our third quarter adjusted earnings per share of $0.73.

ASSET BASE

The table below sets forth certain financial characteristics of our asset base as of September 30, 2001.

FINANCIAL CHARACTERISTICS OF OUR ASSET BASE

	LOANS	LEASES
	($ IN MILLIONS)	
Gross Carrying Value	$2,412	$1,731
Total Financing Commitments	$2,536	Not applicable
Number of Investments	68	120
Number of Underlying Properties	426	162
Average Asset Size per Investment	$35.5	$14.4
Average Asset Size per Property	$5.7	$10.7
Weighted Average Maturity/Lease Term	3.8 years	8.4 years
Average First Dollar Loan-to-Value(1)	30.5%	Not applicable
Average Last Dollar Loan-to-Value(2)	70.9%	Not applicable
Percentage Investment Grade Credits(3)	Not available	52%

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(1) "Average First Dollar Loan-to-Value" means the weighted average beginning point of our lending exposure in the aggregate capitalization of the underlying properties or companies we finance.

(2) "Average Last Dollar Loan-to-Value" means the weighted average ending point of our lending exposure in the aggregate capitalization of the underlying properties or companies we finance.

(3) Includes customers with implied investment grade ratings such as Accenture, Alcatel USA, Cisco Systems and Volkswagen of America.

OUR TARGET MARKETS AND PRODUCT LINES

We believe we are the largest dedicated participant in a $100-$150 billion niche of the approximately $2.1 trillion commercial real estate market, consisting of the $1.5 trillion commercial mortgage market and the $600 billion single-user market for corporate office and industrial facilities. Our primary product lines include structured finance, portfolio finance, corporate tenant leasing, corporate finance and loan acquisition. Our real estate lending assets consist of mortgages secured by real estate collateral, loans secured by equity interests in real estate assets, and secured and unsecured loans to corporations engaged in real estate or real estate-related businesses. Our corporate tenant lease assets consist of office and industrial facilities that we typically purchase from, and lease-back to, a diversified group of creditworthy corporate tenants as a form of financing for their businesses. Our leases are generally long-term, and typically provide for all expenses at the facility to be paid by the corporate tenant on a "triple net" basis. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses, including taxes, maintenance and insurance.

The graph below shows the composition of our asset base by product line, based on the total gross book value of our assets of approximately $4.1 billion as of September 30, 2001.

PRODUCT LINE DIVERSIFICATION

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

CORPORATE TENANT LEASING	43%
Loan Acquisition	9%
Corporate Finance	13%
Structured Finance	26%
Portfolio Finance	9%

STRUCTURED FINANCE

We provide custom-tailored senior and subordinated loans ranging in size from $20 million to $100 million to borrowers controlling institutional-quality real estate. These loans are collateralized by single assets that are strategically positioned within their respective market. Structured finance loans may be either fixed- or floating-rate and are structured to meet the specific financing needs of the borrowers, including financing related to the acquisition, refinancing, repositioning or construction of large, high-quality real estate. We offer borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim/bridge facilities.

PORTFOLIO FINANCE

We provide funding to regional and national borrowers who own a geographically diverse portfolio of properties. Portfolio finance loans are cross-collateralized to give borrowers the benefit of all available collateral and underwritten to recognize the inherent diversification provided by multiple assets. Property types generally include multifamily, suburban office, all-suite, extended stay and limited service hotels. We structure loan terms to meet the specific requirements of the borrower. These loans typically range in size from $25 million to $150 million.

CORPORATE TENANT LEASING

We provide capital to corporate owners of office and industrial facilities. Net leased facilities are generally subject to long-term leases to creditworthy corporate tenants, and typically provide for all property expenses to be paid by the tenant on a "triple-net" basis. Corporate tenant lease transactions typically range in size from $20 million to $200 million.

We pursue the origination of corporate tenant lease transactions by structuring purchase/ leasebacks and by acquiring facilities subject to existing long-term net leases. In a purchase/leaseback transaction, we purchase the property from the corporate tenant and lease it back to the tenant on a triple-net basis. The purchase/ leaseback structure allows the corporate customer to reinvest the proceeds from the sale of its facilities into its core business, while we capitalize on our structured financing expertise.

Our corporate tenant lease investments primarily represent a diversified portfolio of strategic office and industrial facilities subject to net lease agreements with creditworthy corporate tenants. The corporate tenant lease investments we target generally involve: (1) high-quality, general-purpose real estate with residual values that represent a discount to current market values and replacement costs;

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and (2) corporate tenants that are established companies with stable core businesses or market leaders in growing industries with investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient.

Since acquiring our leasing subsidiary in November 1999, we have increased the weighted average lease term of our corporate tenant lease assets from 5.6 to 8.4 years. During that time we have also executed over 7.8 million square feet of new and renewal leases in 93 total transactions with a weighted average lease term of 10.0 years. Throughout this leasing activity, we have emphasized early lease renewals. Of the 2.7 million square feet of leases renewed since June 1999, approximately 1.1 million square feet (39%) represented early renewals where there were more than 12 months left on the primary lease term. As of September 30, 2001, our corporate tenant lease portfolio was 99.2% leased.

As of September 30, 2001, we had more than 170 corporate customers operating in more than ten major industry sectors, including aerospace, energy, financial services, healthcare, hospitality, technology, manufacturing and telecommunications. These customers include well-recognized national and international companies, such as Accenture Ltd., Federal Express, Hilton Hotels, IBM, Nike, Nokia Corporation, Verizon, Volkswagen of America and Wells Fargo Bank.

The table below summarizes our corporate tenant lease assets as of September 30, 2001.

	% OF ANNUALIZED THIRD QUARTER 2001 TOTAL REVENUE	SIGNIFICANT CUSTOMERS
Technology	16.6%	IBM, Cisco, Mitsubishi Electronics, Hewlett-Packard, Unisys, Sybase.
Telecommunications	8.1%	Nokia, Verizon, Avaya, Alcatel Networks, Nortel Networks, AT&T Wireless.
Transportation Services	1.0%	Federal Express, ABX Logistics (USA).
Energy & Utilities	2.5%	Entergy Services, Exxon-Mobil, Bay State Gas.
Hospitality	3.1%	Hilton Hotels.
Food & Related Services	2.9%	Caterair, Ralphs Grocery, Unified, Western Grocers, Welch Foods.
Financial Services	2.6%	Wellpoint Health Networks, Arbella Capital Corp., Blue Cross & Blue Shield, Wells Fargo Bank.
Manufacturing	1.9%	Nike, adidas America, Mast Industries.
Automotive, Aerospace & Defense	2.0%	Volkswagen of America, Unison Industries, Honeywell, TRW Space Communications.
Professional Services	1.8%	Accenture, PricewaterhouseCoopers, Parsons Infrastructure & Technology, The Mitre Corp.
Healthcare	1.7%	Avitar, Fresenius USA, Haemonetics.
Government Services	0.6%	Massachusetts Lottery, State of CA Dept. of Transportation.
Consumer Goods	0.6%	Sears Logistics, Rex Stores, Dunham's Athleisure, Lever Brothers.

	% OF ANNUALIZED THIRD QUARTER 2001 TOTAL REVENUE	SIGNIFICANT CUSTOMERS
Other Industry Sectors	0.9%	Central Parking System, Modern Graphics Arts, Universal Technical Institute.

Total	46.3%

The table below illustrates our corporate tenant lease expirations as of September 30, 2001.

LEASE EXPIRATIONS

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES EXPIRING	ANNUALIZED THIRD QUARTER 2001 EXPIRING OPERATING LEASE REVENUES ($ IN THOUSANDS)	% OF ANNUALIZED THIRD QUARTER 2001 TOTAL REVENUE
2001	8	$ 3,507	0.7%
2002	26	10,197	2.1%
2003	21	16,324	3.4%
2004	28	24,302	5.0%
2005	16	13,984	2.9%
2006	28	28,671	5.9%
2007	15	18,562	3.8%
2008	8	7,086	1.5%
2009	11	13,703	2.8%
2010	4	5,776	1.2%
2011 and thereafter	26	81,979	17.0%
Total	191	$224,091	46.3%

CORPORATE FINANCE

We provide senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Corporate finance loans may be either secured or unsecured and typically range in size from $20 million to $150 million. These corporate loans are typically backed by real estate collateral and/or corporate guaranty.

LOAN ACQUISITION

We acquire whole loans and loan participations which we believe present attractive risk-reward opportunities. These loans are generally acquired at a discount to the principal balance outstanding and may be acquired with financing provided by the seller. We restructure many of these loans on favorable terms. In other cases, we negotiate a payoff at a price above our basis in the loan. Loan acquisitions typically range from $5 million to $100 million and are collateralized by a variety of property types.

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OUR STRATEGY

Our objective is to deliver superior risk-adjusted returns on equity to our stockholders by providing innovative and value-added financing solutions to our customers. We believe we have established a market leadership position for highly structured mortgage, corporate and mezzanine financing backed by high-quality commercial real estate nationwide. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial real estate lenders.

INVESTMENT STRATEGY

In order to accomplish our objective, we have implemented the following investment strategy:

- We focus on the origination of structured mortgage, corporate and lease financings backed by high-quality commercial real estate assets located in major U.S. metropolitan markets.

- We offer sophisticated borrowers and corporate customers added value in the form of specific lending expertise, flexibility, certainty and post-closing support.

- We seek to develop direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries.

- We avoid businesses in which there is significant direct competition from other providers of capital.

- We take advantage of market anomalies in the real estate financing markets when we believe credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

- We stress test potential investments for adverse economic and real estate market conditions.

We source our investment transactions from our existing relationships with real estate owners, through other direct relationships within the real estate and corporate finance communities, and from other capital providers and advisors who refer customers to us. We also utilize information obtained from our risk management group to generate leads on potential investment opportunities. We have completed nearly $1.9 billion of financing transactions with borrowers who have sought our expertise more than once.

We discuss and analyze investment opportunities during regular weekly meetings which are attended by all of our investment professionals, as well as representatives from our legal, risk management and capital markets areas. We have developed a process for screening potential investments called the Six Point Methodology(SM). The Six Point Methodology(SM) reflects the six fundamental criteria by which we evaluate an investment opportunity prior to beginning our formal underwriting and commitment process.

THE SIX POINT METHODOLOGY(SM)

- First, we evaluate the source of the opportunity. We prefer opportunities where we have a direct relationship with the customer or an intermediary who has worked with us before, because we believe that such relationships enable us to add more value to a transaction.

- Second, we evaluate the quality of the collateral or corporate credit, as well as its market or industry dynamics.

- Third, we evaluate the equity or corporate sponsor, including factors such as its reputation, financial strength and commitment to the collateral.

- Fourth, we determine whether we can implement an appropriate legal and financial structure for the transaction given its risk profile, including our ability to control the collateral under various circumstances.

- Fifth, we perform an alternative investment test. If we believe that we can earn a better risk-adjusted return in a comparable asset class or different part of the customer's capital structure, then the proposed investment will score poorly in this category.

- Sixth, we evaluate the liquidity of the investment and our ability to match fund the asset. A security that is too highly structured is less desirable because it may limit our ability to obtain appropriately priced financing for the asset, or our ability to sell it if we ever so desire.

We have an intensive underwriting process in place for all potential investments. This process provides for comprehensive feedback and review by all the disciplines within our Company, including investments, credit, risk management, legal/structuring and capital markets. Participation is encouraged from all professionals throughout the entire origination process, from the initial consideration of the opportunity, through the Six Point Methodology(SM) and into the preparation and distribution of a comprehensive memorandum for our internal and Board of Directors investment committees.

Commitments of less than $30 million require the unanimous consent of our internal investment committee, consisting of senior management representatives from each of our key disciplines. For commitments between $30 million and $50 million, the further approval of our Board of Directors' investment committee is also required. All commitments of $50 million or more must be approved by our full Board of Directors.

The following flow chart illustrates our formal investment origination process, beginning with the identification of an investment opportunity through the closing and on-going servicing of the asset:

[LOGO]

RISK MANAGEMENT

In addition to mitigating risk through the careful underwriting and structuring of our investments, we further pro-actively manage risk by: (1) generating, analyzing and distributing information on-line to all our employees about our collateral and our customers on a continuous, real-time basis; (2) holding weekly Company-wide meetings to identify and address risk management issues; (3) applying a comprehensive risk rating process; (4) establishing loan loss reserves and asset impairment procedures; and (5) managing our assets and liabilities through match funding. We believe these risk management measures enable us to effectively manage our asset base and minimize our risk of loss. More than 50 of our approximately 135 employees are dedicated to our risk management platform.

COLLATERAL AND CUSTOMER MONITORING

We have comprehensive real-time risk management systems that enable us to pro-actively monitor the performance of our asset base and to quickly identify and address potential issues with any of our assets. Risk management information, which is generated from numerous collateral-level controls, extensive customer reporting requirements and on-site asset monitoring programs, is accessible to all our employees nationwide via computer.

Our comprehensive risk management systems require the active participation of each of our senior professionals and other employees within our regional office infrastructure. Every employee nationwide has access, via our computer network, to various risk management reports which provide real-time information regarding the performance of our asset base. These reports, which are continually updated as new customer information is received, are based on information that is: (1) required to be provided by our customers; (2) generated by our risk management professionals; and (3) obtained from the public domain. Examples of risk management reports include daily payment reports, monthly covenant reviews, monthly reserve balance reports, monthly budget-versus-actual analyses of collateral and corporate customer performance, leasing activity reports and quarterly risk ratings reviews. This process ensures that risk management issues are quickly identified and that decisions are based on the most current information available.

iStar Asset Services, or "iSAS," our rated loan servicing subsidiary, and iStar Real Estate Services, or "iRES," our corporate tenant lease asset management division, are critical to our asset and customer monitoring efforts. Together, they are principally responsible for managing our asset base, including monitoring our customers' compliance with their respective loan and leasing agreements, collecting customer payments, and efficiently analyzing and distributing customer performance information throughout our Company on a real-time basis. iSAS and iRES provide daily information on the performance and condition of our asset base. iSAS is currently rated "above average" by Standard & Poor's and is "approved" by Fitch as a master servicer. In addition to servicing our asset base, iSAS also provides loan servicing to third-party institutional owners of loan portfolios.

Our loan customers are required to comply with periodic covenant tests, and typically must submit extensive collateral performance information such as monthly operating statements and operating budgets. We also may require customers to deposit cash into escrow accounts to cover major capital expenditures, such as expected re-tenanting costs, and we typically require approval rights over major decisions impacting collateral cash flows. In many cases, collateral cash receipts must be deposited into lock-box bank accounts that we control. We then distribute the net cash, after our debt service, to our customers.

We furnish on-site asset management services for most of our corporate tenant lease customers, providing us with daily information regarding the condition of our assets. In addition, we have a formal annual inspection program that ensures that our corporate tenant lease customers are complying with their lease terms. Customer lease payments are deposited directly into lock-box accounts managed by